

Guidelines for Establishing Relevant Prevention Measures and Assessing Risks of Money Laundering and Terrorism Financing for Securities Investment Trust and Consulting Business

1. The Guideline is stipulated in accordance with the “Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Securities and Futures Sector” (hereinafter the “Direction”) for the purpose of preventing money laundering and countering terrorism financing. The contents include for Trust Business by Securities Investment Trust Enterprises, Securities Investment Consulting Enterprises, and Securities Firms (hereinafter “Businesses”) to identify, assess the risks of money laundering and terrorism financing in purchasing funds and engaging in discretionary investment business; the Guideline also serves as a basis for the implementation and stipulation of policies, procedures, control measures, etc., to prevent money laundering and terrorism financing.
2. Businesses’ risk control mechanism or internal control system shall include risk identification, assessment, management and the stipulation of relevant written policies, procedures and control measures in relation to anti-money laundering and countering terrorism financing, and shall be reviewed regularly.

Risk-based approach assists in the development of the prevention and reduction measures on money laundering and terrorism financing, which facilitates businesses’ decision on the resource allocation to prevent money laundering and terrorism financing, the establishment of internal control system, and the stipulation of plans to prevent money laundering and terrorism financing, and the necessary policies, procedures and controlling measures to implement such plans.

Businesses with diversified operations accompanies different risks of money laundering and terrorism financing; when assessing and reducing the exposed risks of money laundering and terrorism financing, such diversity in the businesses shall be taken into consideration.

The examples, illustrations and appendices set forth in the Guideline are not peremptory regulations. The assessment mechanism shall correspond to the nature and scale of business. To smaller and simpler businesses, simple risk assessment would be sufficient; however, for businesses that provide complex products and services, have various branch institutions that offer a wide variety of products or have diversified groups of customers, higher level of risk assessment procedures shall be conducted.

3. Businesses shall adopt measures appropriate to identify, assess the risks of money laundering and terrorism financing, and stipulate specific risk assessment items based on the identified risks in order to further control, reduce or prevent such risks.

Specific risk assessment items shall include at least three items including geography, customer and product and shall further analyze each item to stipulate detailed risk factors.

- (1) Geographical Risks:
 - a. Businesses shall identify regions that have a higher risk of money laundering and terrorism financing.
 - b. When stipulating the lists of regions with “higher risk” of money laundering and terrorism

financing, businesses may, based on the practical experience in their respective branches or refer to the appendices and consider individual needs to choose the applicable references.

(2) Customer Risks:

- a. Businesses shall take into consideration consolidated factors including customers' background, occupation, social economic activity characteristics, geography, the organization and structure of non-natural person customers, etc. so as to identify the customers' risks of money laundering and terrorism financing.
- b. When identifying the customers' risks and determine the level of risk, businesses may use the following risk factors as basis for the assessment:
 - i. The geographical risk of customers: Determine the specific risk score of the nationality and the residential country of the customers based on the list of regions at risk for money laundering and terrorism financing defined by the business.
 - ii. The occupational and industrial money laundering risk of customers: According to the risks of money laundering based on customers' occupation and industry as defined by the business, a specific risk score will be determined based on the customers' occupation and industry. High-risk industries include businesses that engage in intensive cash transactions, or companies or trust, etc. that can easily be used to hold personal assets.
 - iii. The method in which such customer opens an account and establishes business relationships.
 - iv. The amount with which such customer opened an account and established business relationships.
 - v. Whether such customer possesses other characterizations with high risk of money laundering and terrorism financing, for example, the address left by such customer on record is too far from the company and the such customer failed to provide reasonable explanation; such customer is an entity with unnamed shareholders or is an entity that may issue unregistered shares; customer that is an entity has complex shareholding structure such as the shareholding structure showing obvious abnormalities or appearing to be overly complicated when looking at the nature of its business, etc.

(3) Product Risks:

- a. Based on the nature of particular goods or services, businesses shall identify those that potentially have a higher risk of money laundering and terrorism financing.
- b. Businesses shall perform comprehensive money laundering risk assessment before the launch of any new product or new service, and shall establish corresponding risk management measures in accordance with the principle of risk control.
- c. Examples of the risk factors of an individual product or service are as follows:
 - i. Whether the transaction was made in cash.
 - ii. Whether the product or service was not a face-to-face business relationship or transaction.

4. Businesses should establish different risk levels and classification rules on its customers

With regard to customers' risk levels, there should be at least two levels (e.g. "high risk" and "average risk") serving as the basis for the enhancement of customer review measures and the

implementation of continuous monitoring mechanism. If businesses were to adopt only two risk levels, measures taken for customers identified as having “average risk” cannot be simplified since the level of “average risk” is still higher than the level of “low risk” set forth in Point 5 and Point 7 of this Guideline.

Businesses shall not disclose information concerning a customer’s risk level to the customer itself or other persons irrelevant to the implementation of anti-money laundering obligations.

5. Except for persons holding important political positions in foreign countries or are under economic sanctions, and terrorists that are identified or investigated by foreign governments or anti-money laundering international organizations, and groups that are directly considered as “high risk” customers, businesses may, taking into consideration their own business patterns and related risk factors, set out types of customers that can be directly considered as “high risk” customers.

Businesses may, based on the results of a complete written risk analysis, define customers that can be directly considered as “low risk” customers; the risk analysis results in writing shall fully explain the connection of these types of customers with lower risk factors.

6. For new customer, businesses shall verify the customer’s level of risk as it establishes the business relationship with such customer.

For existing customer whose level of risk has been verified, businesses shall re-assess the level of risk of such customers based on its policy and procedures of risk assessment.

Despite having performed risk assessment to a customer upon the establishment of business relationship, for some customers, it is only until the time when such customers conduct transactions that the comprehensive risks of which may become clear; therefore, upon acknowledgment of significant changes to the identity and background information of a customer, or upon discovery of changes to a customer’s transaction patterns, businesses shall promptly adjust customer risk rating.

For the timing of reassessment of the risk level, some examples are listed as follows for reference:

- (1) When such customer opens new accounts or establishes new business relationships.
- (2) When businesses perform periodical customer review based on customers’ risk level.
- (3) When a customer was reported to be suspicious of money laundering that might lead to material changes of customers’ risks profile.

7. Businesses shall, based on the identified risk, establish the corresponding management and control measures in order to reduce or prevent risks of money laundering. Businesses shall, based on the risk assessment of a customer, identify and determine the applicable management and control measures for customers’ of different risk levels.

Regarding risk management measures, businesses shall, based on its policy, supervision and procedures on risks prevention, adopt different management and control measures against the different types of high risk customers, so as to effectively manage and reduce the known risks. Some examples are as follows:

- (1) Enhance due diligence on the customers (Enhance Due Diligence), such as:

- a. Obtainment of the relevant information concerning the account opening, such information regarding the purpose of use of such account.
- b. Assessment of customers' assets: acquiring information concerning customers' sources of wealth, sources of funds, and the types and quantity of assets to conduct asset assessment on customers.
- c. Obtainment of further business information of customers: understanding the latest information of commercial activities and business relationship of customers.
- d. Obtainment of explanations and information of completed or pending transactions.
- e. Confirmation on the actual business operation of customers through on-site or phone inspections depending on the types of customers.

- (2) Obtain approval from upper management levels.
- (3) Increase frequency of customer due diligence.
- (4) Enhance supervision mechanism.

For customers of the highest risk level, businesses shall perform customer review at least once every two years.

Under low risk situations, businesses may, based on its risk prevention policy, supervision and procedures, adopt simplified measures. Simplified measures for verification of customers' background may adopt:

- (1) Decrease the frequency of information update on customers' background.
- (2) Decrease the level of continuous monitoring, and adopt a reasonable threshold amount for transaction review.
- (3) If businesses may infer from the types of transaction or the established business relationship the purpose and nature of a customer, there is no need to obtain specific information or implement special measures to understand the purpose and nature of such business relationship

Upon the occurrence of following during the verification and the continuous supervision of customers, businesses shall not adopt the simplified management and control measures:

- (1) Customers are from high risk regions or countries that do not implement effective anti-money laundering or counter terrorism financing measures, including but not limited to, the countries or region without an effective anti-money laundering and counter terrorism financing measures published by the International Money Laundering Prevention Organization as forwarded by the Financial Supervisory Commission, and other countries or region that fail to comply or fail fully comply with the recommendations made by the International Money Laundering Prevention Organization.
- (2) Customers or transactions that raise sufficient suspicion of an involvement in money laundering or terrorism financing.

8. Businesses shall establish regular and comprehensive risk assessment on money laundering and terrorism financing in order for the management to understand the overall risk of money laundering and terrorism financing the business is facing on a timely and effective basis, and to determine the mechanisms to be established and develop appropriate measures to reduce such risks.

Businesses shall establish regular and comprehensive risk assessment on money laundering and

terrorism financing based on the following indexes:

- (1) The nature, size, diversification and complexity of the business.
- (2) The target markets.
- (3) The number and scale of transactions of the business: Considering a business' ordinary transaction activities, the characteristics of its customers, etc.
- (4) The high-risk associated management data and report: such as the number and ratio of the high-risk customers, the amount, quantity or ratio of the high-risk products, services or transactions; the nationality, registered office or operating location of the customers, or the amount or ratio of the transaction involving a high-risk regions.
- (5) The services and products including the ways and methods to provide the services and products to the customers, the methods with which a customer due diligence is performed, such as the extent of the use of information system as well as whether a designated third party is engaged to conduct the due diligence.
- (6) The results of inspection by the internal audit and supervising institution.

While businesses perform a comprehensive risk assessment on money laundering and terrorism financing as set forth in the preceding paragraph, it is advised to supplement other information obtained internally and externally such as:

- (1) The management reports provided by the internal management officers (e.g. the supervisors of business units, the customer relation managers.)
- (2) Relevant reports regarding anti-money laundering and counter terrorism financing issued by international institutions and other countries.
- (3) Information regarding money laundering and terrorism financing issued by the authorities.

The results of the comprehensive risk assessment on money laundering and terrorism financing performed by a business shall be used the basis developing plans to prevent money laundering and terrorism financing. Businesses shall allocate the appropriate personnel and resources based on such results and adopt effective countering measures to prevent or reduce the risks.

Upon the occurrence of a substantial change in a business, such as the occurrence of a material event, significant developments on the management and operation of the business, or the emergence of a new threat related to the business, such business shall re-assess the risk.

9. Businesses shall, based on the risks of money laundering and terrorism financing and its scale of business, stipulate and implement plans on anti-money laundering and counter terrorism financing, which shall include not only the internal policies, procedures and management on the verification of customers' background, record-keeping, and the reporting of cash transactions, suspicious transactions over a certain amount, etc. that are suspected to be money laundering. but also the designation of management personnel to coordinate the supervision of implementation on anti-money laundering and counter terrorism financing, the establishment of prudent and appropriate staff recruiting process, the implementation of continuous staff training plan and internal policies, procedures and management on anti-money laundering and counter terrorism financing for testing the effectiveness of the independent audit function of such business. Businesses may adopt relevant rules in accordance with this Guideline.
10. Businesses' policies stipulated according to this Guideline shall be approved by the board of directors (or the responsible unit with authorization) before implementation, and shall be submitted to the Financial Supervisory Commission together with its "Directions Governing Anti-Money Laundering and Countering Terrorism Financing" for record; they shall be reviewed

or amended regularly as well as any subsequent amendments thereto.

Appendix: Reference for the stipulation of lists of regions specified as “high risk” in money laundering and terrorism financing:

1. Announcement of International Money Laundering Prevention Organization, forwarded by Financial Supervisory Commission, on the countries or regions without effective prevention of money laundering and terrorism financing, and other countries or region that fails to comply or fully comply with the recommendations of International Money Laundering Prevention Organization
2. Countries or regions under economic sanctions or equivalent measures by the United Nations, the United States, or the European Union
3. Countries or regions of offshore financial centers published by the International Monetary Fund (IMF Offshore Financial Centers. <http://www.imf.org/external/NP/ofca/OFCA.aspx>)
4. Countries or regions determined by USA Patriot Act’s Section 311 to have primary money laundering concerns (Special Measures for Jurisdictions, Financial Institutions, or International Transactions of Primary Money Laundering Concern. http://www.fincen.gov/statutes_regs/patriot/section311.html)
5. Countries or regions listed by the Transparency International’s Corruption Perceptions Index to reach certain bribery level (Transparency International's Corruption Perceptions Index. http://cpi.transparency.org/cpi2013/in_detail/)
6. Countries or regions that financed or supported terrorism or named sponsors of terrorism