

Guidelines Governing Anti-Money Laundering and Countering Terrorism Financing of Securities Firms

I. These Guidelines are adopted pursuant to Article 6 of the Money Laundering Control Act, and the Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Securities and Futures Sector.

II. To control money laundering and counter terrorism financing, a securities firm shall comply with the following provisions:

1. A firm shall not keep anonymous accounts or accounts in fictitious names.
2. Customers shall comply with the prescribed procedures when opening accounts. They also shall fill in the detailed identity information of the customer and agent on the customer information card, and leave a copy of the ID card or certificate of incorporation on file as an attachment.
3. Base on the content of customer materials, it should be sincerely comprehended by the firm. If necessary, customers shall be visited in person or demonstrate references to prove the accuracy of materials.
4. A firm shall undertake customer due diligence (CDD) measures when:
 - (1) establishing business relations with any customer;
 - (2) carrying out any transactions settled by cash payment (includes a customer subscribes to a single fund and pay with cash) of NT\$500,000 or more (including the foreign currency equivalent thereof).
 - (3) there is a suspicion of money laundering or terrorism financing, or carrying out any transactions from a country or region with high money laundering and terrorism financing risk; or
 - (4) a firm has doubts about the veracity or adequacy of previously obtained customer identification data.
5. A firm, on handling new-account applications, shall identify if the applicant is a foreign political exposed person. If yes, the firm shall take adequate control measures and conduct periodical reviews. Where there is any suspicious money laundering activities, the firm shall preserve the relevant trading records and vouchers and report to the Ministry of

Justice, Investigation Bureau (MJIB) accordingly.

6. The CDD measures should include reasonable actions to understand whether the customer is acting as an agent or a beneficiary owner, as well as the business nature and the purpose of trade.
7. According to Article II. Paragraph 6, a firm shall obtain the following information to identify the beneficial owners of the customer when the customer is a legal person or a trustee:
 - (1) For legal persons:
 - (i) The identity of the individuals who ultimately have a controlling ownership interest in a legal person. A controlling ownership interest refers to owning more than 25 percents of a firm's shares or capital;
 - (ii) To the extent that there is doubt under (i) above as to whether the individuals with the controlling ownership interest are the beneficial owner(s) or where no individual exerting control through ownership interests is identified, the identity of the individuals (if any) exercising control of the customer through other means.
 - (iii) Where no individual is identified under (i) or (ii) above, a firm shall identify and take reasonable measures to verify the identity of the relevant individual who holds the position of senior managing official.
 - (2) For trustees: the identity of the settlor(s), the trustee(s), the trust supervisor, the beneficiaries, and any other person exercising ultimate effective control over the trust;
 - (3) Unless otherwise provided for in the Proviso of Paragraph 10, a firm shall not be required to inquire if there exists any beneficial owner in relation to a customer that is:
 - (i) a R.O.C government entity;
 - (ii) an enterprise owned by the R.O.C government;
 - (iii) a foreign government entity;
 - (iv) a public firm and its subsidiaries;
 - (v) an entity listed on a stock exchange outside of R.O.C. that is subject to regulatory

disclosure requirements of its principal shareholders, and the subsidiaries of such entity;

(vi) a financial institution supervised by the R.O.C. government, and an investment vehicles managed by such institution;

(vii) a financial institution incorporated or established outside R.O.C. that is subject to and supervised for compliance with Anti-Money Laundering and Countering Terrorism Financing (AML/CFT) requirements consistent with standards set by the FATF, and an investment vehicle managed by such institution;

(viii) Public Service Pension Fund, Labor Insurance, Labor Pension Fund and Postal Savings of R.O.C.

(4) For customers such as unwilling to coordinate with the routine review, refusing to provide actual beneficiaries or information about exercising the control over customers, or unwilling to explain the nature and purpose of the transaction and sources of the funds, and so on, the firms may temporarily suspend or terminate their business relationship with the customer.

8. A firm shall apply CDD measures to existing customers on the basis of materiality and risk, and to conduct due diligence on such existing relationships at appropriate times, taking into account whether and when CDD measures have previously been undertaken and the adequacy of data obtained.

9. Ongoing monitoring on accounts and transactions:

(1) A firm shall continuously monitor and regularly inspect customer transaction reports. A firm shall know the transaction typology and establish an average transaction volume of each customer for reference in auditing unusual or suspected money laundering transactions.

(2) A firm shall, step-by-step, make use of information systems to find questionable transactions.

(3) A firm shall exercise extraordinary diligence over complicated transactions, transactions of huge amounts or unusual transactions which are done without economic or legal purpose. A firm shall, as far as possible, look into the backgrounds and motivation behind the aforementioned transactions and shall set up documented data on all findings. The documented data shall be archived for at least five years.

- (4) A firm shall conduct ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds.
 - (5) A firm shall periodically review the adequacy of customer identification information obtained in respect of customers and beneficial owners and ensure that the information is kept up to date.
 - (6) A firm is entitled to rely on the identification and verification steps that it has already undertaken, therefore a firm is allowed not to repeatedly identify and verify the identity of each customer every time that a customer conducts a transaction unless it has doubts about the veracity of that information. Examples of situations that might lead a firm to have such doubts could be where there is a suspicion of money laundering in relation to that customer, or where there is a material change in the way that the customer's account is operated, which is not consistent with the customer's business profile.
10. A firm shall determine the extent of applying CDD and ongoing monitoring measures using a risk-based approach (RBA). The enhanced CDD and ongoing monitoring measures shall be applied to those circumstances with higher risk while the simplified CDD measures are allowed where a lower risk has been identified. However, simplified CDD measures are not allowed in the following circumstances:
 - (1) Where the customers are from or in countries and jurisdictions known to have inadequate AML/CFT regimes, including but not limited to those which designated by international organizations on AML/CFT as countries or regions with serious deficiencies in their AML/CFT regime , and other countries or regions that do not or insufficiently comply with the recommendations of international organizations on AML/CFT as forwarded by the Financial Supervisory Commission(FSC); or
 - (2) Where there is obvious evidence for a firm to suspects that money laundering or terrorism financing is involved.
11. When the following signs of suspicious activity suggesting money laundering are seen, the firm shall verify the identity of the customer and, when necessary, the firm should require customer to provide references or visit the customer in person and make a record

of the visit:

- (1) The ID card or certificate of incorporation provided by the customer shows any trace of forgery or alteration, or intent to use a false name to open an account or engage in a transaction.
- (2) The customer makes a large-volume (over 400 trading units and over NT\$40 million in any individual trade; or a total of over 1,000 trading units and over NT\$100 million across multiples trades) trading in securities, where such activity is obviously incommensurate with the customers' identity and income or is unrelated to the nature of the customer's business.
- (3) In an account that has not had any transactions for two years or more, there is sudden large-volume trading in securities.
- (4) The same person or group either solely buys or sells or respectively buys and sells specific securities through nine or more trading accounts or five or more margin accounts. However, discretionary investment account or managed account by professional institutional investors shall be exempted from this restriction.
- (5) There is large-volume frequent trading in stocks through accounts opened collectively using the names of firm employees or members of specific groups.
- (6) Three or more third-party accounts are used to disperse large-volume transactions, and there are obvious irregularities.
- (7) There is continuous large-volume trading through a given account, consisting of high-priced buys only and no (or few) sales, or low-priced sales only and no (or few) buys.
- (8) A customer, or an agent, or an ultimate beneficiary of transactions, is a terrorist or a terrorist organization whose identity has been provided by a foreign government and forwarded by official letter of the FSC.
- (8) A customer, agent, or an ultimate beneficiary of a transaction, is a terrorist organization whose identity has been confirmed or traced by the international organizations of anti-money laundering.
- (9) Any other obviously irregular transaction activity or circumstance deemed suspicious by personnel involved in related business.

12. A firm shall pay attention to the following matters if it engages in bond trading business (bond trading includes outright trades and repo-style trades, and covers government bonds, corporate bonds, financial bonds, foreign bonds and all other bonds):

(1) Points for attention in carrying out underwriting or trading on behalf of customers:

(i) In a customer's initial transaction with the firm, the customer shall conduct the transaction in person. The firm shall preserve the evidentiary documents provided by customers according to their identity as domestic natural persons, domestic juristic-person institutions, or overseas Chinese and foreign nationals within or outside of Taiwan, in compliance with applicable laws and regulations.

In the event a transaction is not done by the customer in person or with authorization from a juristic-person institution, or there is doubt about an identity certificate provided by a customer and the customer refuses to cooperate by providing other supporting documents, the firm shall refuse to process the transaction or shall perform it only after reliably verifying the accuracy of the customer's identity.

(ii) In the event that a customer mandates or authorizes a third person other than the customer's representative or agent in Taiwan to conduct transactions, the firm shall confirm such mandate or authorization with the customer or the customer's representative or agent in Taiwan by telephone, fax, in writing, or by other appropriate means.

(2) Points for attention in transactions and settlement with customers:

(i) For customer transactions settled by cash payment of NT\$500,000 or more, the firm shall check and verify the identity of the investor as specified above, and preserve the trading records and vouchers.

(ii) In the event that a customer's initial transaction with the firm involves an unusually large-volume purchase/sale, and the firm determines in its judgment that the transaction is obviously inconsistent or incommensurate with the identity materials on record for or provided by the customer, the firm shall pay special care in verifying the customer's identity, and preserve the trading records and vouchers.

(iii) The firm shall pay special attention to the following circumstances in transactions, and in addition to reconfirming the customer's identity, ascertaining the motives for trading, and preserving the trading records and vouchers, it shall report to the MJIB

immediately if there is any suspicion of a likelihood of money laundering:

- (a) The customer pays the price in cash and evades providing a transaction record of the transfer from the previous holder(s), the source of the bonds, or relevant certificates.
 - (b) The customer suddenly makes a large-volume purchase (or sale) that exceeds its usual average trade volume by 10 times or more, and then rapidly makes an opposite trade, and the activity differs widely from the customer's past transaction amount levels or trading model, and is incommensurate with the customer's identity or there is no reasonable reason for it.
 - (c) The customer has asked the firm to cooperate in meeting its preference for delivery/payment in cash, without any reasonable reason.
 - (d) A customer engages in intensive dispersed buying, followed by selling the same securities in one bulk sale or in intensive dispersed sales, and the activity differs widely from the customer's usual trading model.
 - (e) Trades are conducted by a third party/parties other than the customer itself, or trades are conducted by the same customer on behalf of, or under the names or through the accounts of, multiple other customers.
 - (f) Settlement proceeds exceeding NT\$500,000 are wired to the firm from an account other than the customer's original account of record, or the customer asks the firm to wire proceeds exceeding NT\$500,000 receivable by the customer to one or more accounts not belonging to the customer; or multiple customers ask the firm to wire settlement proceeds receivable by them into the same account.
 - (g) The sources of the remittance money, obviously incommensurate with the customer's identity or income, or unrelated to the nature of its operations, are from a region or a country announced by the international organizations of anti-money laundering via the FSC. Such region or country is seriously lax with anti-money laundering campaigns or combating terrorist financing; fails or not fully complies with the suggestions of the international organizations of anti-money laundering.
 - (h) Other trading activity with obvious irregularities.
13. If a firm, when handling related business (e.g. bond trading or, on its own or as an agent, handling margin trading, short selling, or other transactions), discovers a currency transaction of specified amount or more, it shall verify the identity of the customer and

shall preserve the transaction records and vouchers, and file a report with the MJIB, as provided below:

- (1) A “currency transaction of specified amount or more” means a single cash receipt or payment (in terms of accounting treatment, this includes any book entry of any cash receipt or payment voucher) or currency exchange transaction of NT\$500,000 or more (including the equivalent in foreign currency).
- (2) Procedures for verifying customer identity and methods and time limits for preserving transaction records and vouchers:
 - (i) A firm shall verify the identity of the customer on the basis of the documentary proof of identity or passport provided thereby, and shall record the customer's name, date of birth (year/month/day), residence address, telephone, trading account number, transaction amount, and identity document number. If the customer can be verified as the owner of the transaction account, further identity verification is not required. However, the transaction record should specify such transaction is carried out by the actual account owner.
 - (ii) If a transaction is processed by an agent, based on the identification document or passport provided by the agent the firm shall record the agent's name, date of birth (year/month/day), residence address, telephone, trading account number, transaction amount and identity document number .
 - (iii) Each firm shall consider, for its own benefit and in accordance with the principle that the entire institution should adopt a consistent system, adopting a single method of recording customer verification data.
 - (iv) The originals of the verified records and transaction vouchers shall be kept for five years.
- (3) Reporting procedures: For any currency transaction over a specified amount, a firm shall either declare through media declaration (as format shown in Appendix 1) or file a written report form (as format shown in Appendix 2) to the MJIB within five business days after such transaction settled.
- 4) There is no need to report to the MJIB, in any currency transactions over specified amount, on the basis of relevant regulations or contractual relationships so provide, receipts and payments to/from government agencies, government owned businesses,

agencies acting with governmental power (within that power), public/private schools, public enterprises or foundations established by the government. However, a firm shall verify customer identity and preserve transaction records and vouchers. Nonetheless, if a firm discovers that any above transaction is suspiciously similar to a money laundering transaction, it shall follow the provisions of Article 8 of the Money Laundering Control Act and of these Guidelines.

14. Regardless of transaction amount and whether the transaction is completed or not, a firm that discovers any transaction, in addition to what is mentioned in the Article II Paragraph 13, is suspiciously similar to a money laundering transaction shall report to the MJIB.
15. A firm shall keep records on all business relations and transactions with its customers in accordance with the following provisions:
 - (1) A firm shall maintain, for at least five years, all necessary records on transactions, both domestic and international.
 - (2) A firm shall keep all the following information for at least five years after the business relationship is ended:
 - (i) All records obtained through CDD measures, such as copies or records of official identification documents like passports, identity cards, driving licenses or similar documents.
 - (ii) Account files.
 - (iii) Business correspondence, including inquiries to establish the background and purpose of complex, unusual large transactions and the results of any analysis undertaken.

III. A securities firm shall adopt internal control procedures for AML/CFT in compliance with the following provisions:

1. A firm shall be attentive to any evasion by customers of the provisions of the Money Laundering Control Act.
2. For suspected money laundering transactions, a firm shall file a written report form (as format shown in Appendix 3) within 10 business days starting from the date on which money laundering is discovered. The head office's unit in charge, after reporting and obtaining signed approval from an assistant general manager or person of equivalent rank,

shall immediately file the report to the MJIB. Within 15 days, following the last date of previous fiscal year, the items of transaction typology (as mentioned in Article II Paragraph 11) and quantity of the suspected money laundering transaction shall be submitted to competent authority for review and also copies forwarded to the Taiwan Securities Exchange and Taiwan Securities Association.

3. If the above report represents an obviously serious or urgent case, the firm shall promptly report to the MJIB by fax or other feasible method, and then immediately submit the written materials. However, the firm who receives the confirmed note (as format shown in Appendix 4) from the MJIB by fax need not submit the written materials to the MJIB. The firm shall preserve the confirmation note.
4. Preserve complete and accurate transaction records and vouchers.
 - (1) Report records and transaction vouchers shall be preserved in the original for five years.
 - (2) For any transaction suspected of involving money laundering, the firm shall preserve the transaction records and vouchers in a special-purpose book for reference.
 - (3) In a case duly under investigation pursuant to law, relevant transaction records and vouchers may not be destroyed before the case is closed, even where the time period for their preservation lapses.
5. A firm shall exercise care in preserving confidentiality, and guard against the disclosure of reporting materials and information.
6. A firm shall regularly review its internal control measures for adequacy in preventing money laundering and terrorism financing. A firm shall adopt AML/CFT guidelines into its internal control system.
7. The risk control mechanism and internal control system shall contain the following items, and the type and extent of control measures taken by the firm should be proportional to the risks of money laundering and terrorist financing, as well as the scale of businesses:
 - (1) Set up policies and procedures to identify, evaluate and manage the risks of money laundering and the financing of terrorism in accordance with “Guidelines Governing Money Laundering and Terrorist Financing Risks Assessment and Relevant Prevention Program Development by the Securities Sector” (see attachment) and also set up programs to prevent money laundering and combat the financing of terrorism in accordance with the Guidelines and results of risk assessment.

- (2) A standard operational procedure to comply with the AML/CFT regulations, which shall be included in the self-inspection and internal audit system.

Set up policies and procedures to identify, evaluate and manage the risks of money laundering and the financing of terrorism as stated in the previous paragraph, Subparagraph 1 in accordance with “Guidelines Governing Money Laundering and Terrorist Financing Risks Assessment and Relevant Prevention Program Development by the Securities Sector” by branches or subsidiaries of foreign financial organizations in Taiwan. If the parent group has established policies and procedures no less than, without violation of laws and regulations in our country, the branches or subsidiaries in Taiwan may apply the prescriptions of the parent group.

8. To the extent permitted by foreign laws and regulations, the firm shall ensure that its foreign branches and subsidiaries comply with the same strict measures for Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT) as used in Taiwan. Where the minimum requirements of the countries where its headquarters and branches or subsidiaries are located are different, the branch or subsidiary shall choose to follow the criteria which are higher. However, in case there is any doubt regarding the determination of higher or lower criteria, the determination by the competent authorities of the place in which the headquarters of the firm are located shall prevail. If it is unable to adopt the same criteria as the headquarters due to prohibitions from foreign laws and regulations, appropriate additional measures should be taken to manage risks of money laundering and terrorist financing, and a report shall be made to the Securities and Futures Bureau, Financial Supervising Commission.
9. On the tasks of money laundering prevention, any individual who is in charge of regulation compliance, or internal audit, or money laundering prevention shall promptly require customer information and his transaction record.
10. The powers and duties of the Audit on the tasks of money laundering preventing :
 - (1) The Audit Office shall conduct an audit on a periodic basis in accordance with the Guidelines for Internal Control Measures and other provisions concerned, and tests on the effectiveness of the money laundering and terrorist financing risk assessment and relevant prevention program and the risks management quality of operations, departments and branches.
 - (2) The Audit Office shall, whenever noticing a defect or fault by any units in the

enforcement of the management measures, report the cases to the assistant general manager or person of the equivalent rank. Such cases shall be provided for reference in the on-the-job educational & training programs of the firm.

(3) The competent unit shall impose appropriate sanctions to the auditor, in the event that the auditor is found having willfully concealed disclosing any detected irregularities.

11. The firm shall establish a proper employee selection process under careful consideration, including the review on the integrity of character of employees intending to hire and the professional knowledge required to perform their duties, especially on any potential conflict of interest between employees and their duties of the implementation of prevention and control of money laundering and combating the financing of terrorism.

IV. A securities firm shall hold, or arrange participation in, relevant training courses or seminars for its employees on a regular annual basis, to enhance its employees' ability to recognize money laundering and thoroughly familiarize them with the characteristics of money laundering and types of suspicious transactions.

V. A securities firm shall appoint an assistant general manager (or person of equivalent position) and a department to have exclusive responsibility for coordinating and supervising the execution of risk management of anti-money laundering and counter terrorism financing. The assistant general manager so appointed shall be the one who has satisfactorily completed the educational and training programs on the Money Laundering Prevention Act or shall complete the same educational and training programs within six months of the date of hiring.

VI. These Guidelines and any subsequent amendments hereto shall be implemented after being approved by the board of directors and reported to the Ministry of Finance for recordation. These Guidelines shall be reviewed on a regular annual basis to determine whether there is any need for amendment.