



REGULATION ON BLOCKCHAIN

Blockchain technology was invented for bitcoin as its fundamental technology. It is a particular type or subset of so-called distributed ledger technology (“DLT”). The DLT is a way of recording and sharing data across multiple data stores (also known as ledgers), which each have the exact same data records and collectively maintained and controlled by a distributed network of computer servers, which are called nodes. Blockchain is a mechanism that employs an encryption method known as cryptography and uses (a set of) specific mathematical algorithms to create and verify a continuously growing data structure – to which data can only be added and from which existing data cannot be removed – that takes the form of a chain of “transaction blocks”, which functions as distributed ledger¹.

The most countries support this technology as it cannot be corrupted and is decentralized, has enhanced security, distributed ledgers, consensus and faster settlement (*read more at <https://101blockchains.com/introduction-to-blockchain-features/#prettyPhoto>*). For instance, in 2016, France recognized the use of blockchain technology as a registry in support of “minibons” through the publication of an executive order. Also known as interest-bearing notes, minibons are non-negotiable securities that contain a trader’s undertaking to effect payment on a specific maturity date in return for a loan. In 2017, a second executive order was published, extending the list of financial instruments that can leverage blockchain technology as a registry. A reference to blockchain was added to the French commercial code as compliant method for the registration of financial instruments.²

Europe reckoned that the legal recognition of blockchain-based signatures (who did the transaction), timestamps (when it was carried out), validations (who validated the transaction) and “documents” (that is, the data associated with a transaction or contract) are the prerequisites for blockchain acquiring legal status. These issues are handled under the electronic Identification, Authentication and Trust Services regulation (eIDAS)³ in Europe. For example, according to eIDAS, digital documents cannot be denied legal force simply because they are in electronic form. This supports the potential for legal standing for the data contained

¹ Cryptocurrencies and Blockchain, European Parliament, 2018

² pp12. Legal Regulatory Framework of Blockchains and smart contracts, The European Union Blockchain observatory and forum, 2019

³ Ibid,

in a blockchain-based registry or contract⁴ (read more at https://www.eublockchainforum.eu/sites/default/files/reports/report_legal_v1.0.pdf).

In case of Mongolia, use of the blockchain technology is not recognized in legal frameworks. However, the Central Bank of Mongolia (the “Mongolbank”) stated to adhere a policy on the support of non-cash payments, introducing new advanced payment tools and services, regulating the legal environment and developing payment system infrastructure that meets the international standard (“Policy of the Mongolbank on payment system”, 2012). Also, in 2017, the term of electronic money has been defined in the newly approved law on National Payment System (read more about the *Electronic Money Regulation in Mongolia* at <https://gratanet.com/publications/legal-summary-on-electronic-money-regulation-in-mongolia>).

As the Mongolbank is the only authority capable of issuing legal currency under the law of Mongolia on the Central Bank, it defined the electronic money (the “e-money”) as non-cash payment instrument issued by the Central Bank with the same value as the Mongolian currency – Tugrik (Article 5). Yet, it is not the same as cryptocurrency for that the e-money is centralized that the Mongolbank grants permission, while the cryptocurrency is decentralized which there is no third authority involvement. Although the cryptocurrency exchange is neither allowed nor restricted, its technology, the blockchain, is used in various state and bank services, including electron tax system, property rights registry, electronic payment receipt system and electron signature without legal recognition. Moreover, increasing number of “FinTech” financial services companies have been established including LendMN. They aim at allowing loans without collateral and interest.

Conclusion:

Neither the blockchain technology nor the blockchain-based cryptocurrency are recognized in legal context of Mongolia. However, the MongolBank preserves a policy to support non-cash payments and new advanced payment tools and services. Also, Mongolia allowed issuance of electron money by adopting laws and regulations. Although the blockchain technology is not legalized, it is used in significant sectors of the country such as tax systems and bank services.

⁴ pp12. Legal Regulatory Framework of Blockchains and smart contracts, The European Union Blockchain observatory and forum, 2019

Source:

1. Blockchain - <https://en.wikipedia.org/wiki/Blockchain>
2. What is Blockchain? - <https://unimedia.mn/457>;
3. Cryptocurrencies and Blockchain, European Parliament, 2018 - <https://www.europarl.europa.eu/cmsdata/150761/TAX3%20Study%20on%20cryptocurrencies%20and%20blockchain.pdf>;
4. The Policy on payment system”, 2012 - https://www.mongolbank.mn/documents/regulation/paymentsystem/20130102_payment_policy.pdf;
5. The Law of Mongolia on National Payment System - <https://www.legalinfo.mn/law/details/12668>;
6. Legal Regulatory Framework of Blockchains and smart contracts, The European Union Blockchain observatory and forum, 2019 - https://www.eublockchainforum.eu/sites/default/files/reports/report_legal_v1.0.pdf;
7. Basic features of Blockchain Technology - <https://101blockchains.com/introduction-to-blockchain-features/#prettyPhoto>.

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