

**Approved by the Governor of Bank of Mongolia on 27 Nov 2018, Decree No. A-293**

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

ONE. GENERAL PROVISION

This regulation shall be used to the conduct an on-site examination, to assess compliance of the Law on Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT), and related Government decrees, regulations and guidelines approved by the decree of the Governor of Bank of Mongolia (BoM).

1.2 The AML/CFT onsite examination can be conducted in full scope or targeted area in accordance with conclusion of off-site surveillance and risk assessment of the bank.

1.3 The guidance of the onsite examination shall be approved by Governor of the Bank of Mongolia.

TWO. PREPERATION OF SUPERVISION

2.1 Supervisors shall review the following documents and information prior to onsite examination:

- 2.1.1 Number of cash transaction reports (CTRs), foreign settlement transaction reports (FSTRs), and suspicious transaction reports (STRs) filed from banks to the Financial Information Unit (FIU) within the examination period, and information about changes into those statistics;
- 2.1.2 Assessment of the FIU on compliance that whether the bank submits reports mentioned in article 2.1.1 completely and accurately on timely basis and cooperative to respond to the request of supplementary information and inquiry
- 2.1.3 Internal policy and regulations of the bank related to the AML/CFT including updates;
- 2.1.4 Previous supervision reports and related materials;
- 2.1.5 Off-site surveillance report and AML/CFT risk assessment of the bank;

- 2.1.6 Reports on implementation of rectification based on examination findings;
  - 2.1.7 Changes of information on bank stakeholders, management, capital, and the licenses issued by the BoM and the Financial Regulatory Committee (FRC);
  - 2.1.8 Information about of the new product, services and its delivery channels;
  - 2.1.9 Information related to the bank from state and non-governmental organizations, public and social media information about the bank and comment and complaint on the bank;
- 2.2 Prior to start of the onsite examination, examiner shall send examination guidance to management of the bank.

### THREE. Examination Area

3.1 The supervisor shall review and assess AML/CFT activities of bank in accordance with following criteria:

- 3.1.1 Governance and Policies and Procedures
- 3.1.2 Compliance Officer and Compliance Function;
- 3.1.3 Risk Assessment
- 3.1.4 Customer Due Diligence
- 3.1.5 Enhanced Customer Due Diligence;
- 3.1.6 Beneficial Ownership;
- 3.1.7 Introduced Business;
- 3.1.8 Politically Exposed Persons;
- 3.1.9 Terrorist Financing (TF);
- 3.1.10 Targeted Financial Sanctions Related to Proliferation (PF) and, Counter-Measures for Higher-Risk Countries;
- 3.1.11 Account and Transaction Monitoring;
- 3.1.12 Suspicious Transaction Reporting;
- 3.1.13 Threshold and Foreign Settlement Transaction Reporting;
- 3.1.14 Cross Border Correspondent Banking;
- 3.1.15 Internal controls;
- 3.1.16 Wire Transfers;
- 3.1.17 New products and services;
- 3.1.18 Record Keeping;
- 3.1.19 Staff Training.

3.2 Examiner shall use examination procedure in attachment in annex 1 of this regulation to perform examination on areas specified in article 3.1 and review implementation of previous examination duties, accuracy of data and information collected for offsite surveillance as well is responses to the offsite questionnaire.

3.3 The examination criteria described in Article 3.1 of this regulation and procedures may be updated and revised or additional procedures developed reflecting changes in ML/TF and PF risks as identified by BoM and/or the National Risk Assessment.

#### FOUR. OVERALL EVALUATION

4.1 Supervisor shall take appropriate actions for every deficient examination area and rate examination areas from 1 to 5 based on the performance of management of AML/CFT.

- i. 1 or compliant with relevant acts and regulations
- ii. 2 or largely compliant with relevant acts and regulations
- iii. 3 or partially compliant with relevant acts and regulations
- iv. 4 or largely non-compliant with relevant acts and regulations
- v. 5 or non-compliant with relevant acts and regulations

4.1.1 Based on the ratings of supervisors, the team leader shall provide an overall rating of AML/CFT activity of the bank from 1 to 5.

4.2 In the case of the partial examination conducted, only examination areas conducted of the bank shall be rated;

4.3 Following action shall be taken on the based on the conclusion of AML/CFT risk management of the bank:

4.3.1 “largely compliant” then banks should be required for the obligations to be taken by a fixed date and its implementation should be monitored;

4.3.2 “partially compliant”, then in addition to obligations to be taken by fixed date, frequency of supervision or interview with the top management of the bank should be increased.

4.3.3 “largely non-compliant” or “non-compliant” then the enforcement measures against a bank should be introduced to the Governor and AML/CFT Supervisory Council of BoM.

#### FIVE. RESPONSIBILITIES OF SUPERVISION TEAM

5.1 Examiner in charge and other examiners shall implement responsibilities and powers specified in Rule of State Inspector and adhere to principles of state inspector.

5.2 Comment, complaint and explanation related with onsite supervision regulated by Rule of State Inspector.

5.3 Examiner in charge shall have following responsibilities:

5.3.1 To introduce and inform about the supervisory directive to the bank's management and its relevant employees;

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

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

5.3.4 To prepare to introduce to AML/CFT Supervisory Council of BoM final supervision report and proposed corrective measures in three working days after the end of examination in the bank;

5.3.5 Examiner in charge should present examination report for discussion and approval to the Supervision Council and deliver final decision to management of the bank. After that the supervision conclusion shall be attached to the profile of the bank and copy of the report should be delivered to the Off-site supervision;

5.4 Off-site supervisor should review on-site supervision report and update risk assessment of the bank.

## SIX. RESPONSIBILITIES

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

Annex 1

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

**EXAMINATION PROCEDURES**

**3.1.1 EXAMINATION AREA: GOVERNANCE AND POLICIES AND PROCEDURES**

**Examination Objectives**

BOM expects banks to establish a robust and effective corporate governance framework that ensures transparency, accountability and high ethical conduct in all aspects of their operations. The BOM expects the senior management to develop policies and procedures to effectively manage the ML/TF risks that arise from a bank's operations. Policies and procedures developed by senior management should be approved by the Board of Directors/BOD/. Policies and procedures should set out the day to day measures that should be employed to ensure that the institution effectively identifies, measures, monitors and controls ML/TF risks. They should therefore be developed to reflect the risks implicit in an institution's customers, products and services, delivery channels and geographic regions. Policies and procedures should be comprehensively documented and communicated to all staff. They should also be subject to periodic review to ensure they are appropriate in light of changes to the institution's ML/TF risk profile.

Policies and procedures should clearly set out lines of responsibility and accountability for the execution of the risk management function and should also establishing effective reporting lines for all persons and business units involved in the management of ML/TF risks.

**Examination procedure**

Supervisors need to check whether the bank comply with following requirements:

- The internal policies, procedures, systems and controls should be consistent with the reporting entities' size, nature, risks, and complexity of operations and should be adopted by the entities' board of directors and be applicable to all domestic and foreign branches and majority-owned subsidiaries of the bank /if there is any/.
- Board, relative committees or Internal audit committee of bank shall review implementation of the internal policies, procedures regularly and ensure that

internal policies, procedures are sufficient and effective to deal with AML/CFT risk and update it, if necessary.

- The internal control system shall contain the following components:
  - 1 A specified AML/CFT training program for activities identified as higher risk activities;
  - 2 written procedures and manuals guiding staff on the operation of the bank' AML/CFT systems and controls;
  - 3 Procedures for the appointment of a compliance officer and the creation of a compliance unit (if required) and policies relating to the compliance officers' power and responsibilities and reporting duties. The Compliance officer should be senior level staff;
  - 4 The Compliance officer should have access and right to have all documents and information from subsidiaries, units, branches related to customer account and transactions;
  - 5 Bank must establish and maintain an adequately resourced and independent audit function. The independent audit function shall be responsible to test the AML/CFT system and to ensure that the compliance officer and staff of reporting entity are performing their duties in accordance with the reporting entities' AML/CFT internal policies, procedures, systems and control;
  - 6 Bank must establish screening procedures to ensure appropriate standards when hiring employees. Employee screening procedures must ensure that:
    - employees have the high level of competence necessary for performing their duties;
    - employees have appropriate ability and integrity to conduct the business activities of the bank or financial institutions;
    - potential conflicts of interests are taken into account, including the financial background of the employee;
    - fit and proper and code of conduct requirements are defined;
    - persons charged or convicted of offences involving fraud, money laundering, and other financial crimes, dishonesty or other similar offences are not employed by the reporting entity.
  - 7 The compliance officer shall submit regular reports including the following facts to the board of directors or management body:
    - (i) all suspicious transactions detected, and implications for the reporting entity,
    - (ii) measures taken by compliance staff to strengthen the reporting entity's AML/CFT policies, procedures, systems and controls, results of any independent audit of AML/CFT systems,
    - (iii) results of any onsite inspections conducted by the supervisory authority or FIU,
    - (iv) statement on remedial actions required to be implemented by the reporting entity.

### **Testing to be conducted by examiners**

1. Obtain the policy and procedures approved by BOD and check against above mentioned requirements;
2. Make interview with top management, compliance officer and other relevant officers of the bank;
3. Obtain Compliance officer's regular reports to the BOD or management body;
4. Obtain Internal audit reports on review of implementation of the internal policies, procedures;
5. Obtain meeting reports of BOD and check whether BOD discussed any AML/CFT issues and reviewed for adequacy and inclusion of AML/CFT issues. Determine if the policies and procedures are reviewed, updated and approved on a regular basis.
6. Review any specific issues raised both in the internal and external audit reports and examination reports and determine that corrective action has been taken or is in process.
7. Check implementation of rectification orders given as a result of previous onsite examination or off site supervision.
8. Discuss with other supervisors examining other areas of the bank.

### **3.1.2 EXAMINATION AREA: COMPLIANCE OFFICER AND COMPLIANCE FUNCTION**

#### **Examination Objectives**

1. To determine if the bank has appointed a compliance officer as required by the AML Law.
2. To determine if the compliance framework regarding AML/CFT is adequate for example through consideration of the following:
  - a. Reporting to head office by branch compliance officers.
  - b. The extent of head office oversight of branches and the branch compliance officer (also consider overseas branches/subsidiaries if appropriate)
  - c. The adequacy of resources in the compliance section (e.g. staff numbers, skills, computers etc.) given the size of the bank and the nature of its activities and customer base
3. To determine compliance with the AML Law, Rules and Directives.
4. To initiate corrective action when policies, practices, procedures or internal controls are deficient or when violations of law or regulations have been noted.

#### **Examination Procedure:**

##### Board and Senior Management Oversight

- Has the board/senior management developed policies and procedures for the appointment of a compliance officer at a senior level within the bank?

- Are policies relating to the role of the compliance officer reviewed and updated on a regular basis?
- Are there mechanisms for reporting to the board on the implementation of compliance requirements and do reports meet the requirements under the CDD Directive?
- Has the board taken measures to ensure that the bank has adequate resources to effectively implement compliance requirements?
- Does the compliance officer have appropriate powers to perform his/her duties?
- To whom does the compliance officer report? To the board or a risk management committee and how frequently does the compliance officer report?
- Does the compliance officer/compliance arrangement cover all of the bank's branches/subsidiaries?

#### Policies and Procedures

- Is the compliance officer independent and appointed at a senior level?
- Does the compliance officer/department have access to all records, accounts and transactions?
- Does the compliance officer receive reports from branches/subsidiaries on compliance issues? How frequently are these received and what action does the compliance officer take when problems are identified?
- Do policies and procedures clearly outline reporting requirements in relation to threshold and suspicious transaction reports?
- What is the role of the Compliance Officer in relation to the FIU in obtaining and updating UN Consolidated Terrorist List (and others) and ensuring that the bank's systems are updated?
- Is the compliance officer involved in the development of the bank's AML/CFT risk management framework, including conducting risk assessments as required by the Law?
- Are there arrangements to ensure that all branches/subsidiaries have a compliance office and have in place reporting systems from branches/subsidiaries in relation to compliance issues?
- Does the compliance officer review all relevant information in relation to suspicious transactions, including those from branches/subsidiaries?

#### Monitoring measurement and Control (Management Information Systems)

- How does senior management monitor the activities of compliance officer?
- Is the compliance officer required to submit reports to the board/senior management and how frequently are such reports required?
- Are reports submitted by the compliance officer adequate, in terms of scope and coverage?

#### Internal Control and Audit



- Are there adequate arrangements in place for an independent internal review and assessment of implementation of the bank's compliance requirements?
- Are reports produced by the independent review function sent to the board or a committee thereof.
- Does the bank implement recommendations made by such reports

### **Testing to be conducted by examiners**

1. Obtain details of the AML/CFT compliance officer's professional qualifications, training, duties and responsibilities.

a. Has bank set any academic qualification for compliance officer and does the compliance officer hold the academic qualification as set by the bank?

b. Is compliance officer trained in AML/CFT compliance?

c. Has compliance officer developed or been involved in the development of the bank's AML/CFT Compliance Program?

d. Is compliance officer involved in the risk assessment of customers, products and services and delivery channels and geographic regions in relation to AML/CFT?

e. Is the compliance officer involved in assessments of new products, services and delivery channels etc., to determine if potential AML/CFT risks have been adequately considered?

f. Is the compliance officer involved in reviewing of customer risk ratings and the monitoring of transactions?

g. Is compliance officer involved in reviewing transactions which bank staff identify as suspicious, unusual etc. or not consistent with the customer's profile?

h. Does compliance officer review daily reports (for example, large transaction reports, account opening reports, reports related to the purchase and sale of monetary instruments) and conduct follow-up on potential suspicious transactions?

i. Does the Compliance Officer review account opening process to ensure that bank staff are obtaining correct CDD documentation/information?

j. Does the Compliance Officer approve or comment on the opening of high risk accounts (e.g. PEPs) or correspondent banks?

k. Has compliance officer ensured that the Bank's AML/CFT compliance program is implemented?

l. Has compliance officer coordinated training of staff on AML/CFT awareness, detection methods and reporting requirements?

m. Does the compliance officer serve as point of contact between the bank and FIU and a point of contact for all its employees on issues relating to AML/CFT?

2. Review the role of the AML/CFT compliance officer in the following areas:

i. monitoring and reporting of suspicious activities;

ii. training;

iii. development of risk systems and controls;

iv. updating policies and procedures;

v. reporting on AML/CFT matters to the board

3. On the basis of interviews, determine if the compliance officer has developed an efficient and effective coordination mechanism between front-line staff and compliance?
4. On the basis of interviews, assess if adequate power and resources are given to the Compliance Officer and does s/he have operational independence?
5. Determine if each branch or subsidiary have AML/CFT compliance officer? If so describe the relationship with the head office Compliance officer and consider the following points:
  - a. Reporting –what reports are submitted (number of STRs submitted, new account opening etc)?
  - b. Are hind-sight reviews of accounts opened in branches conducted by Head Office?
  - c. Are there regular meetings between Head Office and branch compliance officers/staff?
  - d. Does Head Office conduct compliance reviews of branches?
  - e. How does Head Office monitor the adequacy of training conducted in branches?
6. Does the AML/CFT compliance officer carry on duties other than AML/CFT? If so, what other functions and what proportion of time are devoted to AML/CFT issues?
7. Review copies of the last 3 reports prepared by the compliance officer and identify how any deficiencies have been dealt with and how promptly.
  - a. How does the compliance officer monitor implementation of recommendations relating to deficiencies identified?
    - i. By internal audit
    - ii. By compliance staff/unit
    - iii. By the FIU

### **3.1.3 EXAMINATION AREA: RISK ASSESSMENT**

#### **Examination Objectives**

Banks shall have performed or completed an adequate ML/FT risk assessment and it becomes necessary for the Bank Examiners to complete one based on available information. When doing so, the Examiners do not have to use any particular format. In such instances, documented work-papers should include the bank's risk assessment, the deficiencies noted in the bank's risk assessment and the Examiner-prepared risk assessment. The Examiners should ensure that they have a general understanding of the financial institution's ML/FT risks and (at a minimum) document these risks within the examination scoping process.

#### **Examination procedure**

This section provides some general guidance that Bank Examiners can use when they are required to conduct ML/FT risk assessment. In addition, Examiners may share this information with the bank to assist it develop or improve its own ML/FT risk assessment.

The risk assessment developed by Examiners generally will not be as comprehensive as one developed by a bank. Similar to what is expected in a bank's risk assessment, the Examiners are required to obtain information on the bank's products, services, customers, delivery channel and geographic locations to determine the volume and trend for potentially higher-risk areas. This process can begin with an analysis of:

- I. Prior examination or inspection reports and work-papers.
- ii. Response to request letter-items.
- iii. Discussions with financial institution management and the appropriate regulatory agency personnel.

The Examiners should complete the above analysis by reviewing the level and trend of information pertaining to the institution's activities identified, for example:

- I. Funds transfers.
- ii. Private banking.
- iii. Monetary instrument sales.
- iv. Foreign correspondent accounts and PTAs.
- v. Branch locations.
- vi. Domestic and international geographic locations of the bank's business area.

This information should be evaluated relative to such factors as the financial institution's total asset size, customer base, entities, products, services and geographic locations.

### **Testing to be conducted by examiners**

Examiners are required to exercise caution in comparing information between banks and to use their experience and insight when performing this analysis:

- i. Examiners should avoid comparing the number of STRs filed by a bank to those filed by another bank with the same size and activity.
- ii. Examiners can and should use their knowledge of the risks associated with products, services, customers, delivery channel and geographic locations to help them determine the bank's ML/FT risk profile.
- iii. After identifying the potential higher-risk operations, Examiners should be able to form a preliminary ML/FT risk profile of the bank. The preliminary risk profile will provide the Examiner with the basis for the initial AML/CFT examination scope and the ability to determine the adequacy of the bank's AML/CFT Compliance Program.

Bank may have an appetite for higher-risk activities. These risks should, however, be appropriately mitigated by an effective AML/CFT Compliance Program tailored to those specific risks. The Examiner should develop an initial examination scoping and planning document commensurate with the preliminary ML/FT risk profile. As necessary, the Examiner should identify additional examination procedures beyond the minimum procedures that must be completed during the examination. While the initial scope may change during the examination, the preliminary risk profile will enable the Examiner to establish a reasonable scope for the AML/CFT review.

### **3.1.4 EXAMINATION AREA: CUSTOMER DUE DILIGENCE**

#### **Examination Objectives**

1. To determine if policies, practices, procedures and internal controls regarding customer due diligence are adequate.
2. To determine if bank personnel, including employees, officers and directors are operating in conformity with the above established policies and guidelines.
3. To determine the adequacy of the account approval process.
4. To determine if activity in customer accounts is being monitored.
5. To determine that unusual transactions with regard to the volume or nature of transactions that do not meet management expectations are investigated and reported.
6. To determine compliance with the Law, Rules and Directives.
7. To initiate corrective action when policies, practices, procedures or internal controls are deficient or when violations of law or regulations have been noted.

#### **Examination Procedures**

##### Board and Senior Management Oversight

- Has the board/senior management developed policies and procedures on customer due diligence (CDD) and have these been approved?
  - Are policies reviewed and updated on a regular basis?
  - Are there mechanisms for reporting to the board on the effective implementation of CDD requirements?

##### Policies and Procedures

- Are the procedures consistent with the policies?
- Is there an effective mechanism in place for transmitting policies on CDD requirements to staff?
  - Does the bank have customer acceptance policies, that is, does it specify those types of customers that the bank does not wish to establish a relationship with or those customers that should be subject to enhanced due diligence.

- In the case of high risk customers, is Senior Management approval required prior to establishing a new banking relationship.
  - Do the banks policies and procedures address the issue of beneficial ownership and, outline the steps the bank takes to identify and verify the identity of the beneficial owner(s).
  - Do the bank's policies and procedures prohibit establishing relationships with customers who use false names or insist on anonymity?
  - Does the bank conduct on-going monitoring of accounts on the basis of risk to determine whether account activity is consistent with the bank's understanding of the reason and purpose for establishing the relationship?
  - Determine how the bank checks customers against databases (e.g. the UN Terrorist List) and when this is performed (e.g. at account opening and on an on-going basis).
  - Do policies address how bank staff deal with situations where a customer is identified as a high-risk customer or a customer on the UN List (or other lists). Is the compliance officer notified of the situation and if appropriate does the bank submit a STR to the FIU?
  - In cases where the bank is unable to obtain the required information to open the account, if the account opening is denied does the bank consider making a suspicious transaction report in relation to the customer?
  - Are effective arrangements in place to ensure compliance with relevant statutory obligations.
- Requirements under the Law and related Rules and Directives

Do policies and procedures require the bank to:

- Obtain all required information on customer including verification of the customer's identification.
- Update customer records on the basis of risk.
- Review unusual or large transactions and keep a record of findings.
- Maintain up to date customer profiles to assist bank staff identify transactions which are not consistent with the customer's business/stated reason for the relationship.

Monitoring measurement and Control (Management Information Systems)

- Determine the nature of information provided to the board/senior management in relation to risk. Are reports produced which provide an overview of the bank's customer base on the basis of risk?
    - What is the frequency of these reports?
    - Do reports indicate the number of new relationships established?
- Internal Control and Audit

- Are there adequate arrangements in place for an independent internal review and assessment of implementation of the bank's CDD requirements?

- Are reports produced by the independent review function sent to the board or a committee thereof.
- Does the financial institution comply with recommendations made by such reports.

**Testing to be conducted by examiners**

1. From a sample of accounts, determine that the bank maintains a file for each banking relationship documenting the customer due diligence performed.
2. From the listing of bank accounts obtained, select a sample of \_\_\_\_\_ customer accounts (include all types) opened since the last examination and perform the following:
  - a) Determine if the institution has obtained the following information as part of its Customer Due Diligence (CDD) program for each customer selected:
    - Obtained and retained legible copies of customer identification documentation.
    - An understanding of the nature of the customer’s business.
    - A clear and documented understanding of the nature, frequency and volume of expected transactions to be conducted by the customer.
    - Approval of senior management before establishing new relationships with high risk customers.
3. Review actions taken by the bank in cases where it has not been provided with all necessary CDD information?
  - a. Did the bank submit an STR if the customer failed to provide all information?
  - b. Did the bank stop/close the business relationship with such customers?
  - c. Was it a case of delayed verification where ML/TF risks were considered to be low so the transaction was allowed to continue?
  - d. Use following worksheet to review the accounts selected

<b>ACCOUNTS- REVIEW WORKSHEET</b>	
<b>REPORTING INSTITUTION:</b>	<b>DATE:</b>
<b>LOCATION:</b>	<b>EXAMINER:</b>
<b>NAME OF CUSTOMER:</b>	
<b>(Include names of directors, shareholders, settler, trustee and beneficiaries where applicable. Also include name of beneficial owner of the account if different)</b>	

**ADDRESS:**

**(Registered address and activity address)**

**OPENED:**

**Date:**

**By (name of officer):**

**Approved by (title/position if different to the account opening officer):**

**VERIFICATION DOCUMENTATION**

**(List type of documents (including relevant information such as passport number, issue date and issuing authority) relied upon by the institution and also if copies are attached to account opening form):**

**INTRODUCED BUSINESS:**

**(Was this customer introduced to the institution by a third party introducer)**

**Date:**

**Name of introducer:**

**Are CDD document available for review:**

**NATURE OF BUSINESS/REASON FOR ACCOUNT:**

**(Has the institution established the nature of the business/reason for the account being opened)**

**ENHANCED DUE DILIGENCE:**

**(by whom, date, and reason)**

<p><b>SIMPLIFIED DUE DILIGENCE:</b></p> <p><b>(by whom, date, and reason)</b></p>
<p><b>RISK RATING AND INTERNAL REVIEW:</b> <b>(Date, frequency, evidence of account monitoring by institution)</b></p> <p><b>Risk rating:</b></p>
<p><b>NON-COMPLIANCE WITH CDD POLICY:</b> <b>(if any)</b></p>
<p><b>SOURCE OF FUNDS:</b></p> <p><b>(include amount, currency and date received)</b></p> <p><b>Initial amount:</b></p> <p><b>Ongoing deposit:</b> <b>(Are these consistent with the nature of the customer's business)</b></p> <p><b>Frequency:</b></p>
<p><b>DISBURSEMENTS:</b></p> <p><b>(Include amount, currency and dates)</b></p> <p><b>Recipients:</b> <b>(Where these are third parties, is there evidence that the institution understands the reason for the payment?)</b></p> <p><b>Timing:</b></p>



<b>LAST RECORDED TRANSACTION:</b> Date: Amount: Nature:	
<b>CASH TRANSACTION REPORTING:</b> (Have cash transaction over the reporting threshold been reported to the FIU) Date(s): Amount(s): Currency:	
<b>FOREIGN SETTLEMENT TRANSACTION REPORTING:</b> (Have foreign settlement transaction over the reporting threshold been reported to the FIU) Date(s): Amount(s): Currency:	
<b>SUSPICIOUS TRANSACTION REPORTING:</b> Date of report to FIU: If a STR was prepared but a decision was made not to submit the STR to the FIU have the reasons been documented?	
<b>OTHER COMMENTS:</b>	

- e. Sampling method shall be used for examination of CDD for walk in customer; sampling shall cover large amount transactions and frequently conducted transactions of examination period. Following worksheet shall be used for sampling of walk in customers' account;

<b>FUNDS TRANSFER- REVIEW WORKSHEET</b>	
<b>REPORTING INSTITUTION:</b>	<b>DATE:</b>
<b>LOCATION:</b>	<b>EXAMINER:</b>
<b>Name of customer:</b>	

**(Include names of directors, shareholders, settler, trustee and beneficiaries where applicable. Also include name of beneficial owner of the account if different)**

**TRANSACTION INFORMATION:**

**Name and address of originator:**

**Amount of funds transfer:**

**Currency:**

**Date of funds transfer:**

**The identity of beneficiary's bank:**

**Name, ID and address or account number of beneficiary:**

**Description of transaction:**

**VERIFICATION DOCUMENTATION:**

**( List type of documents (including relevant information such as passport number, issue date and issuing authority) relied upon by the institution and also if copies are attached to account opening form):**

**NATURE OF BUSINESS/REASON FOR TRANSACTION:**

**(Has the institution established the nature of the business/reason for the transaction and sighted supporting documentation, if necessary?)**

**ENHANCED DUE DILIGENCE:**

**By whom:**

**Reason:**

**Date:**

<p><b>SIMPLIFIED DUE DILIGENCE:</b></p> <p><b>(by whom, date, and reason)</b></p>
<p><b>LAST RECORDED TRANSACTION:</b></p> <p><b>Date:</b></p> <p><b>Amount:</b></p> <p><b>Beneficiary's name:</b></p> <p><b>Beneficiary's bank:</b></p> <p><b>Name, ID and address or account number of beneficiary:</b></p> <p><b>Description of transaction:</b></p>
<p><b>CASH TRANSACTION REPORTING:</b></p> <p><b>(Have cash transaction over the reporting threshold been reported to the FIU)</b></p> <p><b>Date:</b></p> <p><b>Amount:</b></p> <p><b>Currency:</b></p>
<p><b>FOREIGN SETTLEMENT TRANSACTION REPORTING:</b></p> <p><b>(Have foreign settlement transaction over the reporting threshold been reported to the FIU)</b></p> <p><b>Date:</b></p> <p><b>Amount:</b></p> <p><b>Currency:</b></p>
<p><b>SUSPICIOUS TRANSACTION REPORTING:</b></p> <p><b>Date of report to FIU:</b></p> <p><b>If a STR was prepared but a decision was made not to submit the STR to the FIU have the reasons been documented?</b></p>
<p><b>OTHER COMMENTS:</b></p>

**3.1.5 EXAMINATION AREA: ENHANCED CUSTOMER DUE DILIGENCE;**

**Examination Objectives**

Bank shall apply enhanced customer due diligence (enhanced CDD) measures to high risk areas. In addition enhanced CDD shall be applied to customers and transactions that are high risk. Objective of supervisor is to verify whether the bank comply with enhanced CDD requirements.

### **Examination Procedure**

- Identified in the risk assessment undertaken by the bank must be pursuant to article 14 of the Law, Mongolia's National risk assessment and Preventative Measures Regulation;

Bank shall consider the following as a high risk:

- Customers referred to in Article 5.9 of the Law;
  - Transactions referred to in Article 6 of the Law;
  - Transactions associated with countries or geographic regions that are identified as being a high money laundering or terrorist financing risk by the FIU or a supervisor or international organizations including the Financial Action Task Force and the Asia Pacific Group on Money Laundering or other similar regional body;
  - Transactions involving wire transfers, politically exposed persons (whether as customer or beneficial owner) or through correspondent arrangements;
  - Transactions with non-face-to-face customers or where customer due diligence (CDD) has been undertaken by a third-party intermediary.
- Enhanced CDD shall be applied to customers and transactions that are high risk.
  - The FIU or the supervisory authorities may impose counter measures to transactions associates with countries or geographic regions that are identified as being a high ML or TF risk by the FIU or the supervisory authority or international organizations including the Financial Action Task Force and the Asia Pacific Group on Money Laundering or other similar regional body so need to check related information in advance.
  - Enhanced CDD should include, but is not limited to, the following:
    1. Obtaining additional information from the customer relating to the customer's business, source of funds, the purpose of intended transactions and, where possible, verifying such information;
    2. Obtaining the approval of senior management for continuation of the business relationship with the customer. This approval process should take place in the context of appropriate customer acceptance policies

that include refusal of acceptance of business with customers who pose an excessively high ML/TF risk;

3. the conduct of higher level (frequency and depth) monitoring of the customer's transactions and review of CDD requirements;
  4. other requirements relating to enhanced CDD that may be the subject of regulations pursuant to Article 5.3 of the Law approved by the Governor of the Bank of Mongolia or pursuant to Article 19.2.3 of the Law approved by either the Bank of Mongolia or the Financial Regulatory Commission.
- Enhanced CDD should be applied to higher risk customers at each stage of the CDD process and on an on-going basis.

### **Testing to be conducted by examiners**

1. Obtain policy and procedures related to enhanced CDD measures
2. Make interview with top management, compliance officer and other relevant officers of the bank;
3. Make adequate number sample from high risk area, high risk customer and high risk transactions and review how bank conducted enhanced CDD for those cases;
4. Review actions taken by the bank in cases where it has not been provided with all necessary enhanced CDD information. If appropriate determine why the bank did not take action.
5. Are there adequate arrangements in place for an independent internal review and assessment of implementation of the bank's enhanced CDD requirements?
6. Are reports produced by the independent review function sent to the board or a committee thereof.
7. obtain internal and external audit reports and examination reports and determine that corrective action has been taken or is in process.
8. Check implementation of rectification orders given as a result of previous onsite examination or off site supervision.
9. Discuss with other supervisors examining other areas of the bank.

### **3.1.6 EXAMINATION AREA: BENEFICIAL OWNERSHIP;**

#### **Examination Objectives**

Bank must take reasonable measures to determine if a customer is acting on his/her own or on behalf of one or more beneficial owners. If so, bank should take reasonable steps to verify the identity of the beneficial owner or any person that has a beneficial interest in the assets of the customer or who, in the case of a legal person or arrangement, owns, controls or has a beneficial interest in its property. by using relevant information or data

obtained from a reliable source such that the bank is satisfied that it knows the identity of the beneficial owner. The information to be obtained on a beneficial owner should be consistent with the requirements outlined in Tables 1, 2 and 3 of Preventative Measures Regulation.

### **Examination procedure**

#### Board and Senior Management Oversight

- Has the board/senior management developed policies and procedures on identifying and verifying beneficial owner and have these been approved?
- Are policies reviewed and updated on a regular basis?
- Whether bank follow steps described in Article 4 of the Law to determine the beneficial ownership.
- Are there mechanisms for reporting to the board on the effective implementation of beneficial owner requirements?

#### Policies and Procedures

- Are the procedures consistent with the policies?
- Is there an effective mechanism in place for transmitting policies on beneficial owner requirements to staff?
- Do the banks policies and procedures address the issue of beneficial ownership and, outline the steps the bank takes to identify and verify the identity of the beneficial owner(s).
- Do the bank's policies and procedures prohibit establishing relationships with customers who use false names or insist on anonymity?
- Does the bank conduct on-going monitoring of accounts on the basis of risk to determine whether account activity is consistent with the bank's understanding of the reason and purpose for establishing the relationship?
- Determine how the bank checks beneficial owner information against databases (e.g. the UN Terrorist List) and when this is performed (e.g. at account opening and on an on-going basis).
- Do policies address how bank staff deal with situations where a beneficial owner is identified as a high-risk customer or a customer on the UN List (or other lists). Is the compliance officer notified of the situation and if appropriate does the bank submit a STR to the FIU?

- In cases where the bank is unable to obtain the required information to open the account, if the account opening is denied does the bank consider making a suspicious transaction report in relation to the customer?

- Are effective arrangements in place to ensure compliance with relevant statutory obligations.

Requirements under the Law and related Rules and Directives

Do policies and procedures require the bank to:

- Obtain all required information on beneficial owner including verification of the beneficial owner's identification.

- Update customer records on the basis of risk.

- Review unusual or large transactions and keep a record of findings.

- Maintain up to date customer profiles to assist bank staff identify transactions which are not consistent with the customer's business/stated reason for the relationship.

Monitoring measurement and Control (Management Information Systems)

- Determine the nature of information provided to the board/senior management in relation to risk. Are reports produced which provide an overview of the bank's customer base on the basis of risk?

- What is the frequency of these reports?

- Do reports indicate the number of new relationships established?

Internal Control and Audit

- Are there adequate arrangements in place for an independent internal review and assessment of implementation of the bank's beneficial owner requirements?

- Are reports produced by the independent review function sent to the board or a committee thereof.

- Does the financial institution comply with recommendations made by such reports.

### **Testing to be conducted by examiners**

1. From a sample of accounts, determine that the bank maintains a file for each banking relationship documenting the beneficial owner due diligence performed.

2. From the listing of bank accounts obtained, select a sample of \_\_\_\_\_ customer accounts (include all types of legal person and legal arrangement) opened since the last examination and perform the following:

a) Determine if the institution has obtained the following information as part of its Customer Due Diligence (CDD) program for each customer selected:

- Obtained and retained legible copies of beneficial owner identification documentation.
- An understanding of the nature of the customer's business.
- A clear and documented understanding of the nature, frequency and volume of expected transactions to be conducted by the customer.
- Approval of senior management before establishing new relationships with high risk customers.

3. Review actions taken by the bank in cases where it has not been provided with all necessary beneficial owner information?

a. Did the bank submit an STR if the customer failed to provide all information?

b. Did the bank stop/close the business relationship with such customers?

c. Was it a case of delayed verification where ML/TF risks were considered to be low so the transaction was allowed to continue?

d. Use Table 1, 2, 3 of Preventative Measures Regulation to review the accounts selected

### **3.1.7 EXAMINATION AREA: INTRODUCED BUSINESS**

#### **Examination Objectives**

The examiner must assess how the bank adheres to sound due diligence procedures and practices of introducers for ongoing compliance monitoring and the procedures should reflect this objective.

1. To assess AML/CFT risk in management policies, practices and procedures governing the introducer.

2. To determine if policies, practices, procedures and internal controls of the introducer are adequate.

3. To determine if the introducers personnel, including employees, officers and directors are operating in conformity with the above established policies and guidelines.

4. To determine the scope and adequacy of the internal and external audit functions in addressing AML/CFT activities in this area.



5. To determine the adequacy of the document review process by the bank to ensure that CDD information is consistent with the bank's own processes and applicable laws and regulations.
6. To review the legal agreements between the bank and the introducer to ensure that the bank can perform due diligence on the introducer.
7. To determine compliance with applicable laws and regulations.
8. To initiate corrective action when policies, practices, procedures or internal controls are deficient or when violations of law or regulations have been noted.
9. To determine if previous actions or recommendations have been implemented.

### **Examination Procedures**

#### Internal Control Inquiries:

1. Has the board of directors adopted written AML/CFT policies governing the use of introducers?
2. Does the Board of Directors review and approve the policies at least annually to determine their adequacy in light of changing conditions?
3. Is Senior Management approval required prior to establishing new business relationships with introducers?
4. Is the relationship with the introducer reflective of the laws and regulations under which the bank operates?
5. Does the bank have a documented understanding of the responsibilities of both parties?
6. Does management determine that the introducer is not located in a jurisdiction that does not adequately apply international AML/CFT standards? Does management prohibit doing business with introducers located in these jurisdictions?
7. How does management determine if the introducer has an effective AML/CFT program and if there is effective regulatory supervision within the jurisdiction of the introducer?
8. Does the bank maintain a file for each introducer documenting the nature of the introducer's CDD processes?
9. Is the file information confirmed and updated on a regular basis? If so, how often is this process performed?
10. Does the bank have procedures in place for terminating the relationship with the introducer if required documentation is not obtained within the specified time frames?
11. How does the bank verify that the introducer is complying with record keeping requirements?
12. Has the bank terminated any relationships with introducers due to non-conformance?
13. Does the bank assess on a consistent basis the number of accounts opened from introducers including information on type of account and whether the activity is consistent with management's expectations through the use of the above system?

## **Testing to be conducted by examiners**

1. Determine the scope of the examination based on an evaluation of internal controls inquired above and information gathered through interview and the work performed by internal/external auditors.

2. Obtain the policies and procedures for the use of introducers and review for adequacy and inclusion of AML/CFT issues. Determine if the policies and procedures are reviewed, updated and approved on a regular basis.

3. Review any specific issues raised both in the internal and external audit reports and examination reports and determine that corrective action has been taken or is in process.

4. From the listing of accounts opened through introducers, select a sample of adequate number of accounts (include all types) opened since the last examination and perform the following:

a) Determine if the institution has obtained the following information as part of its Customer Due Diligence (CDD) program for each account selected:

- Appropriate customer identification information is obtained and copies of such are held by the bank.
- An understanding of the nature of the customer's business, including information on source of funds.
- Ownership (if not publicly traded or government entities) and management information regarding the customer, if a legal person.

b) Evaluate the adequacy of the information obtained above and note any exceptions.

5. Review actions taken by the bank in cases where it has not been provided with all necessary CDD information. If appropriate determine why the bank did not take action.

6. Select a sample of adequate number of accounts that were established prior to the current examination period and review the bank's efforts to recertify the documentation on file.

7. Discuss review results with appropriate officers and prepare in suitable report format.

### **3.1.8 EXAMINATION AREA: POLITICALLY EXPOSED PERSONS**

#### **Examination Objectives**

1. To assess the bank's policies and practices to identify customers who are PEPs, and the nature of Enhanced Customer Due Diligence (ECDD) measures applied to such high risk customers.

2. To assess adequacy of bank's systems to manage the risks associated with PEPs.

3. To assess compliance with the Law, Rules and Directives.

4. To initiate corrective action when policies, practices, procedures or internal controls are deficient or when violations of law or regulations have been noted.

### **Examination Procedure**

#### Board and Senior Management Oversight

- Has the board/senior management developed policies and procedures in relation to establishing relationships with PEP, including as beneficial owner, and for their on-going monitoring and are PEPs subject to ECDD?
  - Are policies reviewed and updated on a regular basis?
  - Are there mechanisms for reporting to the board on the implementation of requirements in relation to PEPs?

#### Policies and Procedures

- During the account opening process, what steps does the bank takes to determine if the customer is a PEP?
  - Do policies and procedures dealing with PEPs cover family members and close associates of the PEP?
  - Are there processes in place for staff to identify and monitor PEPs?
    - o Does the bank distinguish between different types of PEPs (foreign, domestic and international)?
    - o Does the bank review relationships with domestic and international PEPs to determine if they are higher risk and if so, are they are subject to the same requirements as applied to foreign PEPs?
  - Does the policy require that PEP accounts be approved by senior management?
  - Determine if the policy deals with existing customers that subsequently become PEPs.

#### Requirements under the Law and related Rules and Directives

Do policies and procedures require the bank to:

- Conduct enhanced monitoring of the business relationship, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.
    - Takes reasonable steps to establish the source of wealth and source of property.
    - Apply additional CDD measures to PEPs as required by the AML Law
- Monitoring measurement and Control (Management Information Systems)
- Assess how the bank monitors PEP accounts and how frequently are transactions reviewed and to whom these transactions are reported.

- Are reports generated on the level of the bank's exposure to PEPs, including number of accounts, balance of all accounts (deposits and loans) and are these circulated to the board/senior management?

Internal Control and Audit

- Are there adequate arrangements in place for an independent internal review and assessment of implementation of the bank's PEP requirements?
- Are reports produced by the independent review function sent to the board or a committee thereof.
- Does the financial institution comply with recommendations made by such reports

#### **Testing to be conducted by examiners**

1. Select a sample of new customer PEP accounts opened since the last examination and test the files for compliance with ECDD policies, practices, procedures and internal controls in place.
2. Determine that enhanced monitoring of the relationship is occurring by selecting a sample of existing customer PEP accounts and test for compliance with account monitoring policies, practices, procedures and internal controls in place.
3. Assess the transactions posted to each account since the previous examination against the expected pattern of activity obtained at account opening. Investigate any unusual activity not previously identified by the Bank.
4. Determine that the bank has a process in place to identify PEP accounts and that enhanced due diligence is performed on those accounts prior to establishing the business relationship.

#### **3.1.9 AND 3.1.10 EXAMINATION PROCEDURE: TERRORIST FINANCING (TF), TARGETED FINANCIAL SANCTIONS RELATED TO PROLIFERATION (PF) AND, COUNTER-MEASURES FOR HIGHER-RISK COUNTRIES**

Introduction: Bank are required to have in place policies, procedures and controls to:

- Identify the assets and funds of designated persons related to terrorism and terrorist financing and to freeze these funds and report to the relevant Government agencies;
- Identify the assets and funds of designated persons related to proliferation and to freeze these funds and report to the relevant Government agencies; and
- To implement countermeasures when required to do so by the BOM or other Government agency in respect of high risk jurisdictions.

The BOM through its supervisory activities is required to ensure that banks have developed procedures to ensure the effective implementation of these requirements.

#### **Examination Objectives:**

1. Assess the bank's policies and procedures to identify customers, monitor transactions and systems to freeze funds (assets) of designated persons.
2. Assess the bank's policies and procedures relating to the implementation of enhanced CDD on customer relationships/transactions in response to requests to do so from the BOM or other Government agencies.
3. Assess compliance with legal and regulatory requirements relating to terrorist financing, financing of proliferation and applying countermeasures to high-risk countries.

**Examination Procedures:**

**Internal Control Inquiries**

**TF and PF**

1. Has the board of directors adopted AML/CFT policies and procedures in relation to:
  - o Terrorist financing;
  - o Proliferation financing; and
  - o Implementing countermeasures in relation to high risk countries?
2. Are there procedures relating to the identification of designated persons documented and do they permit the bank to identify such customers at the commencement of the relationship or during the course of the relationship?
3. Are there procedures to freeze without delay funds, property and assets held by the bank, including in safe custody, in response to directions received from competent authorities?
4. Are there procedures to monitor attempted access by customers or other parties to the funds, property or assets?
5. Are there procedures to allow access to the funds, property or assets held in response to directions from competent authorities?
6. Are there procedures to unfreeze funds, property or assets in response to directions from competent authorities?
7. Are there procedures which clearly specify the types of reports that are to be submitted to relevant Government departments within the specified timeframe in relation to any relationships with designated persons including attempts to access funds/assets?

**Countermeasures for high risk countries**

8. Are there procedures relating to the identification of customer transactions and relationships with countries identified as high-risk by competent authorities?
9. Do policies and procedures identify the person within the bank responsible for ensuring that directions received from competent authorities are effectively implemented. Such policies and procedures should address directions such as:
  - a) applying specific elements of enhanced due diligence such as obtaining additional information on the customer, purpose of transactions, nature of the business relationship and the source of funds or wealth of the customer;
  - b) obtaining senior management approval to continue the relationship; and,
  - c) increased monitoring of transactions; or

d) reviewing, amending or if necessary terminating correspondent banking relationships.

10. Are there procedures which clearly specify the types of reports that are to be submitted to relevant Government departments within the specified timeframe in relation to any relationships with high risk countries?

### **Testing to be conducted by examiners**

- Determine that whether the bank maintains a current listing of prohibited countries, entities and individuals.
- Determine whether established accounts/relationships are regularly compared with listings by reviewing a sample of transactions/accounts opened since the last examination (or issuance of directives from competent authorities) and test the files for compliance with KYC policies, practices, procedures and internal controls in place.
- Determine if staff are aware of obligations to report to the Compliance Officer if a customer is identified as a designated person.
- Determine and assess the processes relating to immediate freezing of the account/funds and monitoring of frozen accounts/funds and internal reporting arrangements.
- Determine the role of the Compliance Officer in ensuring that reports are submitted to relevant Government agencies.
- Determine that the Compliance Officer ensures that countermeasures in relation to high-risk countries are implemented and that reports are submitted to relevant Government departments.

### **3.1.11 EXAMINATION AREA: ACCOUNT MONITORING**

#### **Examination objectives**

1. To determine if policies, practices, procedures and internal controls regarding monitoring of accounts of customer relationships are adequate.
2. To determine if bank personnel, including employees, officers and directors are operating in conformity with the above established policies and guidelines.
3. To determine the scope and adequacy of the internal and external audit functions in addressing AML/CFT activities in this area.
4. To determine the adequacy on any internal reporting thresholds (based on an assessment of customer risk, transaction size etc).
5. To determine that unusual transactions with regard to the volume or nature of transactions that do not meet management expectations are investigated and reported.

6. To determine compliance with Laws, Rules and Directives.
7. To initiate corrective action when policies, practices, procedures or internal controls are deficient or when violations of law or regulations have been noted.

### **Examination Procedure**

#### *Board and Senior Management Oversight*

- Has the board/senior management developed policies and procedures on account monitoring and have these been approved?
- Are policies reviewed and updated on a regular basis?
- Are there mechanisms for reporting to the board on the implementation of these requirements?

#### *Policies and Procedures*

1. If the bank performs a risk assessment of customers, assess the risk factors used by the bank and determine if these are appropriate.
2. Are risk factors used to determine the degree and frequency of account monitoring?
3. Determine the frequency of the review of risk assessments to ensure that it addresses issues such as a change in the nature and volume of the customer's business with the bank.
4. Determine whether the bank has regular meetings with high risk customers or those whose business patterns change significantly.
5. Determine which bank officers are responsible for conducting risk assessments and whether risk assessments are reviewed by a more senior bank officer and/or the money laundering compliance officer.
  - Are effective arrangements in place to ensure compliance with relevant statutory obligations.

#### *Requirements under the Law and related Rules and Directives*

Do policies and procedures require the bank to:

- Monitor transactions on an ongoing basis and to update customer profiles on the basis of risk.
- Review unusual or large transactions and keep a record of findings.
- Maintain up to date customer profiles to assist bank staff identify transactions which are not consistent with the customer's business/stated reason for the relationship.

### *Monitoring measurement and Control (Management Information Systems)*

- Determine the nature of information provided to the board/senior management in relation to risk. Are reports produced which provide an overview of the bank's customer base on the basis of risk?
- What is the frequency of these reports?
- Do reports indicate the number of new relationships established?
- Do internal reports identify those dormant accounts which become active?

### *Internal Control and Audit*

- Are there adequate arrangements in place for an independent internal review and assessment of implementation of the bank's monitoring requirements?
- Are reports produced by the independent review function sent to the board or a committee thereof.
- Does the financial institution comply with recommendations made by such reports

### **Testing to be conducted by examiners**

1. Review a sample of customer risk assessments to determine if the bank has correctly implemented its internal policies and procedures.
2. From reports obtained, select a sample of adequate number of transactions (include all types) and perform the following:
  - a) Determine if the institution has obtained information to assess if the transaction is consistent with its knowledge of the customer:
    - Obtained information on the nature of the transaction and documented its understanding of the transaction.
    - If the customer's business or status has changed (for example, if the customer is now a PEP).
    - Reviewed its risk assessment/profile of the customer in light of new information on the customer's activities.
  - b) Evaluate the adequacy of the information obtained above and note any exceptions.
3. From the reports reviewed in 2 above, select a sample of adequate number of the transactions reviews and determine that items identified as unusual were investigated and resolved. Review the decision made by bank management for appropriateness and determine that sufficient and proper documentation has been



maintained to support the conclusion as to whether or not the transaction was suspicious.

4. Request a sample of the bank's transaction monitoring reports. (These reports may be based on transaction size (a predetermined threshold) and all transactions above a threshold are identified). Review these reports to determine:

- Is the threshold appropriate given the nature of the bank's customer base and is it consistent with reporting thresholds required by the Law?
- The timeliness of the production of the report.
- If the report is circulated to senior management and the money laundering compliance officer for review.
- If explanations of large transactions are obtained and recorded?
- Follow-up mechanisms that are in place in relation to large or unusual transactions that do not have an adequate explanation.

5. Determine whether the bank's policies and procedures outline actions to be taken by staff in respect of those transactions which are not consistent with the bank's knowledge of the customer. For example, requiring staff to contact the customer to seek additional information or consideration of whether or not a suspicious transaction report should be completed.

6. Select a sample of adequate number of dormant accounts and if there has been activity in the accounts, determine the bank's policies and procedures to ensure that it monitors these accounts and where they become active the extent to which the bank understands the change in circumstance.

### **3.1.12 EXAMINATION AREA: SUSPICIOUS TRANSACTION REPORTING**

#### **Examination Objectives**

1. To assess the bank's policies, procedures, and processes, and overall compliance with requirements for monitoring, detecting, and reporting suspicious activities.
2. To determine compliance with the AML Law, Rules and Directives.
3. To initiate corrective action when policies, practices, procedures or internal controls are deficient or when violations of law or regulations have been noted.

#### **Examination Procedure**

*Board and Senior Management Oversight*

1. Has the board/senior management developed policies and procedures on suspicious transaction reporting (STR) and have these been approved?
2. Are policies reviewed and updated on a regular basis?
3. Are there mechanisms for reporting to the board on the implementation of STR requirements?

#### *Policies and Procedures*

1. Do the bank's policies and procedures:
  - Clearly specify the timeframe in which the bank is required to submit a STR to the FIU?
  - Lines of communication for the referral of unusual activity/suspicious transactions to appropriate personnel.
  - Designation of individual(s) responsible for identifying, researching, and reporting suspicious activities.
  - Monitoring systems (automated or manual) used to identify unusual activity.
  - Procedures to ensure the timely generation of reports used to identify unusual activities and how promptly staff respond to those transactions which have been identified as unusual.
  - Procedures for reviewing and evaluating the transaction activity of subjects included in law enforcement requests (e.g., criminal subpoenas). Examiners should evaluate the policies, procedures, and processes for:
    - o Evaluating the account of a customer for suspicious activity.
    - o Filing STRs, if necessary.
    - o Handling account closures.
2. Procedures for documenting decisions not to file a STR.
3. Procedures for considering whether to close accounts as a result of continuous suspicious activity.
4. Do the bank's transaction monitoring mechanisms/reports capture all areas that pose money laundering and terrorist financing risks? (Examples of these reports include: currency activity reports, funds transfer reports, monetary instrument sales reports, large transaction reports, and significant balance change reports).

#### *Requirements under the Law and related Rules and Directives*

Do policies and procedures require the bank to:

1. Submit reports to the FIU within the specified timeframe under the Law?
2. Ensure that it keeps appropriate records in relation to STRs and unusual/large transactions?

*Monitoring measurement and Control (Management Information Systems)*

1. How does senior management monitor the compliance with STR requirements?
2. Is there a requirement to report to the bank's board in relation to the number and type of suspicious transactions submitted to the FIU?
3. How frequently are such reports required to be submitted to the board?

*Internal Control and Audit*

1. Are there adequate arrangements in place for an independent internal review and assessment of implementation of the bank's STR requirements?
2. Are reports produced by the independent review function sent to the board or a committee thereof.
3. Does the financial institution comply with recommendations made by such reports

**Testing to be conducted by examiners**

1. Select a sample customer accounts to review the following:
  - Suspicious transaction monitoring reports.
  - Threshold transaction information.
  - Customer activity
  - Decisions not to file an STR
2. Review the selected accounts for unusual activity. When reviewing for unusual activity, consider the following:
  - For individual customers, whether the activity is consistent with CDD information (e.g., occupation, expected account activity and sources of funds and wealth).
  - For business customers, whether the activity is consistent with CDD information (e.g., type of business, size, location, and target market).
3. For transactions identified as unusual, discuss the transactions with management. Determine whether the account officer demonstrates knowledge of the

customer and the unusual transactions. After examining the available facts, determine whether management knows of a reasonable explanation for the transactions.

4. Select a sample of management's decisions in relation to STRs to determine the following:

- Whether management decisions to file or not file a STR are supported and reasonable. Whether documentation is adequate.

5. Whether the decision process is completed and STRs are filed in a timely manner. Assess the quality of STR data to ensure the following:

- STRs contain accurate information.
- STR narratives are complete and thorough, and clearly explain why the activity is suspicious.

6. Determine whether the bank's monitoring systems use reasonable filtering criteria whose programming has been independently verified. Determine whether the monitoring systems generate accurate reports at a reasonable frequency.

7. Where manual systems are used, determine the extent to which staff monitor accounts/transactions for suspicious activity and the extent to which staff understand what constitutes suspicious activity.

### **3.1.13 EXAMINATION AREA: THRESHOLD AND FOREIGN SETTLEMENT TRANSACTION REPORTING;**

#### **Examination Objectives:**

Bank is responsible for reporting Cash and non-cash transactions of 20 million togrog (or equivalent foreign currency) or above to the Financial Information Unit in the prescribed form within 5 working days. Supervisor need check whether bank comply with threshold and foreign settlement transaction reporting requirements.

#### **Examination procedure**

1. Bank shall have procedures on reporting Cash and foreign settlement transactions of 20 million togrog (or equivalent foreign currency) or above to the Financial Information Unit in the prescribed form within 5 working days.
2. Bank shall have Internal control system on implementation of reporting obligation;
3. Bank's internal audit or relevant Board committee needs to review internal procedures and implementation of this procedure;
4. Bank shall have automated reporting system in place

### **Testing to be conducted by examiners**

1. Obtain procedure on reporting Cash and foreign settlement transactions of 20 million togrog (or equivalent foreign currency) or above;
2. Obtain statistical information on bank's reported CTR and FSTR from FIU, including quality of report and whether it meet with deadline of 5 days
3. Filter all Cash and foreign settlement transactions of 20 million togrog (or equivalent foreign currency) or above within period that described in onsite examination directive and check against reported transactions;
4. Make interview with top management, compliance officer and other relevant officers of the bank;
5. obtain internal and external audit reports and examination reports and determine that corrective action has been taken or is in process.
6. Check implementation of rectification orders given as a result of previous onsite examination or off site supervision.
7. Discuss with other supervisors examining other areas of the bank.

### **3.1.14 EXAMINATION AREA: CROSS BORDER CORRESPONDENT BANKING**

#### **Examination Objectives:**

The examiner must assess how the bank adheres to sound correspondent account due diligence procedures and practices for ongoing compliance monitoring and the procedures should reflect this objective.

Just because a foreign bank has a valid license does not necessarily insure the bank is in good standing. At account opening, information should be obtained on the foreign bank's management, finances, reputation and anti-money laundering efforts. The bank should really "know" the customer they are working with and document their efforts.

1. assess AML/CFT risk in management policies, practices and procedures governing correspondent banking.
2. determine if policies, practices, procedures and internal controls regarding correspondent banking are adequate.
3. determine if bank personnel, including employees, officers and directors are operating in conformity with the above established policies and guidelines.
4. determine the scope and adequacy of the internal and external audit functions in addressing AML/CFT activities in this area.
5. determine the adequacy of the account approval process.

6. determine if activity in correspondent accounts is being monitored.
7. determine that unusual transactions with regard to the volume or nature of transactions that do not meet management expectations are investigated and reported.
8. determine compliance with applicable laws and regulations.
9. initiate corrective action when policies, practices, procedures or internal controls are deficient or when violations of law or regulations have been noted.
10. determine if previous actions or recommendations have been implemented.

## **Examination Procedures**

### ***Internal Control Inquiries:***

1. Has the board of directors adopted written AML/CFT policies governing correspondent banking?
2. Does the Board of Directors review and approve the policies at least annually to determine their adequacy in light of changing conditions?
3. Is Senior Management approval required prior to establishing a new correspondent banking relationship?
4. Does the bank have a documented understanding of the responsibilities of both parties?
5. Is the Bank prohibited from establishing correspondent relationships with "Shell" banks? Does the bank obtain documentation to ensure that the applicant correspondent bank is not a shell bank?
6. Does management determine that the correspondent bank is not located in a jurisdiction that does not cooperate with FATF type regional bodies or adequately apply international AML/CFT standards? Does management prohibit doing business with banks located in these jurisdictions?
7. How does management determine if the correspondent bank has an effective AML/CFT program and if there is effective regulatory supervision within the jurisdiction of the correspondent bank?
8. Does the bank maintain a file for each correspondent banking relationship documenting the customer due diligence performed?
9. Is the file information confirmed and updated on a regular basis? If so, how often is this process performed?
10. If the correspondent relationship involves the maintenance of "payable through accounts", is the bank satisfied that their customer (the respondent financial institution):

- Has performed all normal CDD obligations for its customers that have direct access to the accounts of the correspondent financial institution, and
  - The respondent financial institution is able to provide relevant customer identification data upon request.
11. Does the bank have procedures in place for closing the correspondent accounts if required documentation is not obtained within the specified time frames?
  12. Has the bank closed any correspondent accounts due to non-conformance?
  13. Does management determine if the correspondent account is accessible by third parties and if so, is recordkeeping adequate to determine who has access to the account? How do they identify the third party?
  14. Does the bank have a system in place to monitor activity in correspondent bank accounts in order to identify suspicious activity?
  15. Does the bank assess on a consistent basis the frequency, type, and volume of account activity and whether the activity is consistent with management's expectations through the use of the above system?

#### **Testing to be conducted by examiners**

1. Determine the scope of the examination based on an evaluation of internal controls required above and information gathered through interview and the work performed by internal/external auditors.
2. Obtain the correspondent banking policies and procedures and review for adequacy and inclusion of AML/CFT issues. Determine if the policies and procedures are reviewed, updated and approved on a regular basis.
3. Review any specific issues raised both in the internal and external audit reports and examination reports and determine that corrective action has been taken or is in process.
4. Obtain a listing of all foreign or cross border correspondent bank accounts.
5. From the listing of correspondent bank accounts obtained select correspondent bank accounts (include all types) opened since the last examination and perform the following:
  - c) Determine if the institution has obtained the following information as part of its Customer Due Diligence (CDD) program for each bank selected:
    - An understanding of the nature of the correspondent bank's business.
    - Ownership (if not publicly traded) and management information regarding the

correspondent bank.

- Financial statements, creditworthiness, and verification of the correspondent's banking license.
- Publicly available information regarding the reputation of the institution and quality of supervision.
- Evaluation of the overall adequacy of banking supervision in the jurisdiction of the correspondent bank.
- A clear and documented understanding of the nature, frequency and volume of expected transactions between the institution and the correspondent bank.
- Assessment of the correspondent's AML/CFT controls to determine if they are adequate and effective.
- Approval of senior management before establishing new correspondent relationships to ensure that the CDD procedures were performed, including a determination that the correspondent bank is not located in a money laundering haven.

d) Evaluate the adequacy of the information obtained above and note any exceptions.

6. Select a sample of adequate number of correspondent banking monitoring reports or documentation of account transaction review and determine that items identified as unusual were investigated and resolved. Review the decision made by bank management for appropriateness and determine that sufficient and proper documentation has been maintained to support the conclusion as to whether or not the transaction was suspicious.

7. Select a sample of correspondent bank accounts that were established prior to the current examination period and review the bank's efforts to recertify the documentation on file.

8. If the account is accessible by a third party, review the adequacy of the recordkeeping to determine the identity of the person who has such access.

9. Discuss review results with appropriate officers and prepare in suitable report format.

Update work papers with information that will facilitate future examinations and follow up.



### **3.1.15 EXAMINATION AREA: INTERNAL CONTROLS;**

#### **Examination Objectives**

Determine whether the AML/CFT Compliance Program includes policies, procedures and processes that:

- i. Identify higher-risk operations (products, services, customers, entities and geographic locations); provide for periodic updates to the institution's risk profile and AML/CFT Compliance Program tailored to manage risks.
- ii. Inform the board of directors or its committee and senior management of compliance initiatives, identified compliance deficiencies, STRs rendered and corrective action taken.
- iii. Identify a person or persons responsible for AML/CFT compliance.
- iv. Provide for program-continuity (in the form of back-up, storage & retrieval of information) despite changes in management or employee composition or structure.
- v. Meet all regulatory requirements, enforce the recommendations for AML/CFT compliance and provide for timely updates to implement changes in regulations.
- vi. Implement risk-based CDD policies, procedures and processes.
- vii. Identify reportable transactions and accurately render promptly all the required returns including STRs, PEPs, CTRs and CTR-exemptions (where necessary). Ensure that the financial institution has centralized its review and return rendition functions within a unit/office at the branches & head office.
- viii. Provide for dual controls and the segregation of duties as much as possible. For example, employees that complete the return formats (such as STRs, PEPs, CTRs and CTR-exemptions) generally should not also be responsible for the decision to render the reports or grant the exemptions.
- ix. Provide sufficient controls and monitoring systems for the timely detection and reporting of suspicious transaction.
- x. Provide for adequate supervision of employees that handle currency transactions, complete reports & render the returns, grant exemptions, monitor for suspicious activity or engage in any other activity covered by the MLPA, AML/CFT Regulation and other related requirements.
- xi. Train employees to be aware of their responsibilities under the MLPA, AML/CFT Regulation, other related and internal policy guidelines.
- xii. Incorporate MLPA & AML/CFT Regulation compliance into job descriptions and performance evaluations of appropriate personnel

#### **Examination Procedure**

1. Determine whether the AML/CFT testing (audit) is independent (i.e. performed by a person (or persons) not involved with the institution's AML/CFT compliance) and whether persons conducting the testing report directly to the board of directors or to a designated board committee consisting primarily or completely of outside directors.

2. Evaluate the qualifications of the person (or persons) performing the independent testing to assess whether the financial institution can rely upon the findings and conclusions.

3. Validate the auditor's reports and work-papers to determine whether the financial institution's independent testing is comprehensive, accurate, adequate and timely.

### **Testing to be conducted by examiners**

i. The overall adequacy and effectiveness of the AML/CFT Compliance Program including policies, procedures and processes. The evaluation will include an explicit statement about the AML/CFT Compliance Program's overall adequacy and effectiveness and compliance with applicable regulatory requirements. At the very least, the audit should contain sufficient information for the reviewer (e.g. the Examiner, review auditor) to reach a conclusion about the overall quality of the AML/CFT Compliance Program.

ii. ML/FT risk assessment.

iii. MLPA & AML/CFT Regulation reporting and record-keeping requirements.

iv. CIP implementation.

v. CDD policies, procedures and processes and whether they comply with internal requirements.

vi. Personnel adherence to the institution's AML/CFT policies, procedures and processes.

vii. Appropriate transaction testing with particular emphasis on higher-risk operations (products, services, customers and geographic locations).

viii. Training, including its comprehensiveness, accuracy of materials, the training schedule and attendance tracking.

ix. The integrity and accuracy of MIS used in the AML/CFT Compliance Program. MIS includes reports used to identify large currency transactions, aggregate

daily currency transactions, funds transfer transactions, monetary instrument sales transactions, and analytical and trend reports.

x. Tracking of previously identified issues and deficiencies and verification that they have been corrected by management.

xi. If an automated system is not used to identify or aggregate large transactions, determine whether the audit or independent review includes a sample test check of tellers' cash proof sheets, tapes or other documentation to determine whether large currency transactions are accurately identified and reported.

4. Determine whether the audit's review of suspicious transaction monitoring systems includes an evaluation of the system's ability to identify un-usual transaction. Ensure through a validation of the auditor's reports and work-papers that the institution's independent testing:

i. Reviews policies, procedures and processes for suspicious transaction monitoring.

ii. Evaluates the system's methodology for establishing and applying expected activity or filtering criteria.

iii. Evaluates the system's ability to generate monitoring reports.

iv. Determines whether the system filtering criteria are reasonable and include (at a minimum) cash, monetary instruments, funds transfers and other higher-risk products, services, customers or geographies as appropriate.

5. Determine whether the audit's review of suspicious transaction reporting systems includes an evaluation of the research and referral of unusual transaction. Ensure through a validation of the auditor's reports and work-papers that the institution's independent testing includes a review of policies, procedures and processes for referring unusual transaction from all business lines (e.g. legal, private banking, foreign correspondent banking) to the personnel or department responsible for evaluating unusual activity.

6. Review the audit scope, procedures and work-papers to determine adequacy of the audit based on the following:

i. Overall audit coverage and frequency in relation to the risk profile of the institution.

ii. Board reporting & supervision and its responsiveness to audit findings.

iii. Adequacy of transaction testing, particularly for higher-risk operations and suspicious transaction monitoring systems.

iv. Competency of the auditors or independent reviewers regarding AML/CFT requirements.

### **3.1.16 EXAMINATION AREA: WIRE TRANSFERS**

#### **Examination Objectives**

1. To determine assess AML/CFT risk management practices, procedures and internal controls governing wire transfer activities.
2. To determine if policies, practices, procedures and internal controls regarding wire transfers are adequate.
3. To determine if bank personnel, including employees, officers and directors are operating in conformity with the above established policies and guidelines.
4. To determine the scope and adequacy of the internal and external audit functions in addressing AML/CFT activities in this area.
5. To determine if money/funds transfer activity is being adequately monitored and unusual transactions are being properly investigated and reported and how the bank treats wire transfers with incomplete information.
6. To initiate corrective action when policies, practices, procedures or internal controls are deficient or when violations of law or regulations have been noted.

#### **Examination Procedures**

##### *Board and Senior Management Oversight*

- Determine that the board/senior management developed policies and

procedures on wire transfer activities (domestic and foreign) and that these have been approved?

- Are policies reviewed and updated on a regular basis?
- Are there mechanisms for reporting to the board on the implementation of record keeping requirements?

#### *Policies and Procedures*

- Are the procedures consistent with the policies and legal requirements?
- Determine that policies and procedures require staff to check the name of the originator and beneficiary against UN Lists (and other lists) prior to carrying out the wire transfer?
- Determine that the bank has appropriate policies in place to deal with wire transfers that do not include all required information.
- Assess adequacy of policy in relation to dealing with wire transfers initiated by non-bank customers, including obtaining required CDD documents as required by the Law.

#### *Requirements under the Law and related Rules and Directives*

Do policies and procedures require the bank to:

- Ensure that all required information on the originator of the transaction is obtained.
- Outline procedures for dealing with incomplete wire transfers including considering submitting a STR to the FIU,
- Determine what steps should be taken, on the basis of risk, if the bank receives a wire transfer that does not include full originator information;
- Retain relevant records for a period of five (5) years as required by the Law.
- Ensure that information relating to domestic wire transfers can be made available within the timeframe specified by Law.

#### *Monitoring measurement and Control (Management Information Systems)*

- How does senior management monitor the compliance of wire transfer requirements?

#### *Internal Control and Audit*

- Are there adequate arrangements in place for an independent internal review

and assessment of implementation of the bank's wire transfer requirements?

- Are reports produced by the independent review function sent to the board or a committee thereof.
- Does the financial institution comply with recommendations made by such reports

**Testing to be conducted by examiners**

1. From a sample of wire transfer originations, does the bank retain the following records for each originator?
  - a) Name and address of originator.
  - b) Amount of funds transfer.
  - c) The date of funds transfers.
  - d) Any payment instructions.
  - e) The identity of the beneficiary's bank.
  - f) Either the name and address or account number of the beneficiary.
2. Does the bank check details (originator and beneficiary name) against UN lists or other lists?
3. If the bank receives funds and it cannot identify the source of the funds does the bank return the funds and if appropriate prepare a Suspicious Transactions Report?
4. From the listing of wire transfer, select a sample of adequate number wire transfers since the last examination and review these against the areas identified in Question 1 above.
5. Select a sample of adequate number of wire transfers identified as unusual to ascertain if these were investigated and resolved. Review the decision made by bank management for proceeding with the transaction and determine that sufficient and proper documentation has been maintained to support the conclusion as to whether or not the transaction was suspicious.
6. Review the reports selected in Question 5 for possible suspicious activity that was not identified by Bank officials. Determine why the activity was not identified.
7. Are there any instances where the bank has decided not to accept a wire transfer because it is incomplete and review how the bank handled these situations? Has the bank declined to accept the funds, terminated the relationship with the remitting bank or submitted a STR to the FIU?

8. For transactions determined to be suspicious by management, determine that the activity was reported to the appropriate persons, both internal and external.
9. Does the bank have procedures in place for monitoring accounts with funds transfer activity (through the use of MIS reports or other process), paying special attention to high-risk accounts, including those with frequent cash deposits and subsequent funds transfers to another financial institution or out of the country? Is the MLRO involved in the review process?

### **3.1.17 EXAMINATION AREA: NEW PRODUCTS AND SERVICES;**

#### **Examination Objectives**

Bank need to implement ML/TF risk mitigation measures before launch new product, service or delivery channel. Prior to introducing new products, services or delivery mechanisms, reporting entities should undertake an assessment of the risks associated with such products, services and delivery mechanisms, and undertake an assessment of the risks associated with the use of new or developing technologies with both new or pre-existing products; and Implementing appropriate measures designed to manage such risks and mitigate those risks.

#### **Examination procedure**

1. Determine whether Bank have policy and procedure to deal with new product and service
2. Determine whether Bank undertake an assessment of the risks associated with new products, services and delivery mechanisms;
3. and undertake an assessment of the risks associated with the use of new or developing technologies with both new or pre-existing products;
4. and Implementing appropriate measures designed to manage such risks and mitigate those risks;
5. Review any specific issues raised both in the internal and external audit reports and examination reports and determine that corrective action has been taken or is in process.
6. Determine how bank review risk assessment related to new product and service;
7. Assess adequacy of policy and procedure in relation to dealing with new product and service.

#### **Testing to be conducted by examiners**

1. Obtain policy and procedure on launching new product and service;
2. Assess policy and procedure on launching new product and service;
3. Obtain list of new product and service launched;

4. Obtain risk assessment report associated with the use of new or developing technologies with both new or pre-existing products;
5. Obtain information on Implementing appropriate measures designed to manage such risks and mitigate those risks
6. and evaluate the adequacy and effectiveness of the measures undertaken;
7. Are there adequate arrangements in place for an independent internal review and assessment of implementation of risk mitigation measures undertaken?
8. Are reports produced by the independent review function sent to the board or a committee thereof.
9. obtain internal and external audit reports and examination reports and determine that corrective action has been taken or is in process.
10. Make interview with top management, compliance officer and other relevant officers of the bank;
11. Check implementation of rectification orders given as a result of previous onsite examination or off site supervision.
12. Discuss with other supervisors examining other areas of the bank.

### **3.1.18 EXAMINATION AREA: RECORD KEEPING**

#### **Examination Objectives**

1. To assess records keeping policies, practices and procedures governing the nature and type of records that are required to be maintained and if these comply with the AML Law, Rules and related Directives.
2. To determine if bank personnel, including employees, officers and directors are operating in conformity with the above established policies and guidelines.
3. To initiate corrective action when policies, practices, procedures or internal controls are deficient or when violations of law or regulations have been noted.

#### **Examination Procedure**

##### Board and Senior Management Oversight

- Has the board/senior management developed policies and procedures on record keeping and have these been approved?
  - Are policies reviewed and updated on a regular basis?
  - Are there mechanisms for reporting to the board on the implementation of record keeping requirements?
- Has the board taken measures to ensure that the bank has adequate resources to effectively implement the record keeping requirements?

### Policies and Procedures

- Are the procedures consistent with the policies?
- Is there an effective mechanism in place for transmitting policies on record keeping to staff?
- Are effective arrangements in place to ensure compliance with relevant statutory obligations.

### Requirements under the Law and related Rules and Directives

Do policies and procedures require the bank to:

- Maintain records on the identification data obtained through or presented during the CDD process within a period of at least five (5) years after the end of the business relationship;
- Maintain records on the identification data obtained through or presented during the CDD process within a period of at least five (5) years starting from the conclusion of the transaction for occasional customers,
- Maintain for period of at least five (5) years, all necessary records on transactions conducted, both domestic and international;
- Maintain account books and business correspondence for a period of at least five (5) years after the end of the business relationship.
- Give identification data and transaction records immediately to the requesting competent domestic authorities upon authorization by the Financial Investigation Unit.

### Monitoring measurement and Control (Management Information Systems)

- How does senior management monitor the compliance of record keeping requirements?
- Does the bank have a system of recover the data kept?
- Is there an adequate Disaster Recovery Plan with respect to the maintenance and recovery of records?

### Internal Control and Audit

- Are there adequate arrangements in place for an independent internal review and assessment of implementation of the bank's record keeping requirements?
- Are reports produced by the independent review function sent to the board or a committee thereof.



- Does the financial institution comply with recommendations made by such reports.

### **Testing to be conducted by examiners**

1. Select a sample of accounts and transaction records for a period to be determined by the Examiner in Charge. (The size of this sample, will be based in part on an evaluation of internal controls required above and information gathered through interview and the work performed by internal/external auditors). From the sample (active and terminated relationships), perform the following:

- a) Determine if the institution has retained records of required documents.
- b) Assess whether records can be retrieved easily in response to enquiries.
- c) Assess whether the bank has put in place appropriate procedures to obtain missing records/documents.

2. Review any specific issues raised both in the internal and external audit reports and examination reports and determine that corrective action has been taken or is in process.

3. Ensure that the institution keeps all records of customer information, including entries of the accounts and details of transactions involving fund transfer for at least 5 years from the date of the transaction notwithstanding that the customers may have terminated the business relationship with the bank subsequent to the transactions.

4. Ensure also that the institution keeps records of the identification data obtained through the customer due diligence process for at least 5 years after termination of business relationship.

### **3.1.19 EXAMINATION AREA: STAFF TRAINING**

#### **Examination Objectives**

1. To determine that the bank has a formal training program in place that is approved by the board/senior management and that the board/senior management is committed to ensuring that staff receive adequate training.
2. To assess whether the bank's training program addresses policies, practices and procedures relating to AML/CFT including coverage of Mongolia's AML/CFT requirements.
3. To determine if bank personnel, including employees, compliance officer and directors receive training on an on-going and timely basis.
4. To determine the effectiveness of the training program.
5. To initiate corrective action when policies, practices, procedures or internal controls are deficient or when violations of law or regulations have been noted.

## **Examination Procedure:**

### Board and Senior Management Oversight

- Has the board/senior management developed policies and procedures on staff training have these been approved?
- Are policies reviewed and updated on a regular basis?
- Are there mechanisms for reporting to the board on the implementation of staff training requirements?
- Has the board taken measures to ensure that the bank has adequate resources to effectively implement the staff training requirements?

### Policies and Procedures

- Are the training materials consistent with the bank's policies and procedures?
- What is the frequency of staff training?
- Which staff are covered by the bank's staff training program?
- Are effective arrangements in place to ensure compliance with relevant statutory obligations.

### Requirements under the Law and related Rules and Directives

- Ensure that training is provided to staff at all levels including the compliance officer, directors, board, senior management and employees?
- Outline the type of AML/CFT training, if any, provided to the employees?
- Note the different types of AML/CFT training programs? (e.g. for new and existing employees, by type of business activities, etc.)
- Require that the training program is structured to reflect different risks or activities in different branches?

### Monitoring measurement and Control (Management Information Systems)

- Is the training program evaluated to ensure that it is effective and up to date?
- Does the bank communicate new AML/CFT related laws or changes to existing AML/CFT related policies or practices to employees? How does this occur?
- Does the AML/CFT compliance officer confirm that adequate training is provided to staff and maintain a register of attendance?
- Is the board kept informed of staff training initiatives/activities?

### Internal Control and Audit

- Are there adequate arrangements in place for an independent internal review and assessment of implementation of the bank's staff training requirements?
- Are reports produced by the independent review function sent to the board or a committee thereof.
- Does the financial institution comply with recommendations made by such reports.

### **Testing to be conducted by examiners**

1. Obtain the staff training program and review for adequacy and inclusion of AML/CFT topics: including the frequency of training; STR reporting; new trends (typologies) in ML/TF; and, sanctions for non-compliance.
2. Review the number of staff training sessions within the bank since the last examination. Consider whether the level of training is reasonable given the bank's size, location and customer base (resident/non-resident), products and services and delivery channels.
3. Select a sample of staff training sessions and review the material and coverage for adequacy (and consistency with internal policies and procedures) and methodology for delivering training for a determined period of time.
4. Assess the level of staff knowledge through interviews with relevant bank staff (e.g. tellers, foreign exchange staff) and determine the effectiveness of training by evaluating whether the employees are aware of their obligations under the AML Law and the bank's internal policies and procedures.
5. Review the bank's process/mechanism for determining the adequacy of the training program (coverage, frequency).

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