



Completion Report

Program Number: 34135-013
Loan Number: 2218
December 2011

Mongolia: Financial Regulation and Governance Program

CURRENCY EQUIVALENTS

Currency Unit – togrog (MNT)

		At Appraisal	At Program Completion
		7 October 2005	30 June 2010
MNT1.00	=	\$0.00082	\$0.00073
\$1.00	=	MNT1,219	MNT1,369

ABBREVIATIONS

ADB	–	Asian Development Bank
FIU	–	Financial Intelligence Unit
FRC	–	Financial Regulatory Commission
GDP	–	gross domestic product
IT	–	information technology
IT-MIS	–	information technology management information system
MOF	–	Ministry of Finance
MSE	–	Mongolian Stock Exchange
NBFI	–	nonbank financial institution
NBFS	–	nonbank financial sector
NPL	–	nonperforming loan
SCC	–	savings and credit cooperative
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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BASIC DATA

A. Loan Identification

1.	Country	Mongolia
2.	Loan Number	2218
3.	Program Title	Financial Regulation and Governance Reform
4.	Borrower	Mongolia
5.	Executing Agency	Ministry of Finance
6.	Amount of Loan	SDR6,917,000.00
7.	Program Completion Report Number	1313

B. Loan Data

1.	Appraisal	
	– Date Started	2 October 2005
	– Date Completed	7 October 2005
2.	Loan Negotiations	
	– Date Started	28 October 2005
	– Date Completed	29 October 2005
3.	Date of Board Approval	15 December 2005
4.	Date of Loan Agreement	4 July 2006
5.	Date of Loan Effectiveness	
	– In Loan Agreement	4 October 2006
	– Actual	18 September 2006
	– Number of Extensions	0
6.	Closing Date	
	– In Loan Agreement	30 June 2010
	– Actual	30 June 2010
	– Number of Extensions	0
7.	Terms of Loan	
	– Interest Rate	0.0
	– Maturity (number of years)	24
	– Grace Period (number of years)	8
9.	Disbursements	

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
27 November 2006	27 November 2006	0
Effective Date	Original Closing Date	Time Interval
18 September 2006	30 June 2010	45

b. Amount (\$'000)

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Cancelled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Financial Regulation and Governance Reform	10,000,000	0.00	5,000,000	0.00	5,150,329	0.00
Total (\$ equivalent)	10,000,000	0.00	5,000,000	0.00	5,150,329	0.00

C. Program Data

1. Program Cost (\$)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	10,000,000 (SDR 6,917,000)	5,150,329 (SDR3,458,500)
Total	10,000,000	5,150,329

2. Financing Plan (\$)

Cost	Appraisal Estimate	Actual
ADB Financed	10,000,000 (SDR 6,917,000)	5,150,329 (SDR3,458,500)
Total	10,000,000	5,150,329

ADB = Asian Development Bank

3. Cost Breakdown by Program Component (\$)

Component	Appraisal Estimate	Actual
First Tranche Release	5,000,000 (SDR3,458,500)	5,150,329 (SDR3,458,500)
Second Tranche Release	5,000,000 (SDR3,458,500)	Cancelled Cancelled

4. Program Schedule

Item	Appraisal Estimate	Actual
First Tranche Release	18 September 2006	27 November 2006
Second Tranche Release	31 December 2007	cancelled
Loan Closing	30 June 2010	30 June 2010

5. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 1 December 2005 to 31 December 2005	Satisfactory	Satisfactory
From 1 January 2006 to 31 May 2006	Satisfactory	Satisfactory
From 1 June 2006 to 30 June 2006	Satisfactory	Unsatisfactory
From 1 July 2006 to 31 December 2006	Satisfactory	Satisfactory
From 1 January 2007 to 31 December 2007	Satisfactory	Satisfactory
From 1 January 2008 to 31 December 2008	Satisfactory	Satisfactory
From 1 January 2009 to 31 October 2009	Satisfactory	Satisfactory
From 1 November 2009 to 31 December 2009	Satisfactory	Partly Satisfactory
From 1 January 2010 to 31 December 2010	Satisfactory	Partly Satisfactory

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Loan Reconnaissance	19–23 October 2004	2	5	a, b
First Loan Fact-Finding	26 April–6 May 2005	5	10	a, c, d, e
Second Loan Fact-Finding	8–12 August 2005	2	5	a, c
Appraisal	2–7 October 2005	2	6	a, c, d
Consultation Mission	26–27 June 2006	1	2	c
Review Mission 1	12–13 November 2006	1	2	a
Review Mission 2	21–22 April 2007	3	2	e, g
Review Mission 3	31 March–1 April 2008	2	2	f
Review Mission 4	15–17 October 2008	1	3	f
Review Mission 5	9–12 December 2009	1	4	f
Review Mission 6	10–11 May 2010	1	2	f

a = economist, b = banking sector expert, c = financial economist, d = counsel, e = country team leader, f = finance sector specialist, g = assistant project analyst, h = economics officer,

I. PROGRAM DESCRIPTION

1. A resilient and broadly based financial sector that effectively mobilizes and allocates resources is essential to creating jobs and reducing poverty. The Asian Development Bank (ADB) has supported the development of the financial sector in Mongolia through loans and technical assistance (TA). The first phase of comprehensive financial sector reforms was launched in 1996 against the backdrop of a fragile banking sector with a number of illiquid and insolvent banks. Supported by ADB's Financial Sector Reform Program loan,¹ these reforms primarily focused on bank restructuring and resolution; strengthening prudential regulations and supervision; and, more generally, developing a market-oriented banking sector. The Second Financial Sector Program loan² supported upgrading management information systems in banks, introducing the interbank market, and developing a basic legal and regulatory framework for the nonbank financial sector (NBFS).

2. The program performance audit report of the Financial Sector Reform Program³ and the program completion report of the Second Financial Sector Reform Program⁴ rated both programs *successful*. The 1997–2007 Mongolia country assistance program evaluation⁵ and related Mongolia special assistance program evaluation for the financial sector⁶ concluded that ADB's assistance in the financial sector was *successful*. However, the special evaluation study on ADB assistance for domestic capital market development⁷ concluded that ADB's assistance for capital market development in Mongolia was *partly relevant, less than effective, less than efficient, less likely sustainable, and had low impact*.

3. The Financial Regulation and Governance Program for SDR6.917 million (\$10 million equivalent) and the attached Capacity Building for Financial Sector Reforms TA grant for \$900,000 equivalent were approved in December 2005.⁸ The program became effective in September 2006. The objective of the program was to help develop a sound and broadly based financial sector that effectively channels resources to productive investments. Specifically, the program aimed to (i) reduce the cost of borrowing and expand access to credit by improving the collateral framework, (ii) improve governance in banks to protect depositors, (iii) enhance the role of the NBFS in mobilizing savings for investment capital, and (iv) improve investor confidence by reducing the risks from money laundering through the financial system. The Capacity Building for Financial Sector Reforms TA helped to implement the policy reforms called for in the program, and to strengthen the capacities of the Financial Regulatory Commission (FRC) and the Financial Intelligence Unit (FIU) at the Bank of Mongolia. The total TA cost was estimated at \$1,120,000, of which ADB financed \$900,000 on a grant basis through the Japan Special Fund, funded by the Government of Japan.

¹ ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for the Financial Sector Reform Program*. Manila (Loan 1509-MON).

² ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance to Mongolia for the Second Financial Sector Program*. Manila. (Loan 1743-MON, for \$15 million, approved on 22 June 2000).

³ ADB. 2003. *Program Performance Audit Report: Financial Sector reform Program*. Manila. (Loan 1509-MON-[SF]).

⁴ ADB. 2005. *Program Completion Report: Second Financial Sector Reform Program*. Manila. (Loan 1743-MON).

⁵ ADB. 2008. *Mongolia Country Assistance Program Evaluation 1997–2007*. Manila.

⁶ ADB. 2008. *Sector Assistance Program Evaluation: Financial Sector: Mongolia—Transition to a Market Economy Built on Successful Reforms*. Manila.

⁷ ADB. 2008. *Special Evaluation Study: ADB Assistance for Domestic Capital Market Development*. Manila.

⁸ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Mongolia for the Financial Regulation and Governance Program*. Manila.

4. The Ministry of Finance (MOF) was the executing agency for the Financial Regulation and Governance Program, responsible for its overall implementation. The Bank of Mongolia was the implementing agency for the banking sector and anti-money-laundering components, while the FRC was the implementing agency for the NBFS component. For the Capacity Building for Financial Sector Reforms TA, the MOF was the executing agency and the Bank of Mongolia and FRC the implementing agencies.

5. The policy framework for the program included three components structured around 63 policy conditions: 11 policy conditions prior to Board consideration of the program, 2 effectiveness conditions, 12 second tranche conditions, 28 monitoring conditions, and 10 end-of-program conditions.⁹ The program consisted of two equal tranches. The first tranche for SDR3,458,500 (\$5 million) was released on loan effectiveness in September 2006. Release of the second tranche was scheduled for September 2008, i.e., 2 years after effectiveness of the loan, but was postponed due to insufficient compliance with the policy matrix. The final ADB review mission in May 2010 concluded that 7 out of 12 second tranche disbursement conditions, 12 out of 28 monitoring conditions, and 5 out of 10 end-of-program conditions were deemed to be not substantially complied with. The program expired on 30 June 2010 without disbursement of the second tranche.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

6. Developing the NBFS and capital market is essential in order to deepen and diversify the financial sector. In particular, given capacity constraints and corporate governance challenges in the banking sector in Mongolia, the capital market has an essential role to play in the efficient allocation of mining revenue and support of economic growth. The program's rationale was consistent with the government's reform program. The national action plan for 2004–2008¹⁰ highlights the role of the financial sector in ensuring a high growth rate over the medium term. The Financial Regulation and Governance Program was also consistent with ADB's country strategy and program update 2003–2005,¹¹ and was in line with Mongolia's National Development Strategy and ADB's Country Strategy and Program 2006–2008.¹² While the rationale for the program was valid, the program framework was overly ambitious in supporting the adoption of wide-ranging and complex policy reforms, including enactment and/or amendment of up to nine key financial sector laws, in the comparatively short period of 4 years.

B. Program Outputs

7. The policy framework of the program includes three high-level components: (i) improved efficiency and stability of the banking sector, (ii) enhanced role of the NBFS in financial intermediation, and (iii) establishment of an effective anti-money-laundering regime. The TA supported several policy reforms in the legal, regulatory, and institutional areas and infrastructure investments, and also provided capacity building for the FRC and the FIU.

⁹ Compliance with second tranche conditions is required for disbursement of the second tranche of the program, while monitoring and end-of-program conditions are expected to be complied with during implementation and at the end of the program.

¹⁰ Government of Mongolia. 2004. *Action Plan of the Government of Mongolia for 2004-2008*. Ulaanbaatar.

¹¹ ADB. 2002. *Country Strategy and Program Update: Mongolia, 2003–2005*. Manila.

¹² ADB. 2005. *Country Strategy and Program: Mongolia, 2006–2008*. Manila.

1. Improved Efficiency and Stability of the Banking Sector

8. The banking sector reforms under the program aimed to (i) reduce the cost of borrowing and expand access to credit by facilitating debt recovery through an improved collateral framework, (ii) introduce legal and regulatory changes to strengthen corporate governance in banks, and (iii) improve the supervision of groups and conglomerates that control financial institutions.

a. Improved Collateral Framework

9. Mongolia's business environment is severely affected by numerous problems in the country's credit framework. The absence of an effective collateral framework, and in particular the existence of lengthy and cumbersome court procedures for securing and enforcing collateral, has been a key impediment to financial intermediation. The banking sector reforms under the program aimed to reduce the cost of borrowing and expand access to credit through improved procedures for collateral foreclosure and registration.

10. The Law on Non-Judicial Foreclosure of Mortgaged Assets, enacted in 2005, provided for non-judicial enforcement of immovable property (real estate). The constitutional court, however, subsequently withdrew the validity of the law, referring to the constitutional right to shelter. The Law on the Collateral of Immovable Property (the "Mortgage Law"), enacted in July 2009, provides the option to borrowers and lenders to agree on the procedure for repossession of collateral in case of default of the borrower, either through court procedure or non-judicial foreclosure. Consequential amendments to the Civil Code were carried out at the time of enactment of the Mortgage Law. Some uncertainty regarding the validity of the Mortgage Law remains, as several provisions in the law linked to the Civil Code still need to be tested in the courts before it can be firmly established if and/or which laws need to be replaced or amended in order to eliminate conflicts with new legislation. In May 2010, the Bank of Mongolia and the FRC issued a joint regulation for lenders—i.e., banks, nonbank financial institutions (NBFIs), and savings and credit cooperatives (SCCs)—to provide adequate information in written form to potential pledgers before concluding collateral agreements as a requirement under the new mortgage law. Since issuance of the regulation, banks have started to apply the relevant provisions in the mortgage law, including non-judicial foreclosure.

11. Registration of immovable property is compulsory under the Law on Registration of Immovable Property. The Financial Regulation and Governance Program supported implementation of the Mortgage Law through strengthening the Property Registration Office and lowering the cost of collateral registration. In particular, procedures for registration of property and collateral, including notarization of documents, have been simplified.

12. However, Mongolia still lacks a comprehensive legal framework for the creation, registration, and enforcement of collateral in movable property. While security interests in movable property can be created, there are no effective means for mandatory and comprehensive registration. Court procedures for repossession of pledged property can take up to 5 years, which practically depletes the value of the movable property. The overall collateral framework for lending in Mongolia remains weak and lending remains risky and expensive.

b. Strengthened Corporate Governance

13. Improving the corporate governance of banks to ensure depositor protection and financial stability has been one of the main objectives of the Financial Regulation and

Governance Program. The Bank of Mongolia issued a Corporate Governance Code for banks in December 2006, which includes the requirement to appoint at least two independent directors and defines the specific functions of key board committees. The Bank of Mongolia issued guidelines in May 2010 to implement the Corporate Governance Code.

14. The previous Banking Law required that bank directors needed to be shareholders, which prevented the appointment of independent directors, created a weak system of checks and balances, and fostered related-party lending. It also required the Bank of Mongolia to approve each bank shareholder, which prevented commercial banks from listing shares on the stock exchange. The Financial Regulation and Governance Program supported the new Banking Law, which was enacted by Parliament in January 2010. The law requires banks to adhere to international good practice in corporate governance, including requirements on independent directors and minority shareholders. It also establishes a threshold (10%) to trigger the requirement for a bank's shareholder to be approved by the Bank of Mongolia, which allows commercial banks to list on the stock exchange and diversify ownership.¹³

15. However, enforcement of the legal and regulatory framework for the banking sector, including corporate governance provisions, is widely regarded as weak. The banking sector is vulnerable to credit risk, which is heightened by large single-borrower concentration, connected party lending, and underprovisioning for nonperforming loans (NPLs). Most banks do not comply with all prudential regulations. The period of severe financial distress in 2008/09 was a significant setback for the banking sector. The NPL/total loan ratio of the banking sector increased from 2.8% in September 2008 to 17.5% in December 2009, before falling to 9.0% in September 2011.

c. Improved Supervision of Banks' Shareholders and Groups

16. Under the previous Banking Law, commercial banks in Mongolia were prohibited from holding NBFIs and other companies as subsidiaries and carrying out investment banking activities. Meanwhile, the law permitted ownership or control of commercial banks by one or more financial or nonfinancial firms. As a result, despite strict limitations on the business activities and shareholding of banks, potential risks from banks' shareholders and their affiliates, in particular related-party lending, were not properly monitored and supervised by the Bank of Mongolia.

17. The new Banking Law requires banks, NBFIs, and financial groups that own one or more banks to take the form of financial holding company. It also provides the Bank of Mongolia with the legal basis to regulate and supervise the financial holding company. The formation of a financial holding company allows banks to act in the capital market both as issuers of securities and intermediaries through a subsidiary or affiliate.

18. Consolidated supervision of the banking and nonbank financial sectors by the Bank of Mongolia and the FRC requires adoption of a regulation which includes provisions for prudential ratios, consolidation procedures for financial statements, and reporting requirements for ownership structure and related-party transactions. The regulation is being drafted by the Bank of Mongolia and the FRC and will provide for joint supervision of financial conglomerates containing both a bank and an NBFI. Supervision of a financial holding company including NBFI

¹³ The new banking law also includes (i) higher penalties for noncompliance with prudential regulations, (ii) consolidated supervision, (iii) an improved bank resolution that more clearly defines the roles of the conservator and liquidator, (iv) legal protection for bank supervisors, and (v) a clear definition of "group of connected parties."

by the FRC requires amendment of the Law on Legal Status of Financial Regulatory Commission.

2. Enhanced Role of the Nonbank Financial Sector in Financial Intermediation

19. The NBFS reforms under the Financial Regulation and Governance Program aimed to enhance the sector's role in resource mobilization and allocation by developing the legal and regulatory framework, strengthening regulatory capacity by establishing a single regulator, strengthening corporate governance and investor protection, and reducing the distortionary impact of tax policies on the financial sector. The NBFS includes NBFIs, SCCs, securities markets and market intermediaries, and insurance companies.

a. Improved Regulatory and Supervisory Structure

20. The FRC was established in January 2006 as independent regulator for the NBFS under the Law on Legal Status of Financial Regulatory Commission. Before establishment of the FRC, regulatory and supervisory responsibilities were divided among the Bank of Mongolia, which was responsible for regulating NBFIs and SCCs in addition to commercial banks; the Insurance Supervisory Unit of the State Agency for Professional Inspectors; and the Mongolian Securities Exchange Commission. Establishing an integrated and more efficient regulatory structure has been important for enhancing regulation and supervision of the NBFS.

21. Establishment of the FRC was supported by the Financial Regulation and Governance Program and Capacity Building for Financial Sector Reforms TA through (i) developing the legal basis for the FRC; (ii) preparing a time-sequenced action plan for start-up of the FRC, including identifying budget and staffing requirements; and (iii) developing effective coordination mechanisms with the MOF and the Bank of Mongolia. The FRC is reporting and accountable to Parliament in line with good international practice. Parliament also approves the FRC's budget, half of which is derived from penalties and fees, with the other half coming from the government budget. The legal framework assures the FRC's operational independence from the government. The number of FRC staff increased from approximately 50 in early 2006 to 80 in 2007 and 90 at the end of 2010, of which 79 are professional staff and 55 work directly with regulatory, supervisory, and enforcement functions. The FRC is expecting to recruit 30 additional staff in 2012. Under the TA, various trainings for strengthening staff capacity of the FRC were carried out.

22. Consultants under the TA developed a blueprint for an information technology-management information system (IT-MIS), which was later refined and adapted under the TA for Capital Markets Development¹⁴ to focus on basic software to cover the most urgent needs for data collection and processing of regulated entities. The Capacity Building for Financial Sector Reforms TA also provided some basic information technology (IT) hardware and software and training. Timely procurement of effective IT-MIS equipment, however, required adequate funding from the government budget, which was neither forthcoming nor is included in the government medium-term expenditure framework. Meanwhile, the FRC is installing open source, web-based software for collecting and analyzing data with four separate modules for NBFIs, insurance companies, securities companies, and SCCs. Additional hardware (servers, firewalls, and personal computers) is being procured, funded by the Luxembourg Agency for Development Cooperation. While the FRC enjoys a positive reputation among market

¹⁴ ADB. 2008. *Technical Assistance to Mongolia for Capital Markets Development*. Manila (TA 7112-MON for \$500,000, approved on 11 August 2008).

participants, it does not have the necessary authority and resources to effectively regulate and supervise the NBFS and capital market.

23. The Mongolian Stock Exchange (MSE) is government-owned and listed 336 companies in 2010, slightly down from 395 companies in 2004. Listed joint-stock companies consist mainly of former small and medium-sized state enterprises that were privatized through the voucher privatization scheme of the early 1990s, while there are more than 10,000 unlisted companies including most of the country's largest companies. A large number of listed companies do not meet legal governance and disclosure requirements, in particular holding annual shareholder meetings and filing annual financial statements, but have continued to be listed on the MSE. The MSE has referred to lack clarity in the previous Company Law and Securities Market Law on whether joint-stock companies must be listed on a stock exchange, which has been widely disputed by various stakeholders.

24. The Financial Regulation and Governance Program supported the assignment of self-regulatory functions to the MSE, which requires enactment of the new Securities Market Law. Stock market capitalization as a share of gross domestic product (GDP) increased from 1.3% in 2004 to 11.1% in 2008 and 19.3% in 2010. Annual turnover as a share of GDP was 1.1% in 2010. The recent growth in capitalization and turnover was mainly driven by an increase in share prices rather than by significant volumes of initial public offerings, while a few stocks account for nearly all the market capitalization and active trading. There have been 14 initial public offerings in Mongolia. While the local stock market is still very small, there are several large Mongolian companies listed abroad.

25. The Mongolian life insurance industry is in its infancy. The first life insurer—National Life—commenced business in 2008. The non-life-insurance industry has been growing following the passage of a new Insurance Law in 2004. Insurance premiums as a share of GDP were 0.38% in 2010, reflecting the low level of market development. The recently enacted Law on Driver Insurance is expected to support market development through introducing mandatory insurance for car owners and drivers of heavy machinery. While a small government bond market exists, corporate bond markets are virtually nonexistent. Domestic institutional investors, such as the government pension fund, do not play a significant role in investing in the Mongolian securities market.

b. Strengthened Legal Framework

26. The Financial Regulation and Governance Program places a strong emphasis on strengthening the legal, regulatory, and supervisory framework for developing the NBFS and capital market. The securities market law requires revisions in order to improve the clarity and focus of the law, enhance investor protection, and provide the legal basis for the development of collective investment funds, including trust and private equity funds. Consultants under the Capacity Building for Financial Sector Reforms TA and Capital Markets Development TA provided substantial input to a new securities market law and participated in workshops for stakeholder consultations. The draft securities market law is being finalized by the legal working group before submission to Cabinet and Parliament. The proposed Law on Investment Funds, which would replace the current chapter of the Securities Market Law relating to the regulation of investment funds, will subsequently be considered by the working group as a separate law. Under the Capital Markets Development TA, 18 essential draft regulations under the draft new Securities Market Law and draft new Law on Investment Funds were prepared, and these will be adopted by the FRC after enactment of the two new laws. The program also supported

adoption of all regulations set out by the Insurance Law, which was enacted in 2004, including licensing and prudential requirements.

27. While the Bank of Mongolia was authorized to issue prudential regulations, it did not have supervisory powers over SCCs. Supported by the Financial Regulation and Governance Program and the Capacity Building for Financial Sector Reforms TA, the FRC and the Ministry of Justice and Home Affairs drafted the Law on Savings and Credit Cooperatives, including licensing requirements and prudential standards. The law was submitted to Parliament in 2008 but was not passed by end of October 2011. In the meantime, several temporary regulations on licensing, supervision of prudential standards, and on-site examinations of SCCs were issued and are being enforced by the FRC.

c. Enhanced Investor Confidence by Strengthening Governance and Transparency

28. The Mongolia Corporate Governance Code, which was approved by the FRC in 2007, meets many good-practice provisions; however, in practice it is not followed. The code is mandatory for joint-stock companies and optional for limited-liability companies. Many companies are unaware of the code and compliance is consequently low. A great number of basic corporate governance practices and fundamental shareholder rights, such as conducting an annual meeting of shareholders and preparing audited annual financial statements, are not complied with. While Mongolia was quick to adopt international accounting standards by law, implementation has been slow. As a result, the quality of financial statements of joint-stock and limited-liability companies remains inadequate in terms of disclosure to investors, lenders, and other stakeholders.

29. The previous Company Law was inconsistent with several provisions of the Mongolia Corporate Governance Code, and this was a major impediment to implementation of the code. The governance requirements for limited-liability companies under the previous Company Law were minimal. The law restricted the number of founders of a closed or limited-liability company to 50 but allowed an unlimited number of shareholders thereafter. Therefore, limited-liability companies were able to admit broad public ownership that was not protected by the requirements for corporate governance and transparency that apply to joint-stock companies.

30. The new Company Law was enacted by Parliament in October 2011. The law includes improved corporate governance standards, including protection of minority shareholders and requirements for independent boards of directors and special board committees. The law also limits the number of shareholders of limited-liability companies to 50. Minority shareholder rights for limited-liability companies have been significantly strengthened, in particular by the right to engage external auditors.

d. Removed Tax Impediments

31. In addition to weaknesses in the legal and regulatory framework and corporate governance practices, Mongolia's NBFS has been constrained by distortions created by the tax system. In particular, tax anomalies—such as a progressive corporate tax rate of 15% for companies with profits less than MNT100 million and 30% for companies with greater profits—favored the formation of multiple small enterprises rather than the expansion of existing companies. Secondly, interest income from bank deposits, government treasury bills, and dividends were not taxed, while realized capital gains on stock market investments were taxed

at the personal income tax rate, creating little economic incentive for investing in the stock market or listing of companies.

32. The Financial Regulation and Governance Program supported amendments to the corporate tax law which (i) increased the threshold for the tax bracket from the previous level of MNT100 million to MNT3 billion, and increased the marginal tax rate to 10% and 25%, (ii) harmonized taxation of loss provisions for banks and NBFIs, (iii) allowed legal entities to deduct insurance premiums from net income, and (iv) introduced a unified flat tax rate of 10% for corporate entities on the returns of different types of financial investments. For individuals, a unified flat tax rate on financial investments will become effective in 2013.

3. Establishment of an Effective Anti-Money-Laundering Regime

33. The Financial Regulation and Governance Program aimed to mitigate the potential risk from money laundering by supporting the development of a legal and regulatory framework and establishment of an effective FIU to monitor and report suspicious financial transactions.

34. Since enactment of the Anti-Money-Laundering Law in July 2006 and establishment of the FIU in November 2006, there has been significant progress on establishing an effective anti-money-laundering and counterfinancing of terrorism regime. Four regulations governing commercial bank activity have been issued, as have two regulations governing the NBFS.¹⁵ In December 2009, the Criminal Code was amended to specifically define money laundering as a crime, providing penalties upon conviction. The staff of the FIU was increased to six in 2010.

35. Commercial banks are obliged to submit cash transaction reports above the threshold of MNT20 million, which is currently done by email in Microsoft Excel spreadsheets. The IT Department of the Bank of Mongolia has developed Oracle-based database software for collecting and processing cash transaction reports. The data are automatically transferred into the database, but it has a low processing capacity. The investigative capacity of FIU staff to identify, analyze, and report suspicious cash transactions is severely limited by the large number of reported financial transactions (around 40,000 per month), shortage of staff, and, in particular, lack of effective IT support. Compliance of commercial banks with the requirement to file suspicious transaction reports is a particular problem and few such reports have been submitted. Anti-money-laundering and counterfinancing of terrorism reporting for the NBFS is just beginning, with significant additional work needed to create effective processes in those areas. The Anti-Money-Laundering Law has some significant coverage omissions, such as pawnbrokers and money remittance companies. The FIU is working with the Ministry of Justice and Home Affairs to amend the Anti-Money-Laundering Law to address these deficiencies. The FRC is required to work more closely with the FIU in implementing effective anti-money-laundering and counterfinancing of terrorism regimes at entities under its supervision.

C. Program Costs

36. ADB supported the program with a loan of SDR6.917 million (\$10 million equivalent at loan approval). The first tranche of SDR3,458,500 (\$5 million) was released on loan effectiveness in September 2006, while the second tranche was not disbursed due to

¹⁵ These are regulations on (i) cash and suspicious transaction reports; (ii) know your customer; (iii) issuing the list of terrorist organizations and individuals; (iv) anti-money-laundering and counterfinancing of terrorism supervision; (v) know your customer, suspicious transaction, and cash transaction reporting by NBFIs; and (vi) anti-money-laundering and counterfinancing of terrorism supervision of NBFIs by the FRC and Bank of Mongolia.

insufficient compliance with the policy matrix. The direct adjustment costs associated with implementation of the program were estimated at \$19.5 million in the report and recommendation of the President (footnote 8). In addition, the Capacity Building for Financial Sector Reforms TA was provided with a total estimated cost of \$1.12 million, of which ADB financed \$900,000 on a grant basis through the Japan Special Fund, funded by the Government of Japan.

D. Disbursements

37. The proceeds of the first tranche of the loan were disbursed in accordance with ADB's standard disbursement procedures. While no counterpart funds generated from the program loan proceeds were allocated to support implementation of specific reform measures, the government was expected to ensure that the local currency funds generated by the loan were used first to support adjustment costs of reforms under the program, and second to finance expenditures for general development purposes. However, government funds for procurement of IT-MISs for the FRC and FIU, which were reported in the report and recommendations of the President as major investments to support the targeted policy reforms, were not provided by the MOF.

38. The loan agreement provided that the Financial Regulation and Governance Program would be implemented over 4 years and the loan released in two equal tranches. The loan agreement provided that the first tranche of SDR3,458,500 (\$5 million equivalent) be released upon loan effectiveness, while the second tranche of SDR3,458,500 (\$5 million) be released 24 months after effectiveness, provided that all the second tranche conditions in the policy matrix were met. The first tranche was released in September 2006. The second tranche was scheduled for September 2008, i.e., 2 years after effectiveness of the loan, but was postponed and eventually cancelled due to insufficient compliance with the policy matrix.

E. Program Schedule

39. The Financial Regulation and Governance Program was approved in December 2005 and became effective in September 2006. It expired on 30 June 2010. The Capacity Building for Financial Sector Reforms TA was extended three times until 31 May 2011.

F. Implementation Arrangements

40. The MOF was the executing agency for the program. The Bank of Mongolia was the implementing agency for the banking sector and anti-money-laundering components, and the FRC was the implementing agency for the NBFS component. For the Capacity Building for Financial Sector Reforms TA, the MOF was the executing agency and the Bank of Mongolia and FRC were the implementing agencies.

G. Conditions and Covenants

41. The policy framework for the program included three components that were structured around 63 conditions: 11 policy conditions prior to Board consideration, 2 effectiveness conditions,¹⁶ 12 second tranche conditions, 28 monitoring conditions, and 10 end-of-program

¹⁶ The effectiveness conditions of the program were (i) submission of the draft anti-money-laundering law to Parliament and (ii) enactment and entering into force of the Law on the Legal Status of the Financial Regulatory Commission. The anti-money-laundering law was submitted to Parliament in 2005 and enacted in July 2006, while the Law on the Legal Status of the Financial Regulatory Commission was enacted in November 2005 and entered

conditions. The last ADB review mission in May 2010 concluded that there was insufficient compliance with the policy matrix, given that 7 out of 12 disbursement conditions, 12 out of 28 monitoring conditions, and 5 out of 10 end-of-program conditions were deemed to have been not substantially complied with.

42. Appendixes 2, 3 and 4 indicate the present status of compliance with policy conditions. This evaluation concludes that 7 out of 12 second tranche disbursement conditions were complied with (including 2 conditions which were substantially complied with, i.e., 5 disbursement conditions were not substantially complied with).¹⁷ In addition, 18 out of 28 monitoring conditions and 6 out of 10 end-of-program conditions are deemed to have been complied with.¹⁸ The disbursement conditions which have not been substantially complied with were that

- (i) regulations were to be issued by the Bank of Mongolia, in consultation with the FRC, to implement the new Banking Law (in particular regarding consolidated supervision);
- (ii) the FRC was to install an IT-MIS for effective monitoring of financial sector risks;
- (iii) regulations were to be issued by the FRC, in consultation with the Bank of Mongolia, on holding companies which control NBFIs;
- (iv) the government was to submit to Parliament amendments to the Securities Market Law, and the FRC was to issue regulations to implement the amendments; and
- (v) the Bank of Mongolia was to install and make operational an IT-MIS for effective analysis and reporting of suspicious financial transactions.

H. Related Technical Assistance

43. The Capacity Building for Financial Sector Reforms TA helped to implement the policy reforms under the program and to strengthen the capacities of the FRC and FIU. The TA was *partly satisfactory*. It was well formulated in accordance with the design of the Financial Regulation and Governance Program and timely implemented, but under-resourced compared to the wide scope of the program. The TA (i) advised on procedures for non-judicial foreclosure of collateral; (ii) prepared a draft strategy and institutional structure for the FRC; (iii) supported the preparation of various laws and regulations related to capital market development and corporate governance for commercial banks; (iv) developed blueprints for IT-MISs for the FRC and FIU; and (v) provided capacity building for FRC staff on financial regulation, on-site and off-site supervision, accounting, auditing and reporting standards, and an IT-MIS.

44. Several outputs, including draft laws and regulations were not achieved, leading to a considerable amount of additional work required to achieve the outcome of the program. Following a minor change in implementation arrangements in May 2008, an additional international financial legal expert was engaged to prepare a draft new Securities Market Law (including consequential amendments to the Company Law) to support compliance with two major disbursement conditions for the second tranche of the program. The TA was extended three times until 31 May 2011.

into force in January 2006. Effectiveness of the program was delayed until the loan agreement was signed in September 2006.

¹⁷ Between the last ADB review mission in May 2010 and this evaluation in November 2011, two additional second tranche conditions have been complied with, i.e., (i) issuance of guidelines by Bank of Mongolia to commercial banks on information to be provided to potential borrowers on concluding collateral agreements, and (ii) submission of the Company Law to Parliament.

¹⁸ In addition, all 11 policy conditions prior to Board consideration are deemed to have been complied with.

45. The Capital Markets Development TA for \$500,000 was approved on 11 August 2008 to support (i) improved regulatory and supervisory capacity of the FRC, in particular drafting regulations under the draft new Securities Market Law; (ii) the development of capital markets; and (iii) increased efficiency of the stock market. During the loan review mission for the Financial Regulation and Governance Program on 15–17 October 2008, the MOF and FRC agreed to reallocate resources under the Capital Markets Development TA to further support specific reforms under the program, including training the legal working group, developing guidelines and regulations for holding companies which control NBFIs, and revising the Company Law. A major change in scope was carried out in December 2008.

I. Consultant Recruitment and Procurement

46. All procurement of goods and services was carried out in accordance with ADB's Procurement Guidelines. An international consulting firm with experience in banking and capital market development, in association with national consultants, was engaged to provide the TA services required. The firm was recruited by ADB using quality- and cost-based selection in accordance with ADB's Guidelines on the Use of Consultants and other arrangements satisfactory to ADB for the engagement of national consultants. The consultants provided 18 person-months of international consulting and 10 person-months of national consulting.

J. Performance of Consultants, Contractors and Suppliers

47. A consortium led by Wiener Boerse AG–Vienna Exchange was engaged to provide consulting services, and the consultants were fielded in September 2006. The first interim report of the consultants was received in March 2007 and the final report was approved by ADB in mid-2008. While the terms-of-reference of the contract were broadly met, outputs in accordance with the design and monitoring framework of the program were not sufficient. Effective and efficient TA implementation had required significantly stronger support and supervision by ADB.

K. Performance of the Borrower and the Executing Agency

48. The performance of the borrower and MOF (as executing agency) was *partly satisfactory*. The capacity of the MOF (as executing agency) and the Bank of Mongolia and FRC (as implementing agencies) was not sufficient to manage and supervise implementation of the wide-ranging and complex policy reforms and achieve targeted outputs, including enactment of several key pieces of financial sector legislation. Ownership and commitment of the MOF to implement the program, while in line with policy priorities, diminished during implementation, following slow progress in implementation of an overly ambitious policy matrix, and was low when the program expired. The FRC showed great commitment and cooperation as implementing agency for the program and the Capacity Building for Financial Sector Reforms TA.

L. Performance of the Asian Development Bank

49. ADB's performance was *partly satisfactory*. ADB monitored implementation of the Financial Regulation and Governance Program and the Capacity Building for Financial Sector Reforms TA through joint missions with MOF. The focus of program monitoring was on technical compliance with tranche conditions rather than on policy dialogue on implementation of effective and sustainable reforms and achievement of targeted outcomes. On average, two review missions per year were carried out during the implementation period 2006–2010. When delays

in implementation of key reform measures and indications of diminishing government commitment and ownership increased during 2008, ADB took corrective actions by fielding additional legal consultants under the Capacity Building for Financial Sector Reform TA and changing the scope of the Capital Markets Development TA to provide further support for major policy reforms under the program. However, the corrective measures proved insufficient and were probably too late to significantly improve compliance with the policy matrix and achieve the outcome of the program.

III. EVALUATION OF PERFORMANCE

A. Relevance

50. The Financial Regulation and Governance Program is rated *relevant* on the lower side. Well-functioning capital markets mobilize and allocate long-term capital resources, enhance prospects for sustainable economic growth, and help to reduce financial vulnerabilities through risk diversification by encouraging financial asset growth outside the banking system. In particular, given capacity constraints and corporate governance challenges in the banking sector, the capital market in Mongolia has an essential role to play in the efficient allocation of mining revenue. This evaluation concludes that the particular focus of the program—a sound legal, regulatory, supervisory, and institutional framework for the capital market and capacity development of the FRC—was highly relevant.

51. The program's rationale was consistent with the government's reform program and ADB's country strategy and program update 2003–2005 and, hence, was valid at appraisal and implementation. It is also valid at the time of evaluation as the program's rationale is in line with Mongolia's National Development Strategy and ADB's country strategy and program 2006–2008. Strategy 2020, ADB's long-term strategic framework,¹⁹ includes support for financial market development as one of ADB's core operational activities.

52. However, the design of the program was overly ambitious given (i) the implementation period of 4 years; (ii) available financial resources under the program and the attached TA; and (iii) in particular, Mongolia's human resource and institutional capacities. The program did not adequately and realistically identify and manage the risks related to comprehensive and complex financial market reforms, particularly in the legal area. The diagnostic assessment of Mongolia's capacity to develop the capital market under the project preparatory TA did not properly assess how introduction of such wide-ranging reforms could best be structured, prioritized, and realistically sequenced as a gradual process over a realistic implementation period. Capital market development is a gradual process, especially in transition economies that lack market-based institutions and human resources. ADB did not have a corporate-level strategy to guide its overall financial sector assistance at the time of programming and approval of the program. Operational priorities for the design of the program were determined at the country level and sometimes seemingly on an ad hoc basis. It also appears that some experiences and lessons from implementation of the Second Financial Sector Reform Program were not properly taken into consideration in the design of the Financial Regulation and Governance Program, in particular that drafting and enactment of various pieces of legislation has proven politically sensitive and often time consuming. Similarly, interventions to reform the MSE had proven to be less successful in past ADB programs and projects.

¹⁹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

B. Effectiveness in Achieving Outcome

53. The Financial Regulation and Governance Program is rated *less effective*. The outcome of the program—a broadly based financial sector with alternative channels of financial intermediation—was not achieved. The ratio of private sector credit to GDP, which is the most widely recognized measure of financial market development, was about 45% in 2010, which is broadly in line with other developing countries at a comparable level of development as measured by GDP per capita. Money supply (M2) as a share of GDP increased from 35.9% in 2004 to 56.7% in 2010, indicating some financial deepening. Interest rates (currently around 16% on average for bank loans) and interest rate differentials (currently around 13% on average for the difference between bank loan and current account rate) are high, which is symptomatic of high credit risk. Insurance premiums as a share of GDP were 0.38% in 2010, reflecting low market development. The Mongolian financial system is still dominated by commercial banks, which accounted for 96% of total financial assets in 2010. Productive investment is limited by lack of long-term funding and there are few savings and insurance products.

54. The evaluation found limited progress in key program reform measures and outputs. While the legal basis for financial sector operations has been strengthened to some extent through enactment of the Law on the Collateral of Immovable Property, Banking Law, and Company Law, introduction of new legislation and legal amendments has often been delayed and is still pending in some cases, despite the fact that many of the laws included in the policy matrix were drafted during program preparation or under previous ADB projects and the Capacity Building for Financial Sector Reforms TA. This particularly refers to the Securities Market Law, Law on Savings and Credit Cooperatives, Law on Investment Funds, and the relevant regulations. Significant weaknesses remain in other key areas of the program, in particular the collateral framework for movable property, corporate governance of banks, consolidated supervision, effectiveness and governance of the MSE, and anti-money-laundering framework. The banking crisis of 2008/09 highlighted the banking sector's vulnerability to credit risk, which is reflected in large single-borrower concentration, connected lending, and underprovisioning for NPLs. Enforcement of the legal and regulatory framework for the banking sector is widely regarded as weak. Compliance with the program's policy matrix is low.

55. Meanwhile, establishment of the FRC has improved the institutional framework relating to the supervision of the NBFS. Technical capacity is still weak but is increasing in terms of professional staff, skills, and some IT support. Available resources under the Capacity Building for Financial Sector Reforms TA and later Capital Markets Development TA were not sufficient to provide adequate technical assistance, policy guidance, and capacity development in an environment where most financial institutions and skills had to be built up from a very low level or were nonexistent. The government needs to provide sufficient public resources to further increase the institutional and technical capacity of the FRC.

C. Efficiency in Achieving Outcome and Outputs

56. The Financial Regulation and Governance Program is rated *less efficient*. Several policy measures of the program, including developing guidelines for corporate governance in commercial banks, improving the collateral framework and registration process, and strengthening governance of the MSE, were already included in the Second Financial Sector Reform Program, which indicates low effectiveness and/or sustainability of the reform measures under the second program loan. Several TA tasks, including drafting the new Securities Market Law and Company Law, also had to be repeated due to lack of absorptive capacity of counterpart organizations and political decision makers and inefficient TA administration by ADB.

Counterpart funds of the loan appear to have been utilized by the government to some extent to finance general budget expenditures rather than priority sector-related adjustment costs and investments, in particular regarding IT-MISs for the FRC and FIU. Slow implementation is reflected in low compliance with the policy matrix.

D. Preliminary Assessment of Sustainability

57. The Financial Regulation and Governance Program is rated *sustainable* on the lower side. Actual and ongoing improvements in the legal and regulatory framework, while often fragmented and delayed in relation to an overly ambitious policy matrix, should support medium-term financial and capital market development through more effective regulation and supervision. Government commitment to and ownership of the financial and capital markets reforms supported under the program are generally high. Establishment of the FRC, which has been given greater resources and powers, allows for better regulation and comprehensive supervision of market activities. Removal of tax distortions should help increase investor interest. The increasing involvement of banks in the capital market and development of the insurance industry will increase demand and supply for securities. There has been some progress on establishing an effective anti-money-laundering and counterfinancing of terrorism regime.

E. Impact

58. The Mongolian capital market now appears somewhat more developed in comparison to pre-assistance levels but it is likely to remain rather small in comparison to other emerging markets as it has low liquidity, high volatility, and limited potential to mobilize long-term finance.

59. Despite high interest rates and short maturities, bank loans remain the preferred financing channels for companies. While many policy measures would probably have been implemented without ADB support, ADB-financed advisory services and program resources nevertheless helped prepare and implement relevant financial market reforms. Capital market development is a gradual process, especially in transition economies that lack market-based institutions and human resources, and it will require further assistance to bring the legal, regulatory, and institutional framework up to international standards, particularly in the enforcement area. Continued government commitment and ownership is essential for a conducive policy and institutional framework and further sector development.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

60. The evaluation rated the Financial Regulation and Governance Program *partly successful*. Progress for key aspects of the program has been limited, but is relevant and likely sustainable. This conclusion compares less favorably to ratings for the first and second Financial Sector Reform Program loans and related assessments of the 1997–2007 Mongolia country assistance program, which have been rated *successful* (footnote 5). It is in line with the assessment of the special evaluation study on ADB assistance for domestic capital market development in Mongolia (footnote 7).

B. Lessons

61. The evaluation offers some lessons regarding the need to (i) properly adapt the scope and time frame of comprehensive and sensitive policy reforms to institutional capacity, (ii)

carefully sequence reforms, and (iii) take a long-term approach to development. Developing capital markets is a long-term process, for which 10–20 years may be considered a realistic time frame. Capital market reform should focus on a limited set of highly selective and sequenced reforms that are within reach of government implementation capacity. Rather than focusing capital market reforms on very ambitious final outcomes.

62. In general, it is proposed that program loans should either not include highly complex and far-reaching policy reforms or build on enhanced policy dialogue, comprehensive technical assistance, and intensive monitoring and review by ADB. Lack of technical understanding on the part of political decision makers requires support for comprehensive and consistent advisory technical assistance throughout the drafting and approval process of new legislation. Corrective action regarding the scope and implementation arrangements of a program should be considered at an early stage if implementation falls behind schedule and/or government capacity, ownership, and commitment shows signs of receding.

63. The provision of TA should match the scope of targeted policy reforms and the capacity of implementing agencies. In addition, it appears from the evaluation of the program that ADB's great reliance on TA consultants to develop much of its policy and advisory input affects its ability to develop sustainable internal capacity on policy issues. It has thereby reduced ADB's ability to quickly respond to government requests for policy advice and to engage in long-term dialogue. To improve ADB's processing and supervision of complex program loans—particularly those that entail policy reforms, development of new laws and/or amendment of existing laws, and human resource and institutional development elements—sufficient supervision budgets, staff skills, and staff incentives should be ensured. Ideally, staff should be given incentives and enabled to maintain their program supervision roles for longer periods, thereby improving program implementation.

C. Recommendations

64. Given capacity constraints and corporate governance challenges in the banking sector, the capital market in Mongolia will need to play a key role in the efficient allocation of revenues especially from the mining sector. The reforms should be structured to produce useful intermediate improvements while at the same time strengthening implementation capacity. TA should be provided not only for drafting laws but also for familiarizing stakeholders and political decision makers, including parliamentarians, with objectives and content of new legislation, something which regulators often lack capacity for. It should also be considered to fund essential adjustment costs and investments for targeted policy reforms directly through projects instead of indirectly through budget support. Further TA in areas related to the drafting and implementation of key legislation and regulation, in particular regarding the pending new Securities Market Law and Law on Investment Funds and in the area of corporate governance, should be considered for future ADB interventions in the financial sector. ADB should also consider projects combining investment in key financial infrastructure in combination with related strengthening of staff capacity and expertise, for example the establishment of an effective IT-MIS for the FRC. In the future, similar ADB initiatives could reflect the environmental and social dimensions of financial institution lending operations.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Sound financial system with increased efficiency and outreach</p>	<p>Increased financial depth as proxied by broad money (from 47% of gross domestic product (GDP) in 2004 to 65% in 2012)</p> <p>Increased savings rate (from 18% of GDP in 2003 to 25% in 2012)</p> <p>Increased investment rate (from 27% of GDP in 2003 to 31% in 2012)</p> <p>Reduced spread between the average interest rates on bank loans and deposits from 11% in 2004 to 4% in 2012</p>	<p>Economic reports and official statistics from Bank of Mongolia (BOM) and International Monetary Fund (IMF)</p>	<p>Assumption Political stability</p> <p>Risk Economy affected by a large negative external shock</p>
<p>Outcome Broad-based financial sector with alternative channels of financial intermediation</p>	<p>Increased equity market capitalization and turnover (from 1.4% of GDP and 2.2% of capitalization to 4.5% of GDP and 15.0% of capitalization in 2009)</p> <p>Increased initial public offerings (IPOs) (from 0 in 2004 to 20 during 2006–2009)</p> <p>Increased nonbank financial institution (NBFi) assets (from 1.6% of GDP in 2004 to 4.5% in 2009) and increased range of services provided by NBFIs (e.g., remittances, leasing)</p> <p>Increased insurance premiums (from 0.5% of GDP in 2004 to 3.0% in 2009) and increased range of insurance products available including life insurance</p> <p>Savings and credit cooperatives (SCCs) providing financial services to low-income households in urban and rural areas</p>	<p>Economic reports and official statistics from BOM, Financial Regulatory Commission (FRC), Mongolian Stock Exchange (MSE), and Ministry of Finance (MOF)</p> <p>Asian Development Bank (ADB) review missions</p>	<p>Assumptions Political commitment to undertake reforms is maintained</p> <p>Continued policy dialogue between ADB, Government, and other key stakeholders</p> <p>Risks Policy reforms not implemented and/or reversed</p> <p>Laws and regulations not properly enforced</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>1. Improved procedures for collateral foreclosure and registration</p> <p>2. Strengthened corporate governance and disclosure by financial intermediaries and securities issuers</p> <p>3. Strengthened capacity of nonbank financial regulator</p>	<p>Adequate legal basis for non-judicial foreclosure in place</p> <p>Non-judicial foreclosure procedures practiced</p> <p>Access to information from the Property Registration Office (PRO) improved</p> <p>Cost of document authentication for collateral registration reduced</p> <p>Independent members of board of directors appointed</p> <p>Improved Code of Corporate Governance issued and enforced</p> <p>Audited financial statements available to the public</p> <p>Law on FRC adopted</p> <p>FRC established with adequate budget and qualified staff</p> <p>Information technology-management information system (IT-MIS) blueprint developed, necessary hardware and software produced</p> <p>IT-MIS implemented and staff trained to use it</p> <p>Enhanced risk monitoring and management through improved IT-MIS</p> <p>Improved regulation and soundness of nonbank intermediaries, including NBFIs, insurance companies, capital market participants, and SCCs</p>	<p>Official copies of laws, regulations, and codes</p> <p>Reports of BOM, FRC, MSE, and MOF</p> <p>Dialogue with commercial banks, other development partners</p> <p>ADB review missions</p>	<p>Assumptions</p> <p>Institutional capacity to undertake reforms</p> <p>Effective coordination among government agencies including MOF, FRC, BOM, Ministry of Justice and Home Affairs, and PRO</p> <p>Qualified consultants engaged on time</p> <p>Effective monitoring by ADB</p> <p>Risks</p> <p>Loss of qualified staff</p> <p>Significant delays in passing the laws because of resistance from vested interests</p> <p>Expected results and objectives of legal and regulatory reforms not fully met because of lack of understanding or political will</p> <p>Insufficient government budget allocated for FRC and Financial Intelligence Unit (FIU)</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
4. Improved legal and regulatory framework for the finance sector	<p>New laws enacted and existing laws strengthened in line with policy matrix and program objectives^a</p> <p>Inconsistencies between various laws removed</p> <p>Regulations issued and procedures and guidelines developed in line with policy matrix and program objectives</p>		
5. Tax policies conducive to corporate sector and finance sector development	<p>Corporate Income Tax (CIT) Law amendment to address the distortion created by the two-tier system</p> <p>Artificial splitting of companies for tax purposes reduced</p> <p>CIT Law and Personal Income Tax Law amended to harmonize the returns to different types of financial assets</p>		
6. Effective anti-money-laundering (AML) regime for reporting and prosecuting suspicious financial transactions	<p>AML Law enacted and regulations issued</p> <p>FIU established with adequate budget for qualified staff and IT-MIS</p> <p>IT-MIS in FIU implemented and the staff trained to use it</p> <p>The scope for money laundering through the financial system reduced</p>		

ADB = Asian Development Bank, AML = anti-money-laundering, BOM = Bank of Mongolia, CIT = corporate income tax, FIU = Financial Intelligence Unit, FRC = Financial Regulatory Commission, GDP = gross domestic product, IMF = International Monetary Fund, IT-MIS = information technology management information system, IPO = initial public offering, MOF = Ministry of Finance, MSE = Mongolian Stock Exchange, NBFi = nonbank financial institution, PRO = Property Registration Office, SCC = savings and credit cooperative.

Source: Asian Development Bank.

^a These include the Banking Law, Law on Cooperatives, Law on Securities Market, Company Law, Law on Accounting, and Law on Auditing.

POLICY ACTIONS PRIOR TO BOARD CONSIDERATION

Focus of Reform	Policy Actions	Status of Compliance
1. Improve the Efficiency and Governance of the Banking Sector		
A. Improve the collateral framework	<p>Government to submit to Parliament a draft Law on Non Judicial Mortgage Enforcement and draft amendments to the Civil Code, acceptable to Asian Development Bank (ADB), to allow non-judicial foreclosure of collateral.</p> <p>Government to submit to Parliament draft amendments to the Law on Property Registration, acceptable to ADB, to enable relevant information to be available from the Property Registration Office (PRO) in the Ministry of Construction and Urban Development without the owner's consent.</p>	Complied with. The laws were enacted by Parliament in July 2005.
B. Strengthen corporate governance and consolidated supervision	<p>BOM to establish a corporate governance working group including representatives from commercial banks and BOM to</p> <ul style="list-style-type: none"> (i) prepare a Code of Corporate Governance for banks; (ii) develop a plan that will provide timely introduction of key board committees (audit, nomination, remuneration, and risk management); (iii) design training courses for members of the board of directors of banks. 	Complied with. The working group was established and submitted a draft corporate governance regulation to ADB in 2005.
2.1 Strengthen the Institutional Capacity for Regulation and Supervision of the Nonbank Financial Sector		
A. Establish FRC and harmonize regulations, supervision and enforcement	Government to submit draft Law on the Establishment of FRC, acceptable to ADB, to Parliament, to establish an independent authority responsible for the regulation and supervision of the nonbank financial sector, including insurance companies, securities markets, nonbank financial institutions licensed under the Law on Nonbank Financial Activities and saving and credit cooperatives (SCCs). The draft law should include provisions for	Complied with. The Law on the Establishment of FRC was submitted to Parliament in 2005.

Focus of Reform	Policy Actions	Status of Compliance
	<ul style="list-style-type: none"> (i) sound governance practices in FRC, (ii) adequate definition of regulatory, supervisory and enforcement powers, including powers over holding companies that control nonbank financial intermediaries; (iii) transparency in rule making and decision-making process; (iv) self-funding to ensure adequacy of staffing and resources; (v) autonomy and accountability; and (vi) signing of memorandum of understanding (MOU) among FRC, Bank of Mongolia (BOM), and Ministry of Finance (MOF) to formalize appropriate arrangements for the coordination and harmonization of relevant laws and regulations; <p>Government to establish a working group to prepare a time-sequenced action plan for the start-up of FRC, including the identification of staff needs and proposed budget for the first 3 years of operation.</p>	<p>Complied with. The government established a working group and prepared an action plan for the start-up of the FRC in 2005.</p>
2.2. Address the Legal and Regulatory Gaps in the Nonbank Financial Sector		
A. Provide a legal framework for the regulation and supervision of the SCCs	<p>BOM/FRC, in consultation with (Ministry of Justice and Home Affairs and MOF to prepare draft amendments to the Law on Cooperatives to provide a legal framework for the regulation and supervision of SCCs. Specifically, the amendments should</p> <ul style="list-style-type: none"> (i) set forth licensing requirements and provide for the power to suspend or revoke the license; (ii) provide FRC with the power to establish prudential standards and conduct on-site supervision; (iii) authorize FRC to require, if necessary, information in addition to regular reporting requirements; and (iv) give legal powers to FRC to issue regulations on fines and penalties for breaching the law in order 	<p>Complied with. The Minister of Finance, Minister of Legal and Internal Affairs and the Governor of BOM set up a working group in 2005 which finalized the draft Law on Savings and Credit Cooperatives.</p>

Focus of Reform	Policy Actions	Status of Compliance
	<p>to provide sufficient deterrent.</p> <p>BOM to commit to provide to FRC at least 8 professional staff including at least 4 with experience in SCCs supervision.</p>	<p>Complied with. BOM signed an MOU in 2005 to transfer 8 professional staff (including 4 with experience in SCC supervision) to the newly established FRC.</p>
3. Strengthen Corporate Governance and Disclosure in the Financial Sector		
<p>A. Restore confidence in the capital markets</p>	<p>In compliance with Parliament Resolution 228 of October 2001 and the Cabinet Note of January 2002, the Mongolian Securities Exchange Commission (MSEC) to issue a time-bound plan to compensate eligible stock market investors for the losses (remaining balance of MNT653 million) incurred in 1996 and 1998 because of the failure of two custodian banks holding clearing funds of investors.</p>	<p>Complied with. A working group including staff from the Clearing and Depository Center visited every province and identified eligible investors and the amount to be compensated. Government decree No 155 of 5 July 2006 allocated the outstanding amount of MNT560 million for the reimbursement of losses.</p>
4. Remove the Tax Impediments to the Development of the Capital Markets and the Nonbank Financial Sector		
	<p>Government to submit to Parliament draft amendments to the Corporate Income Tax (CIT) Law, acceptable to ADB to</p> <ul style="list-style-type: none"> (i) reduce the distortions created by the two-tier corporate income tax system; (ii) harmonize taxation of provisions for probable losses between banks and nonbanks financial intermediaries; and (iii) allow legal entities to deduct from net income the cost of insurance premiums for certain classes of insurances carried in the ordinary course of business. 	<p>Complied with. Draft amendments to the CIT Law were submitted to Parliament in 2005.</p>
5. Establish an Effective Anti-Money-Laundering (AML) Regime		
	<p>Government prepare a draft AML Law. Specifically, the Law should:</p> <ul style="list-style-type: none"> (i) enable access to financial records in all 	<p>Complied with. The draft AML Law was submitted to Parliament in 2005.</p>

Focus of Reform	Policy Actions	Status of Compliance
	<p>financial intermediaries, subject to appropriate safeguards;</p> <p>(ii) require a financial intelligence unit (FIU) in BOM that is authorized to receive, analyze and disseminate financial and other intelligence, both domestically and internationally;</p> <p>(iii) enable the identification, freezing and confiscation of the proceeds of crime;</p> <p>(iv) allow for criminalization of money laundering and financing of terrorism; and</p> <p>(v) require reporting of any suspicious transaction.</p> <p>BOM to prepare the information technology-management information system (IT-MIS) blueprint, acceptable to ADB, including milestones for purchase, installation and operation.</p>	<p>Complied with. A consultant under the TA for establishing an Effective Anti-Money-Laundering Regime prepared a blueprint for an IT-MIS in the FIU with proposals for software and hardware procurement.</p>

ADB = Asian Development Bank, AML = anti-money-laundering, BOM = Bank of Mongolia, CIT = corporate income tax, FIU = Financial Intelligence Unit, FRC = Financial Regulatory Commission, IT-MIS = information technology management information system, MOF = Ministry of Finance, MOU = memorandum of understanding; MSEC = Mongolian Security Exchange Commission, PRO = Property Registration Office, SCC = savings and credit cooperative.

Source: Asian Development Bank.

POLICY MATRIX ON COMPLIANCE WITH SECOND TRANCHE RELEASE AND MONITORING CONDITIONS

Focus of Reform	Policy Actions ¹	Status of Compliance
1. Improve the Efficiency and Governance of the Banking Sector		
A. Improve the collateral framework	1.A.1 Bank of Mongolia (BOM) to issue guidelines to banks on the information to be provided by banks to potential borrowers before concluding collateral agreements.	<p>1.A.1 Complied with. The constitutional court withdrew the validity of the Law on Non-judicial Foreclosure which was enacted in 2005, referring to the constitutional right to shelter. The Law on the Collateral of Immovable Property (the Mortgage Law), enacted in July 2009, provides a procedure (Art. 11.2.) for non-judicial foreclosure of immovable property where parties have agreed to it. In particular, the Mortgage Law provides the option to borrowers and lenders to agree on the procedure for repossession of pledged collateral in case of default of the borrower, either through court procedure or non-judicial foreclosure. Consequential amendments to the Civil Code were carried out at the time of enactment of the Mortgage Law. However, uncertainty remains, as several provisions in the Mortgage Law linked to the Civil Code still need to be tested in the courts before it can be firmly established if and/or which laws need to be replaced or amended in order to eliminate conflicts with new legislation.</p> <p>In May 2010, the BOM and FRC jointly issued a regulation for lenders—i.e., banks, NBFIs, and SCCs—to provide adequate information in written form to potential pledgers before concluding collateral agreements as a requirement under the new Mortgage Law to protect pledgers and borrowers. Since issuance of the regulation, banks have started to apply the relevant provisions in the Mortgage Law, including non-judicial foreclosure. However, there is no comprehensive legal</p>

¹ Second tranche release conditions appear in bold.

Focus of Reform	Policy Actions ¹	Status of Compliance
	<p>1.A.2. Property Registration Office (PRO) to issue guidelines related to the new laws, specifying necessary procedures and documentation for collateral registry and non-judicial foreclosure</p> <p>1.A.3. PRO to train its staff in the new non-judicial foreclosure procedures</p> <p>1.A.4. BOM to require the Bank Training Center to design and implement training program for bank staff on the new procedures for non-judicial foreclosure</p> <p>1.A.5. Ministry of Justice and Home Affairs (MOJ) and Ministry of Construction and Urban Development to sign a memorandum of understanding (MOU) to formalize their cooperation in the oversight of PRO in conducting non-judicial foreclosure procedures</p> <p>1.A.6. MOJ in consultation with Ministry of Construction and Urban Development to develop a plan to improve the efficiency (reduce cost and time) of document authentication for the purpose of collateral registration</p>	<p>framework applying to the creation and registration of security interests in movable property.</p> <p>1.A.2. Complied with. The PRO issued a new regulation on registration of property and collateral in line with the Mortgage Law, which simplifies procedures, in particular for multicollateral registration. It also started to issue collateral registry documents to borrowers and lenders in line with the Mortgage Law.</p> <p>1.A.3. Complied with. The PRO conducted several trainings for headquarters and provincial staff on the new legal environment. In cooperation with the Mongolian Bankers Association, it also carried out training for commercial banks on the Mortgage Law.</p> <p>1.A.4. Not complied with. The Bank Training Center does currently not carry out any training due to disputes between the BOM and commercial banks as to whether the Bank Training Center should coexist with the Bank Academy, which is a new facility for training commercial bank staff, established under the Mongolian Bankers Association.</p> <p>1.A.5. Complied with. Supervision of the PRO has been unified and moved to the office of the deputy prime minister.</p> <p>1.A.6. Complied with. According to the new Notary Law, requirements for notarization of documents for the purpose of collateral registration have been substantially eased.</p>
B. Strengthen corporate	1.B.1. BOM, in consultation with FRC, to issue a Code of Corporate Governance for banks, acceptable to the Asian	1.B.1. Complied with. BOM issued a code of corporate governance for banks in December 2006.

Focus of Reform	Policy Actions ¹	Status of Compliance
governance and consolidated supervision	<p>Development Bank (ADB), that includes principles on:</p> <ul style="list-style-type: none"> (i) accountability to and safeguards for the general public and to principal stakeholders; (ii) clear delineation of the powers, duties and responsibilities of the board of directors and the senior management; (iii) professional and balanced board of directors including at least two independent directors with clearly specified fiduciary duties and safeguards against related-party transactions; (iv) functions of the key board of directors committees (audit, nomination, remuneration, and risk management); (v) strengthened systems of disclosure, reporting, and internal controls; and (vi) roles and responsibilities of the compliance officers. <p>1.B.2. BOM to revise the model bank charter to incorporate improved standards set forth in the Code of Corporate Governance</p> <p>1.B.3. Corporate governance working group to publish implementing guidelines of the Code of Corporate Governance covering detailed terms of reference for the key board of directors committees.</p>	<p>The code includes all principles stated in the program condition.</p> <p>1.B.2. Not complied with. The model bank charter has not been revised by BOM.</p> <p>1.B.3. Complied with. BOM issued guidelines in May 2010, with support of Japanese International Cooperation Agency, to implement the Code of Corporate Governance, including a model for self-assessment which will be carried out twice a year by commercial banks and validated through on-site and off-site supervision. The regulation and manual for on-site supervision was amended to include corporate governance assessments. Corporate governance assessments are part of the overall composite rating of the banks, which are supposed to trigger corrective regulatory measures. The majority of banks has been evaluated by BOM in accordance with the guidelines and also prepares self-assessment reports.</p>

Focus of Reform	Policy Actions ¹	Status of Compliance
	<p>1.B.4. Government to submit to Parliament draft amendments to the Banking Law, acceptable to ADB to</p> <ul style="list-style-type: none"> (i) remove the requirement for the members of the board of directors (representative governing board) to have a shareholding in the bank; (ii) establish a threshold (10%) triggering the requirement for a bank's shareholder to be approved by BOM; (iii) require any legal entity or individual that controls two or more banks or both bank(s) and nonbank financial intermediary(ies) to take the form of a holding company; and (iv) provide BOM with adequate legal basis for regulating and supervising the holding companies which control bank(s). <p>1.B.5 BOM, in consultation with the FRC, to issue regulations to implement the amendments to the Banking Law. Such regulations should be acceptable to ADB and should include:</p> <ul style="list-style-type: none"> (i) specific reporting requirements for holding companies that control bank(s), including the relationship of companies within the group, ownership and management structure, and information on capital structure and use of subordinated loan arrangements; (ii) definitions, limitations, and reporting and disclosure of intercompany and related-party transactions of banks and holding companies that control bank(s); (iii) audited consolidated financial statements, financial reporting and disclosure, and consolidated risk assessment of holding companies that control bank(s); and (iv) consolidated supervision for holding companies that control bank(s). <p>1.B.6. BOM and FRC to sign an MOU for the supervisory coordination and information exchange in the supervision of holding companies that control bank(s) and nonbank financial intermediary(ies).</p>	<p>1.B.4. Complied with. The new Banking Law was enacted by Parliament in January 2010 and includes items (i)–(iv). The new law has significantly improved the framework for banking supervision by increasing the authority of banking supervisors, increasing penalties and sanctions for noncompliance, and introducing consolidated supervision for holding companies and cross-border operations. The new law also requires banks to adhere to international good practice in corporate governance, including requirements on independent directors and major shareholders.</p> <p>1.B.5. Not complied with. BOM and FRC are jointly drafting the regulation to implement the provisions for consolidated supervision under the new Banking Law, including provisions for prudential ratios, consolidation procedures for financial statements, and reporting requirements for ownership structures and related-party transactions. The regulation also provides for joint supervision of financial conglomerates that contain both banks and NBFIs. Draft regulations were prepared by the international financial sector legal specialist under the TA for Capital Markets Development. The final regulation will be issued by the Financial Stability Committee which consists of the MOF, BOM, and FRC.</p> <p>1.B.6. Not complied with. BOM, FRC, and MOF signed a decree for supervisory coordination and information exchange. The decree needs to be revised to reflect provisions in the new Banking</p>

Focus of Reform	Policy Actions ¹	Status of Compliance
		Law, draft amended FRC Law, and consequential regulations on joint consolidated supervision. The international financial sector legal specialist under the TA for Capital Markets Development drafted amendments to the decree on supervisory coordination.
2.1 Strengthen the Institutional Capacity for Regulation and Supervision of the Nonbank Finance Sector		
A. Establish FRC and harmonize regulations, supervision, and enforcement	2.1.A.1. FRC to (i) develop blueprint for information technology-management information system (IT-MIS), acceptable to ADB, for effective monitoring and managing of financial sector risks; (ii) install and operationalize the IT-MIS; and (iii) train staff on the use of IT-MIS.	2.1.A.1. Partly complied with. The financial supervisory IT expert under the TA for Capacity Building for Financial Sector Reforms developed a blueprint for an IT-MIS which was refined and adapted under the TA for Capital Markets Development to focus on basic software to cover the most urgent needs for data collection and processing, including software for supervising prudential regulations and trading at the stock exchange. Some procurement of basic hardware and software identified in the blueprint was finalized through the contingency budget under the TA for Capacity Building for Financial Sector Reforms and some training was carried out. The procurement of IT-MIS equipment, including the development, installation, and operationalization of the software, required a transfer of funds from the MOF to the FRC as indicated in the report and recommendation of the President, which was neither forthcoming nor is included in the government medium-term expenditure framework. In the meantime, the FRC has installed open source, web-based software for collecting and analyzing data from regulated entities. The database consists of four separate modules for NBFIs, insurance companies, securities companies, and SCCs. The database is in operation and the analysts and supervisors are trained. Additional hardware (servers, firewalls, and personal computers) is being procured, funded by the Luxemburg Development Cooperation. The

Focus of Reform	Policy Actions ¹	Status of Compliance
	<p>2.1.A.2. FRC and MOF to develop and issue a medium-term strategy for the development of the capital market.</p> <p>2.1.A.3. FRC, BOM, and MOF, in accordance with the MOU signed under the requirement of the FRC Law, to coordinate the drafting of all the laws and regulations to be prepared under the Financial Regulation and Governance Program to ensure consistency and eliminate existing inconsistencies.</p> <p>2.1.A.4. FRC, in consultation with BOM, to issue regulations, acceptable to ADB, on holding companies which control nonbank financial intermediaries, that provide for</p> <ul style="list-style-type: none"> (i) specific reporting requirements including the relationship of companies within the group, ownership and management structures, and information on capital structure and use of subordinated loan arrangements; (ii) definitions, limitations, and reporting and disclosure of intercompany and related-party transactions; (iii) audited consolidated financial statements, financial reporting and disclosure requirements, and consolidated risk assessment; and (iv) consolidated supervision. <p>2.1.A.5. FRC to have at least 50 qualified professional staff to conduct regulatory, supervisory, and enforcement functions</p>	<p>FRC is seeking support from donors for additional procurement of an IT-MIS.</p> <p>2.1.A.2. Complied with. FRC has prepared and approved a medium-term strategy for capital market development which covers 2010–2012. The FRC is currently working on a subsequent five-year strategy 2012-2016.</p> <p>2.1.A.3. Complied with. The MOU signed by FRC, BOM, and MOF includes provisions for coordination in the legal area. The three agencies are coordinating within the related working groups the drafting of laws and regulations.</p> <p>2.1.A.4. Not complied with. The Law on the Legal Status of the FRC has to be amended to authorize the FRC to supervise holding companies. Draft amendments have been prepared by the FRC. The TA for Capital Markets Development prepared two draft regulations on holding entities that control legal entities regulated by the FRC, one with respect to the supervision of financial groups in which there are legal entities licensed and supervised by the BOM and the FRC, and another with respect to financial groups in which there is only a regulated entity or entities licensed and supervised by the FRC. The draft regulations are being finalized by the FRC and BOM. (For additional information, refer to 1.B.5.)</p> <p>2.1.A.5. Complied with. FRC was established in February 2006 with staff of approximately 50; this increased to 80 by 2007. Training activities have been conducted for strengthening the capacities of FRC staff. As of the end of 2010, the number of staff has grown to 90, of which 79 are professional</p>

Focus of Reform	Policy Actions ¹	Status of Compliance
		staff and 55 work directly with regulatory, supervisory and enforcement functions. Thirty additional staff are expected to be recruited in 2012.
B. Strengthen the Mongolian Stock Exchange (MSE)	<p>2.1.B.1. FRC to approve the Mongolian Stock Exchange's (MSE's) plan for self-regulation, acceptable to ADB, which includes:</p> <ul style="list-style-type: none"> (i) identification of functions to be performed by MSE, with clear distinction between the FRC's and the self-regulatory organization's (SRO's) oversight role in each relevant area (i.e., supervision of listed companies, market surveillance, on-site inspections, and off-site monitoring); and (ii) budget estimates of the cost for the carrying out of self-regulatory function. <p>2.1.B.2. FRC and MSE to develop joint procedures and guidelines on (i) conducting separate and joint compliance monitoring of listed companies and intermediaries included in MSE's plan for self-regulation, and (ii) mutual reporting requirements.</p>	<p>2.1.B.1. Not complied with. The TA for Capacity Building for Financial Sector Reforms prepared recommendations to the FRC which have not been used for preparation of a plan for self-regulation of the MSE. The assignment of self-regulatory functions to the MSE will be part of the new SML.</p> <p>2.1.B.2. Not complied with. Joint inspections of listed companies and intermediaries are currently carried out on an ad hoc basis without formal guidelines or regulations.</p>
2.2 Address the Legal and Regulatory Gaps in the Nonbank Finance Sector		
A. Provide a legal framework for the regulation and supervision of SCCs	<p>2.2.A.1. Government to submit to Parliament the draft amendments to the Law on Cooperatives to provide a legal framework for the regulation and supervision of saving and credit cooperatives (SCCs), acceptable to ADB, and FRC to issue regulations, acceptable to ADB, to implement the amendments. The amended law should</p> <ul style="list-style-type: none"> (i) set forth licensing requirements and provide for the power to suspend or revoke the license; (ii) provide FRC with the power to establish prudential standards and conduct on-site supervision; (iii) authorize FRC to require, if necessary, information in addition to regular reporting requirements; and (iv) give legal powers to FRC to issue regulations on fines and penalties for breaching the law in order to provide sufficient deterrent. 	<p>2.2.A.1. Substantially complied with. The FRC and MOJ drafted the Law on Savings and Credit Cooperatives. The draft law was submitted to Parliament for the spring session of 2008 but has not yet been passed. In the meantime, several temporary regulations have been adopted by the FRC which include conditions (i)–(iii), and public awareness campaigns have been carried out.</p>

Focus of Reform	Policy Actions ¹	Status of Compliance
	<p>2.2.A.2. FRC and BOM to develop and implement training programs on regulation and compliance for the staff in the SCC Department</p> <p>2.2.A.3. FRC to issue a policy and procedures manual and internal guidelines on on-site and off-site inspections of SCCs</p>	<p>2.2.A.2. Complied with. Training on SCC regulations for SCC and FRC staff has been conducted under the TA for Capacity Building for Financial Sector Reforms.</p> <p>2.2.A.3. Complied with. FRC has issued manuals and guidelines for off-site supervision. Guidelines for on-site supervision were approved on 27 June 2007 detailing the conduct of inspection, inspection objectives, roles of inspectors, reporting forms, etc.</p>
<p>B. Strengthen the legal and regulatory framework for insurance companies</p>	<p>2.2.B.1. FRC to issue regulations, acceptable to ADB, to implement the Law on Insurance (2004), in particular, setting forth licensing requirements and prudential requirements (solvency, reserving, investment, reinsurance, and portfolio transfers, etc.)</p> <p>2.2.B.2. FRC to develop and implement training programs on regulation and compliance for the staff in the Insurance Department.</p> <p>2.2.B.3. FRC to issue a policy and procedures manual and internal guidelines for on-site and off-site inspections of insurance companies.</p>	<p>2.2.B.1. Complied with. The FRC was assisted by a consultant under the TA for Capacity Building for Financial Sector Reforms in drafting regulations in line with international practices. Many new insurance products, such as life insurance and re-insurance, which are not included in the law, are currently emerging and regulations need to be prepared, thus challenging the FRC to keep pace with the market. All regulations as set out by the Insurance Law have been issued.</p> <p>2.2.B.2. Complied with. Training programs for staff of the Insurance Department have been carried out on an ad hoc basis by several donor agencies.</p> <p>2.2.B.3. Complied with. Regulations have been issued for on-site and off-site inspections of insurance companies and guidelines have been prepared for each individual inspection.</p>
<p>C. Strengthen the legal and regulatory framework for the securities market</p>	<p>2.2.C.1. Government to submit to Parliament amendments to the Law on Securities Market or a revised law, acceptable to ADB, and FRC to issue regulations, acceptable to ADB, to implement the amendments or revisions. The amended or revised law should</p> <p>(i) clearly distinguish between the provisions that apply to public offers and those that apply to private offers</p>	<p>2.2.C.1. Not complied with. International financial sector legal experts under the TA for Capacity Building for Financial Sector Reforms and the TA for Capital Markets Reform completed and reviewed a new draft SML and participated in workshops for stakeholder consultations, including Parliamentarians. The draft SML is being finalized by the legal working group before submission to</p>

Focus of Reform	Policy Actions ¹	Status of Compliance
	<p>of securities;</p> <ul style="list-style-type: none"> (ii) clarify that joint-stock companies are not required to be listed provided that they comply with the requirements of the company law and the SML; (iii) introduce “fit and proper” standards for the governing persons of securities issuers and professional participants; (iv) strengthen the protection of investment fund assets and the obligations of the governing persons of investment funds and funds management companies; (v) provide a clear and comprehensive basis for FRC to designate SROs and to supervise the conduct of SROs; and (vi) grant legal powers to FRC to issue regulations on fines and penalties for breaching the law in order to provide sufficient deterrent. <p>2.2.C.2. FRC to develop and implement training programs on regulation and compliance for the staff in the Securities Markets Department.</p> <p>2.2.C.3. FRC to issue a policy and procedures manual and internal guidelines for on-site and off-site inspections of listed companies and other intermediaries regulated under the Securities Market Law</p>	<p>Cabinet and Parliament. The proposed Law on Investment Funds, which would replace the current chapter of the existing SML relating to the regulation of investment funds, is part of this policy condition and will subsequently be considered by the working group as separate law. Under the TA for Capital Markets Development, 18 essential regulations under the draft new SML were drafted. Two regulations were issued in 2010 by the FRC under the current SML, while adoption of the remaining regulations requires enactment of the new SML and Law on Investment Funds.</p> <p>2.2.C.2. Complied with. The legal expert under the TA for Preparing the Third Financial Sector Program has trained FRC staff in the Securities Markets Department.</p> <p>2.2.C.3. Not complied with. The manual and internal guidelines for on-site supervision have not been issued. Regulations on off-site supervision of listed companies were approved by the FRC on 28 November 2008.</p>
3. Strengthen Corporate Governance and Disclosure in the Finance Sector		
A. Restore investor confidence in the capital markets	3.A.1. Government to make available funds to implement the plan to compensate eligible investors	3.A.1. Substantially complied with. Confidence in the equity market was seriously undermined in the late 1990s when more than 300,000 investors lost close to MNT1 billion because of the collapse of the two custodian banks holding clearing funds of equity investors. In January 2002, the Cabinet instructed the MOF and the State Property Committee to compensate the investors from

Focus of Reform	Policy Actions ¹	Status of Compliance
		<p>privatization proceeds. A working group which includes staff from the Clearing and Depository Center visited every province to explain the procedures for compensation and identify eligible investors and the amount to be compensated. Government decree No 155 of 5 July 2006 allocated the outstanding amount of MNT560 million for the reimbursement of losses and, out of this amount, MNT370 million was released by the MOF and fully disbursed to the investor accounts at the Securities Clearing House and Central Depository. On 21 February 2008 the MOF ordered the transfer of the remaining MNT190 million; MNT60 million has been released by the MOF. Disbursement of the remaining MNT130 million was not included in the draft budget for 2012.</p>
<p>B. Improve the listing standards of MSE</p>	<p>3.B.1. FRC to approve MSE's plan, acceptable to ADB, to upgrade listing standards and introduce at least three classes of listings:</p> <ul style="list-style-type: none"> (i) first section: large companies that comply with MSE listing standards and applicable corporate governance, reporting, and disclosure requirements; (ii) second section: small and medium-sized companies that comply with MSE listing standards and applicable corporate governance, reporting, and disclosure requirements; and (iii) irregular section: companies that do not comply with MSE listing standards, applicable corporate governance, reporting, or disclosure requirements and/or are bankrupt <p>3.B.2. FRC to approve MSE's plan identifying circumstances under which companies can be delisted. The plan should specify the time line for implementation and should take into account the rights of minority shareholders.</p>	<p>3.B.1. Not complied with. The listing standards were somewhat improved at the beginning of 2008, but not substantially upgraded. The new draft SML provides the MSE with the status of an SRO and includes a clear division of responsibility between the FRC and MSE, thus requiring the development of new listing standards once it is approved. Listing is now divided into two categories:</p> <ul style="list-style-type: none"> (i) companies that comply with listing standards (around 85 companies); and (ii) companies that don't comply. <p>Preparations for separate trading are carried out by a working group consisting of the FRC, MSE, and representatives of IT companies.</p> <p>3.B.2. Not complied with. In early 2008, trading in 166 companies was stopped and the companies asked to either comply with listing standards or be delisted. A plan to identify criteria for delisting companies will be prepared after enactment of the</p>

Focus of Reform	Policy Actions ¹	Status of Compliance
		new SML.
C. Strengthen the corporate governance of companies	<p>3.C.1. Government to submit to Parliament amendments to the Company Law, acceptable to ADB, that</p> <ul style="list-style-type: none"> (i) limit the number of shareholders of limited liability companies to 50; (ii) introduce the new category of “public company” which includes (a) joint-stock companies, (b) limited-liability companies regulated by BOM or FRC, and (c) limited-liability companies that have made a public offering of debt securities; and (iii) require limited-liability companies that fall under the category of public companies to have a board of directors with well-defined roles and responsibilities. <p>3.C.2. FRC, in consultation with the BOM, to develop a Code of Corporate Governance for public companies, acceptable to ADB, that includes principles on</p> <ul style="list-style-type: none"> (i) accountability to and safeguards for the general public and to principal stakeholders; (ii) clear delineation of the powers, duties, and responsibilities of the board of directors and senior management; (iii) professional and balanced board of directors including at least two independent directors with clearly specified fiduciary duties and safeguards against related-party transactions; (iv) functions of the key board of directors committees 	<p>3.C.1. Complied with. The new Company Law was enacted by Parliament in October 2011. The new law includes improved corporate governance standards, including protection of minority shareholders, independent board directors, and special board committees. The new law also limits the number of shareholders of limited-liability companies to 50. Minority shareholder rights for limited-liability companies have been significantly strengthened, in particular by the right to engage external auditors. The legal expert under the TA for Capital Market Development advised against introducing a new category of public company, but rather to define a company as either a joint-stock company (public company) or a limited-liability company (private company). An open joint-stock company can authorize the issue of shares and/or securities to the public and list on an exchange, while a limited-liability company must not offer to the public any shares of the company. In line with this advice, items (ii) and (iii) are removed from the policy matrix.</p> <p>3.C.2. Complied with. The FRC approved the Mongolia Corporate Governance Code in 2007 which reflects all principles and elements of good corporate governance. The code is mandatory for joint-stock companies and optional for limited-liability companies.</p>

Focus of Reform	Policy Actions ¹	Status of Compliance
	(audit, nomination, remuneration); (v) role and responsibilities of the compliance officers; and (vi) upgraded disclosure.	
D. Improve the accounting, auditing, and disclosure	3.D.1. Government to submit to Parliament draft amendments to the Law on Accounting and the Law on Auditing, acceptable to ADB, to require all public companies as defined under the amended Company Law to have annual financial statements audited by an independent certified auditor or auditing firm certified by MOF.	3.D.1. Complied with. The Company Law states that a company should be incorporated either as (a) an open or joint-stock company, whose shareholders' capital is divided into shares that are freely traded by the public; or (b) a closed or limited company, whose shareholders' capital is divided into shares where the rights to dispose of such shares is limited by the company's charter. The Accounting Law (as amended in 2006) requires all for-profit and nonprofit entities, including small and medium-sized enterprises, state-owned enterprises, and other entities, to prepare statements in full with International Financial Reporting Standards (IFRS). Many companies, however, do not prepare and file financial statements in accordance with IFRS as required by law. According to the Law on Auditing, both listed joint-stock and limited-liability companies (with capital assets more than MNT50 million) must conduct regular and specific audits by a statutory audit firm which has obtained an audit license from the MOF. However, there is no legislative requirement on the oversight of audit quality. Because audit requirements refer to both joint-stock and limited-liability companies above a certain threshold, the condition is deemed to have been met.
4. Remove the Tax Impediments to the Development of the Capital Markets and the Nonbank Financial Sector	4.1. Government to submit to Parliament draft amendments to the corporate income tax (CIT) Law and personal income tax (PIT) Law, acceptable to ADB, to harmonize taxation of returns on different types of financial investments, including capital gains on equity investments.	4.1. Partly complied with. A flat tax rate of 10% for corporate entities on the return of different types of financial investments was enacted in June 2006. For individuals, a unified flat tax rate on financial investments will become effective in 2013.

Focus of Reform	Policy Actions ¹	Status of Compliance
<p>5. Establish an Effective Anti-Money-Laundering (AML) Regime</p>	<p>5.1. BOM to issue anti-money-laundering (AML) regulations, including reporting requirements</p> <p>5.2. BOM to (i) install and operationalize the IT-MIS in FIU for analyzing and reporting suspicious financial transactions, and (ii) train FIU staff on the use of IT-MIS.</p>	<p>5.1 Complied with. BOM has been assisted in drafting the regulations by the TA for Establishing an Effective Anti-Money-Laundering Regime. In total, four regulations regarding the banking sector and two regulations regarding the nonbank financial sector have been adopted. These are (i) cash and suspicious transaction reports; (ii) know your customer; (iii) issuing the list of terrorist organizations and individuals; (iv) AML and counterfinancing of terrorism (CFT) supervision; (v) know your customer, and cash and suspicious transaction reporting for NBFIs; and (vi) AML and CFT supervision of NBFIs by the FRC and BOM.</p> <p>5.2. Not complied with. A consultant under the TA for establishing an Effective Anti-Money-Laundering Regime delivered a blueprint for an IT-MIS in the FIU with proposals for software and hardware procurement. Some procurement of basic hardware (one server and two personal computers) and software identified in the blueprint was finalized through the budget under the Capacity Building for Financial Sector Reform TA.</p> <p>Commercial banks are obliged to report transactions above the threshold of MNT20 million. Transaction reports are submitted by email in Microsoft Excel spreadsheets. The IT department of the BOM has developed Oracle-based database software for collecting and processing transaction data. The data are automatically transferred into the database, but the database has low processing capacity. The investigative capacity of FIU staff to identify, analyze, and report suspicious transactions is limited by the large number of reported financial transactions (around 40,000 per month), shortage of staff, and lack of effective IT support.</p>

Focus of Reform	Policy Actions ¹	Status of Compliance
	<p>5.3. BOM to provide training to financial institutions and relevant government agencies on compliance and enforcement of AML Law and regulations.</p> <p>5.4. Government to establish a National Coordination Committee (NCC) of relevant agencies (BOM, FRC, MOF, MOJ, Police, and Ministry of Foreign Affairs) to oversee the implementation of AML Law.</p> <p>5.5. Government to establish a Financial Sector Liaison Committee comprising members of NCC and representatives of financial institutions to provide a mechanism for coordination and consultation between government agencies and the financial sector.</p>	<p>The procurement of complete IT-MIS equipment for analyzing and reporting suspicious financial transactions as identified in the blueprint—including the development, installation, and operationalization of the software and the training of FIU staff—require a transfer of funds from the MOF to FRC, as stipulated in the report and recommendation of the President.</p> <p>5.3. Complied with. Consultants under the TA for Establishing an Effective Anti-Money- Laundering Regime provided training to financial institutions and government agencies on the AML Law. The FIU conducted several trainings for bank compliance officers and taught these officers how to prepare reports to the FIU. All banks introduced the position of a compliance officer.</p> <p>5.4. Complied with. The NCC was established in July 2007 with representatives from the FIU, different departments of BOM, FRC, MOF, police office, and Prosecutor’s Office under the MOJ, and meets every quarter. The FIU signed an MOU with one law enforcement agency on discussing the exchange and analysis of information.</p> <p>5.5. Not complied with. The official committee has not yet been established</p>

ADB = Asian Development Bank, AML = anti-money-laundering, BOM = Bank of Mongolia, CFT = counterfinancing of terrorism, CIT = corporate income tax, FIU = Financial Intelligence Unit, FRC = Financial Regulatory Commission, IFRS = International Financial Reporting Standards, IT = information technology, IT-MIS = information technology management information system, MOF = Ministry of Finance, MOJ = Ministry of Justice and Home Affairs, MOU = memorandum of understanding, MSE = Mongolian Stock Exchange, NBFi = nonbank financial institution, NCC = National Coordination Committee, PIT = personal income tax, PRO = Property Registration Office, SCC = savings and credit cooperative, SML = Securities Market Law, SRO = self-regulatory organization, TA = technical assistance.

Note: The coding of conditions follows the policy matrix (Appendix 4) of the Report and Recommendation of the President to the Board of Directors for the Financial Regulation and Governance Program.

Source: Asian Development Bank.

POLICY MATRIX ON COMPLIANCE WITH PROGRAM-END-CONDITIONS

Focus of Reform	Policy Actions to be Taken Before Program End	Status of Compliance
Improve the Efficiency and Governance of the Banking Sector		
A. Improve the collateral framework	Ministry of Justice and Home Affairs and Ministry of Construction and Urban Development to implement the plan to improve the efficiency of document authorization for the purpose of collateral registration	Complied with. According to the new Notary Law, requirements for notarization of documents for the purpose of collateral registration has been substantially eased.
B. Strengthen corporate governance and consolidated supervision	Bank of Mongolia (BOM), in cooperation with the Financial Regulatory Commission (FRC), to develop a certification program (including general qualification and minimum training) for the independent directors and compliance officers of commercial banks. BOM to conduct on-site inspections of all commercial banks to assess the compliance with the Code of Corporate Governance for banks.	Complied with. The Corporate Governance Training Center, with contribution of the FRC, developed a training module for independent directors and compliance officers of commercial banks. Not complied with. Corporate governance assessments are included in BOM on-site inspections of commercial banks, but the regulation is frequently not complied with or enforced.
2.1. Strengthen the Institutional Capacity for Regulation and Supervision of the Nonbank Financial Sector		
B. Strengthen the MSE	FRC to approve the Mongolian Stock Exchanges (MSE's) medium-term business strategy to improve its revenue and operational capacity, and to complete an asset evaluation in preparation for divesture. FRC to approve the MSE's action plan for privatization.	Not complied with. Parliament has appointed a management group which is tasked to prepare a privatization plan for the MSE.
3. Strengthen Corporate Governance and Disclosure in the Financial Sector		
B. Improve the listing standards of the MSE	MSE to make material progress in implementing the plan for delisting companies	Not complied with. Criteria for delisting companies will be prepared after enactment of the new Securities Market Law (SML).
C. Strengthen the corporate governance of companies	FRC, in cooperation with BOM, to develop certification program (general qualification and minimum training) for independent directors and compliance officers of public companies	Complied with. The Corporate Governance Training Center, with contribution of the FRC, is developing a training module for independent directors and compliance officers of public companies.

Focus of Reform	Policy Actions to be Taken Before Program End	Status of Compliance
D. Improve accounting, auditing, and disclosure	<p>FRC to require MSE to begin posting, through its website, the annual audited financial statements for all listed companies</p> <p>FRC to begin posting, through its website, the annual audited financial statements for all public companies, except listed companies and banks (whose annual audited financial statements will be posted through respectively MSE's and BOM's website)</p> <p>Government to establish a working group represented by MOF, BOM, and FRC to evaluate the impact and outcome of the anti-money-laundering (AML) regulations, and recommend amendments, if necessary.</p>	<p>Complied with. MSE is posting summary financial statements of 117 listed companies on its website.</p> <p>Complied with. FRC does not have general responsibility to supervise public companies that are not listed. The condition is therefore withdrawn.</p> <p>Complied with. The cooperation council has been established with representatives from the MOF, BOM, and FRC. One of the functions of the council is to evaluate the AML regulations and recommend amendments if necessary.</p>

AML = anti-money-laundering, BOM = Bank of Mongolia, FRC = Financial Regulatory Commission, MOF = Ministry of Finance, MSE = Mongolian Stock Exchange, SML = Securities Market Law.

Source: Asian Development Bank.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

No.	Covenants	Reference	Status of compliance
Particular Covenants			
1.	In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.	LA Section 4.01	Refer to Appendixes 2 and 3.
2.	The borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.	LA Section 4.02 (a)	Complied with.
3.	The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	LA Section 4.02 (b)	Complied with.
4.	As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	LA Section 4.03 (a)	Complied with.
5.	Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	LA Section 4.03 (b)	The Borrower did not submit quarterly progress reports.
Schedule 5: Program Implementation and Other Matters			
1.	MOF shall be the Program Executing Agency and will be responsible for the overall implementation of the Program, including the procurement of goods and services financed under the Program, the administration and disbursement of the Loan proceeds, the maintenance of accounts and the reporting to ADB. BOM shall be the Program Implementing Agency for the Banking Sector Component and the Anti-money-Laundering Component. FRC shall be the Program Implementing Agency for the Nonbank Financial Sector Component,		Complied with.
2.	MOF shall set up an inter-agency coordination committee to coordinate and ensure effective implementation of the policy reforms envisaged under the Program (Inter-agency Coordination Committee). The Inter-agency Coordination Committee shall be chaired by the State Secretary of MOF, shall include representatives of BOM, FRC, MSE, Ministry of Justice and Home Affairs (MOJ), Property Registration Office under the Ministry of Construction and Urban Development and ADB, and shall meet at least once every quarter.		An interagency coordination committee for the Financial Regulation and Governance Program headed by the MOF Director General, and comprising representatives from the BOM, FRC, MSE, MOJ and the Ministry of Construction and Urban Development, was

			established in February 2007 and met for the first time on 25 April 2007. It ceased however to meet during implementation of the program.
3.	FRC shall oversee and coordinate the development and implementation of the IT-MIS for effective monitoring and managing of financial sector risks through delegation to a management team (FRC IT Team) comprising two FRC staff members (one manager and one IT expert), one MOF staff member and the international financial supervisory information system specialist recruited under the Technical Assistance. The FRC IT expert shall be assigned to the development implementation of the IT-MIS on a full-time basis. The FRC IT Team shall be located in FRC. The international financial supervisory information system specialist recruited under the Technical Assistance shall head the FRC IT Team, and shall report to both the MOF State Secretary and the FRC Managing Director.		Refer to policy condition 2.1.A.1 in Appendix 32.
4.	BOM shall oversee and coordinate the development and implementation of the IT-MIS for analyzing and reporting suspicious financial transactions through delegation to a management team (FIU IT team) comprising two BOM staff members (one manager and one IT expert), one FRC staff member and the international financial intelligence unit information system specialist recruited under the Technical Assistance. The BOM IT expert shall be assigned to the development implementation of the IT-MIS on a full-time basis. The FIU Team shall be located in BOM. The international financial intelligence unit information system specialist recruited under the Technical Assistance shall head the FIU IT Team, and shall report to both the MOF State Secretary and the BOM Deputy Governor. The FIU IT Team shall liaise closely with the Anti-money-Laundering National Coordination Committee comprising members from BOM, FRC, MOF, MOJ and Ministry of Foreign Affairs.		Refer to policy condition 5.2 in Appendix 3.
5.	The Borrower shall (i) ensure that the policies adopted and actions taken as described in the Policy Letter, including the Policy Matrix, prior to the date of this Loan Agreement continue in effect for the duration of the Program period and subsequently; and (ii) promptly adopt the other policies and take the other actions indicated in the Program as specified in the Policy Letter, including the Policy Matrix, and ensure that such policies and actions continue in effect for the duration of the Program period and subsequently .		Complied with.
6.	The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, sector issues, policy reforms and additional reforms during the Program Period that may be considered necessary or desirable, including the progress made in carrying out the Program.		Complied with.
7.	The Borrower shall engage in policy dialogues with ADB, in a timely manner, on problems and constraints encountered during Program implementation and on desirable changes to overcome or mitigate such problems and constraints.		Complied with.
8.	The Borrower shall keep ADB informed of policy discussions with other multilateral or bilateral agencies that have implications for implementations of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's view into consideration before finalizing and implementing any such proposals.		Complied with.
9.	The Borrower shall ensure that the Counterpart Funds shall be used, first, to support the adjustment cost for reforms to be initiated and implemented under the Program, and, second, to finance expenditures for the general		The direct adjustment costs associated with

	development purposes of the Borrower.		implementation of the program were estimated at \$19.5 million in the report and recommendation of the President (RRP). While no counterpart funds generated from the Financial Regulation and Governance Program were allocated to support implementation of specific reform measures, government funds for procurement of IT-MISs for the FRC and FIU which were reported in the RRP as major investments to support targeted policy reforms were not provided by the MOF.
10.	The Borrower shall cause MOF to (i) establish, within three months after the Effective Date, and maintain a program performance evaluation system, which will include a data base on the status of policy measures and program indicators based on the Policy Matrix and the design and monitoring framework for the Program, (ii) monitor the implementation of the Program and its impacts, and (iii) submit to ADB quarterly reports on the implementation of the Program, including accomplishment of the measures set forth in the Policy Letter and the Policy Matrix.		Not complied with. A program performance evaluation system was not set up. Quarterly progress reports were not submitted to ADB.
11..	The Borrower and ADB shall conduct a comprehensive mid-term review at the end of 2007 and a Program performance completion review at the end of the Program Period to evaluate the progress of the reform measures and their impact on the financial sector. ADB will also monitor the implementation of the Program through regular reviews and progress reports throughout the implementation period. Based on these reviews, modifications and improvements will be considered. To facilitate such review, the Borrower shall assist ADB by providing relevant data and information in such detail as ADB may reasonably request.		Complied with. On average, two review missions per year were carried out during the implementation period 2006–2010. It was decided in early 2008 not to carry out a comprehensive mid-term review due to low compliance with the policy matrix. Instead, during the loan review mission, 15-17 October 2008, the MOF and FRC agreed to reallocate resources under the Capital Markets Development TA to further support specific reforms under the Financial Regulation and Governance Program, including training of the legal working group,

			developing guidelines and regulations for holding companies which control nonbank financial institutions and revising the Company Law. A major change in scope was carried out in December 2008.
12.	Approximately six (6) weeks before anticipated withdrawal of the Second Tranche, or such other time as the Borrower and ADB may agree, a review shall be carried out concerning the Borrower's progress in implementing the policy reforms under the Program set out in the Policy letter and the Policy Matrix, including the fulfillment of the conditions listed in Attachment 2 to Schedule 3 to this Agreement.		Non applicable.

ADB = Asian Development Bank, BOM = Bank of Mongolia, FIU = Financial Intelligence Unit, FRC = Financial Regulatory Commission, IT = information technology, IT-MIS = information technology management information system, MOF = Ministry of Finance, MOJ = Ministry of Justice and Home Affairs, MSE = Mongolian Stock Exchange, RRP = report and recommendation of the President, TA = technical assistance.
Source: Asian Development Bank.