**[Attachment]**

**Guidelines for Futures Commission Merchants and Leverage Transaction Merchants Regarding Assessment of Money Laundering and Terrorism Financing Risks and Adoption of Prevention Programs 2017/11**

1. These Guidelines are formulated in accordance with the Directions Governing the Internal Control System for Anti-Money Laundering and Countering Terrorism Financing of the Securities and Futures Sector for anti-money laundering (AML)/counter terrorism financing (CFT) purposes. The content covers aspects such as how the futures and leverage transaction merchants recognize and assess risks of money laundering and terrorism financing in various categories of business and how they formulate AML/CFT programs, and serves as the basis for implementation.
2. The internal control system of a futures commission merchant or leverage transaction merchant shall be adopted by its board of directors. The same applies to any amendment thereto. The system should include relevant written policies and procedures for the identification, evaluation, and management of risks of money laundering and terrorism financing, and AML/CFT programs set up in accordance with the results of risk assessments. Routine review shall be conducted.

A risk-based approach is designed to facilitate the development of prevention and mitigation measures corresponding to money laundering and terrorism financing risks in order for the futures commission merchant or leverage transaction merchant to determine its allocation of AML/CFT resources, establish its internal control system, and formulate and implement policies, procedures and control measures integral to AML/CFT programs.

Futures firms operate diverse businesses and risks of money laundering and terrorism financing associated are also different in each business. The futures commission merchant or leverage transaction merchant shall take the above differences in businesses into consideration when assessing and mitigating its risk exposures against money laundering and terrorism financing.

The descriptions of examples stated in these Guidelines are not mandatory regulations. The risk assessment mechanism of a futures commission merchant or leverage transaction merchant should be in proportion to the nature and scale of its businesses. For futures commission merchants or leverage transaction merchants with smaller or simpler businesses, simple risk assessments are sufficient; however, futures commission merchants or leverage transaction merchants that provide more complex products and services, offer a wide variety of products through multiple branches (or subsidiaries) or provide services to diverse customers are required to perform higher levels of risk assessment procedures.

1. Futures commission merchants or leverage transaction merchants shall conduct appropriate measures to identify and evaluate its risks of money laundering and terrorism financing, and formulate specific risk assessment items based on the risks identified to further control, mitigate or prevent the risk.

Specific risk assessment items should at least include aspects such as geographic area, customer, products and services, transactions or delivery channels, and a further analysis for each risk item should be conducted to formulate the details of risk factors.

1. Geographical risk:
   * + 1. Regions with higher risk of money laundering and terrorism financing shall be identified.
       2. When formulating a list of regions with higher risks of money laundering and terrorism financing, the futures commission merchant or leverage transaction merchant may select applicable risk factors based on the practical experiences of its respective branches (or subsidiaries) and in consideration of individual needs.
2. Customer risk:
   * + 1. An individual customer's background, occupation and characteristics of socio-economic activities, and geographic area as well as the organizational pattern and structure of a non-natural person customer shall be considered in order to identify the money laundering and terrorism financing risks of the customer.
       2. When identifying the risk of an individual customer and determining her/his risk rating, the following risk factors may be adopted as the basis of assessment:
3. Geographical risk of the customer: Determine the risk rating of the customer's nationality and country of residence based on the list of regions with risks of money laundering and terrorism financing defined by futures commission merchants and leverage transaction merchants.
4. Money laundering risk of the customer's occupation and industry: Determine the risk rating of the customer's occupation and industry based on the money laundering risk of occupations and industries defined by futures commission merchants and leverage transaction merchants. High-risk industries such as businesses engaged in frequent large-sum transactions, or firms or trusts easily utilized to hold personal assets.
5. The organization that an individual customer is employed by.
6. The channel through which the customer opened an account and established business relationships.
7. The monetary amount of the first transaction which established a business relationship.
8. The products and services that the customer is applying to transact.
9. Whether the customer has other characteristics exhibiting high-risk of money laundering and terrorism financing; for example, the customer is unable to provide reasonable explanations when the address on record is too far from the futures commission merchant or leverage transaction merchant, the customer is a company with anonymous shareholders or one able to issue bearer shares, or the equity complexity of a corporate customer, such as whether the shareholding structure is obvious unusual or overly complex relative to its nature of business.
10. Risks of products and services, transactions, or delivery channels:
    * + 1. Individual products or services which may bring higher risks of money laundering and terrorism financing shall be identified based on the nature of individual products and services, transactions, or delivery channels.
        2. Before offering new products, new services, or launching new business categories (including new delivery mechanisms, employment of new technology on existing or new products or businesses), products should undergo money laundering and terrorism financing risk assessments so as to establish corresponding risk management measures and reduce the occurrence of risks identified.
        3. Examples of risk factors for individual products and services, transactions, and delivery channels are listed as follows:
11. The degree of association with cash.
12. Whether the channels used to establish business relationships or transactions include face-to-face transactions or new transaction models etc.
13. Whether it is a money or value transfer service in a high amount.
14. Funds are received from an unknown or unrelated third party.
15. Futures commission merchants or leverage transaction merchants shall establish risk classification rules and formulate risk ratings for different customers.

Customer risk ratings should include at least two risk classification ratings, i.e. "high risk" and "general risk", as the basis for enhancing customer due diligence and determining the intensity of continuous monitoring mechanisms. For futures commission merchants or leverage transaction merchants that adopt only two risk ratings, since the "general risk" rating is still higher than "low risk" rating indicated in Points 5 and 7 of these Guidelines, simplified measures for customers rated "general risk" may not be taken.

The futures commission merchant or leverage transaction merchant may not disclose information about the risk rating of a customer to its customers or persons unrelated to the execution of AML/CFT obligations.

1. Politically exposed persons in foreign governments, terrorist groups, or groups under economic sanctions, and identified or investigated by foreign governments or international anti-money laundering organizations, and individuals, legal entities, or organizations designated for sanctions under the Terrorism Financing Prevention Act, shall be regarded directly as high-risk customers, and the futures commission merchant or leverage transaction merchant may additionally in accordance with their business type and consideration of relevant risk factors stipulate the customer as of the high-risk customer classification.

The futures commission merchant or leverage transaction merchant may, based on the results of a complete written risk analysis, define by itself the types of customers which should be directly considered as low-risk customers. The results of a written risk analysis should be able to fully describe that the types of customers are compatible with lower risk factors.

1. For customers with whom new business relationships are established, the futures commission merchant or leverage transaction merchant shall determine their risk ratings upon the establishment of business relationships.

For existing customers with confirmed risk ratings, the futures commission merchant or leverage transaction merchant shall conduct a risk reassessment of customers based on its risk assessment policies and procedures.

Although the futures commission merchant or leverage transaction merchant has assessed risks of the customer upon the establishment of a business relationship, for some customers, their overall risk profiles only become clear after transactions are made through their accounts. Therefore, the futures commission merchant or leverage transaction merchant shall conduct review of existing customer identity information based on the customer's importance and risk level, and conduct review of the business relationship as well as adjust the risk rating at appropriate times after giving due consideration to whether and when CDD measures have been previously undertaken and the adequacy of information so obtained. The aforesaid appropriate times shall include, at a minimum:

1. When the customer sets up additional accounts or establishes new business relationships.
2. When it is time for periodic review of the customer as scheduled on the basis of materiality and risk.
3. When it becomes known that there is a material change to the customer's identity or background information.
4. When reports of transactions suspected of money laundering or terrorism financing may lead to the occurrence of an event that substantially changes the risk profile of a customer.

A futures commission merchant or leverage transaction merchant shall periodically review the adequacy of the information obtained regarding customers and beneficial owners and ensure that the information is kept up to date; for high-risk customers, in particular, reviews shall be conducted a minimum of once every year.

1. The futures commission merchant or leverage transaction merchant shall establish corresponding control measures according to identified risks to mitigate or prevent risks of money laundering. The futures commission merchant or leverage transaction merchant shall determine applicable control measures based on the risk profiles of customers.

As for risk control measures, the futures commission merchant or leverage transaction merchant shall adopt different control measures against high-risk customers and customers with specific high risk factors based on policies and procedures of risk prevention to effectively manage and mitigate known risks; examples are as follows:

1. Conduct Enhanced Due Diligence (EDD), for example:
2. Obtain relevant information on account opening and transaction purpose: e.g. expected account usage (e.g. expected monetary amounts, purposes, and frequency of transactions).
3. For an individual customer, obtain information such as the customer's sources of wealth, sources and destinations of transaction funds, and types and quantities of assets. If the source of funding originates from deposits, the source of the deposits shall also be accounted for.
4. For a customer that is a legal entity, group, or trustee of a trust, obtain further business information on the customer: Understand the customer’s latest financial information, business activities and transaction information to determine the sources of the customer's assets and funds and the destinations of such funds.
5. Obtain descriptions and information on ongoing or completed transactions.
6. Conduct site visits or telephone surveys based on customer type to verify the customer's actual operating status.
7. Before establishing or entering a new business relationship, obtain the approval of senior management personnel with the appropriate level of approval authorization based on internal risk considerations.
8. Increase the frequency of customer review
9. Conduct ongoing enhanced monitoring of the business relationship.

Except for cases set out in the proviso of Article 4, Paragraph 1, Subparagraph 3 of this Template, for customers with low-risk ratings, the futures commission merchant or leverage transaction merchant may take simplified measures based on its policies and procedures of risk prevention. The simplified measures should be commensurate with lower risk factors, and may consist the following measures:

1. Reduce the frequency of customer identity information updates.
2. Lower the level of ongoing monitoring, and establish a reasonable threshold amount as the basis for reviewing transactions.
3. If the purpose and nature can be deduced from transaction type or the established business relationship, it may not be necessary to gather specific information or perform special measures for understanding the purpose and nature of the business relationship.
4. Futures commission merchants or leverage transaction merchants shall establish regular and comprehensive money laundering and terrorism financing risk assessment operations and produce risk assessment reports so that management is able to timely and effectively understand the overall money laundering and terrorism financing risks encountered, decide on the mechanism to be established, and develop appropriate risk mitigation measures.

Futures commission merchants or leverage transaction merchants shall establish regular and comprehensive money laundering and terrorism financing risk assessment operations based on the following indicators:

1. The nature, scale, diversity and complexity of businesses.
2. Target market.
3. Number and scale of transactions: Consider general transaction activities of the futures commission merchant or leverage transaction merchant and characteristics of its customers.
4. Management data and reports associated with high risks: Such as the number and proportion of high-risk customers; the amount, quantity, or proportion of high-risk products, services or transactions; the nationality, place of registration or place of business of the customer, or the amount or proportion of transactions involving high-risk geographic areas, etc.
5. Business and products, including the channels and manners through which services and products are provided to customers and the way customer due diligence is conducted, such as the extent to which information systems are used and whether a third person is entrusted to perform the review, etc.
6. Inspection results from internal audits and the supervisory authority.

When the futures commission merchant or leverage transaction merchant conducts the comprehensive money laundering and terrorism financing risk assessment operations mentioned in the previous Paragraph, in addition to considering the above indicators, it is recommended that information obtained from other internal and external sources is utilized as supporting information. For example:

1. Management reports provided by the futures commission merchant or leverage transaction merchant's internal management (such as supervisors of business units or customer relation managers, etc.).
2. AML/CFT related reports released by international AML organizations and other countries.
3. Information released by the FSC on risks of money laundering and terrorism financing.

The results of the futures commission merchant or leverage transaction merchant's comprehensive money laundering and terrorism financing risk assessments shall be used as a basis for the development of an AML/CFT program. The futures commission merchant or leverage transaction merchant shall allocate adequate personnel and resources based on the results of risk assessments and take effective countermeasures to prevent or mitigate risks.

In the event of any major change in the futures commission merchant or leverage transaction merchant itself, such as the occurrence of material events, major developments in management and operation, or the emergence of new relevant threats, assessment operations shall be re-conducted.

The futures commission merchant or leverage transaction merchant shall submit a copy of the completed or updated risk assessment report to the FSC for future reference.

1. The policies formulated by the futures commission merchant or leverage transaction merchant in accordance with these Guidelines shall be implemented following the approval of the board of directors and be reported to the FSC for future reference along with the futures commission merchant or leverage transaction merchant's Guidelines for Anti-Money Laundering and Countering Terrorism Financing. The policies shall be reviewed on an annual basis. The same applies to any amendment thereto.