

Legal Summary on Electronic Money Regulation

Background: New Law on National Payment System, dated 31 May 2017, shall become effective from 1 January 2018. The importance of the new law is an integrated payment system launch between the Central Bank, commercial banks, legal entities, other financial institutions and individual customers. As result of the law enactment, the Central Bank will be able to control all payment transactions of all participants of Mongolia financial market. It will help the Central bank to have better picture of the economy through controlling all payment systems of Mongolia, protecting rights of customers, ensuring competitive market and granting new licenses for financial services, including services of a system operator, payment service provider, payment representative, outsourcing, electronic money service and issue of e-money, etc.

Within the framework of e-money service and its performance, the President of Mongol Bank (the Central bank) passed new Resolution No A-45 on Electronic Money, dated 13 February 2018 with its Attachment - Procedure on E-money, which will be effective from 1 June 2018.

Scope of the Resolution and its attachment: The Resolution regulates the issue of e-money, conversion of e-money into monetary assets, use of e-money in payment and transactions, and defines criteria for participants in these activities in the territory of Mongolia.

A transaction involving e-money shall be committed using the national currency of Mongolia - Tugrugs.

The e-money service shall have a name, which will be distinguished from others.

E-Money Service: The following transactions can be made through the e-money service:

1. Payment for work and service using e-money service;
2. Transfer of e-money to others;
3. Conversion of e-money into monetary assets;
4. Conversion of e-money into monetary assets and transfer thereof to an account;
5. Checking balance of the e-money account;
6. Obtaining account statement of the transaction;
7. Other.

The debt in form of e-money shall not be granted.

Each participant shall have a unique number or account in the e-money system.

The e-money Service Provider e-money shall issue e-money, which equivalent to the monetary asset as per the participant's request.

The fraud transaction means e-money at other's account and monetary asset are possessed intentionally and secretly by another participant, who does not have disposal and possession title.

E-money Service Provider Requirement: The e-money service provider (hereinafter - the 'Service provider') shall be incorporated duly in accordance with the Company Law of Mongolia and have the license to issue e-money granted by the Mongol Bank.

The minimum share capital of the Service Provider shall be 2,500,000,000 (two billion five hundred millions) tugrugs.

In addition to the above requirements, the Service Provider shall:

1. have the license to issue e-money from the Mongol Bank;

2. if the Service Provider is a non-banking financial institution - obtain the respective opinion from the Financial Regulatory Authority;
3. have the share capital, which is not borrowed;
4. have security system on keeping and protecting e-money and monetary assets;
5. have a procedure for the issue of e-money, conversion thereof into monetary assets, making transaction and payment;
6. have a procedure for prompt settling any complaints and disputes related to the e-money service;
7. have qualified and experienced IT and financial staff;
8. have information on participants and information system with unit account and integrated accounts for detailed and complete information. The system shall be capable for monitoring e-money flow, showing e-money amount, making transactions that exceed the allowed limit, ceasing and withdrawing transactions, detecting unintentional actions, fraud and suspicious transactions, and settling disputes associated with these issues;
9. Other requirements from the Mongol Bank.

Participants of the E-money System: In addition to the Service Provider, the system shall include the following participants.

- Representative – a contractual representative of e-money (hereinafter - the 'Representative'), which is a legal entity that registers new customers and conducts e-money transactions under the contract with the Service Provider.
- E-money Recipient - a legal entity and individual, who receives e-money for selling their services or products.
- Non-Registered Customer - a legal entity and individual, who uses e-money system without agreement with the Service Provider.

E-money Transaction Limit: The maximum transaction limit shall be 1,000,000.00 (one million) tugrugs per a transaction, and 3,000,000.00 (three million) tugrugs per a day.

The e-money limit per a customer shall not exceed 50,000,000.00 (fifty million) tugrugs.

Guarantee: The Service Provider shall deposit the monetary guarantee, which equals with issued e-money amount in the guarantee account. If the Service Provider is a commercial bank, the guarantee account shall be opened with the Mongol Bank.

The monetary assets on the guarantee account is reduced from issued e-money amount, the Service provider shall re-deposit reduced guarantee amount within next business day.

If the Service Provider becomes a bankrupt or insolvent or is subject to liquidation under the decision of the competent authority, the money held on the guarantee account shall be used to repay loss incurred by the participants.

Liabilities: A defaulted legal entity or individual shall be liable in accordance with Law on Banking, Law on National Payment System, and Law on Offence.

If you need more information or have any inquiry, please feel free to contact **V. Bolormaa, Partner and Advocate of Absolute Advocates Law Firm** by bvolodya@gratanet.com or 976 99085031.