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Regulation for regulatory sandbox

1. Introduction

The whole process of introduction of financial services based on technological innovation to the financial market is called Fintech. Upon the introduction of new products and services to the market with the help of Fintech, financial institutes become able to conduct a wider range of activities at a lower expense.

Sandbox regulation is one type of the regtech which aims to develop a regulatory environment that suits fintech companies and protect consumers, without hindering the rapid changes and development of the market. Regtech is a combination of the terms - "regulation" and "technology" and is a type of technology aimed to resolve the regulatory and compliance issues in the financial sector. As financial products and services become more digital, information privacy, cyber-attacks, money laundering and other fraudulent activities increase. At this time, Regtech companies protect financial institutes from risks and facilitate risk management processes using technologies such as the cloud system and big data.

The sandbox environment is a relatively new regulatory mechanism. By implementing the sandbox, regulatory institutions will be able to identify new products and services coming out on the market, set out appropriate regulations, and understand new types of markets.

2. Regulation for Regulatory Sandbox

At the regular meeting of the Financial Stability Council, the Governor of the Central Bank of Mongolia, the chairman of the Financial Regulatory Commission, the Minister of Finance, and the Executive Director of the Deposit Insurance Corporation approved the Regulation for Regulatory Sandbox by an Order No A-63/64/32/A/27 on March 1, 2021. The purpose of this regulation is to create a regulatory sandbox environment that offers an opportunity to test for a certain period in a real environment that covers a limited range under the supervision of the Financial Regulatory Commission and the Mongolbank in order to introduce newly launched technology-based innovative products, services, and business models into the Mongolian market, to identify criteria for participants, and to regulate relevant relations. A participant to the sandbox (hereinafter referred to as the "Participant") shall have met the following requirements:

- ▶ Participant shall be a legal entity registered in Mongolia;
- ▶ Participant shall not have overdue debts to banks and financial institutions;
- ▶ Shareholders and executive officials shall not have previous criminal convictions for money laundering or financial crimes;
- ▶ Share capital invested by a shareholder shall have met requirements under the Law on Combating Money Laundering and Terrorism Financing.

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