

Guidelines Governing Money Laundering and Terrorist Financing Risk Assessment and Relevant Prevention Program Development by the Securities Sector

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- 1 These Guidelines are formulated in accordance with the Regulations Governing Internal Audit and Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Securities and Futures Business and Other Financial Institutions Designated by the Financial Supervisory Commission for the purpose of anti-money laundering and combating the financing of terrorism (hereinafter referred to as the anti-money laundering and combating the financing of terrorism). The content covers aspects such as how securities firms in Taiwan can identify and assess risks of money laundering and financing of terrorism in their business operations, and development of a program on anti-money laundering and combating the financing of terrorism, etc. as the basis for implementation.
2. The internal control system of a securities firm, and any amendments thereto, shall be adopted by the board of directors. The system should include relevant written policies and procedures for identification, evaluation, and management of risks of money laundering and financing of terrorism, and programs set up in accordance with the results of risk assessments to prevent money laundering and combat the financing of terrorism and routine review shall be conducted.

A risk-based approach is designed to help the development of prevention and reduction measures corresponding to money laundering and financing of terrorism in order for the securities firm to determine its allocation of resources for anti-money laundering and combating the financing of terrorism, establish its internal control system, and formulate and implement policies, procedures and control measures which should be taken for programs to prevent money laundering and combat the financing of terrorism.

The securities firm has a diversity of businesses, with which risks of money laundering and financing of terrorism associated are also different in each business. The securities

firm shall take above differences in businesses when assessing and reducing its risk exposures against money-laundering and financing of terrorism.

Each description of examples stated in these Guidelines is not mandatory. The risk assessment mechanism of a securities firm should be in proportion to the nature and scale of its businesses. For a securities firm with smaller or simpler businesses, a simple risk assessment is quite enough; however, for a securities firm providing more complex products and services, offering a wide variety of products by its multiple branches (or subsidiaries) or having a diversity of customers, the higher extent to procedures of risk assessment will be necessary.

3. The securities firm shall conduct appropriate measures to identify and evaluate its risks of money laundering and financing of terrorism, and formulate specific risk assessment projects based on the risk identified to further control, reduce or prevent the risk.

Specific risk assessment projects should at least include aspects such as geography, customer, products and services, transactions or payment channels, and a further analysis for each risk project should be conducted to formulate the details of risk factors.

(1) Geographical risk:

- i. The securities firm should identify regions with higher risk of money laundering and financing of terrorism.
- ii. When formulating a list of regions with higher risks of money laundering and financing of terrorism, the securities firm may select applicable references based on practical experience of its respective branches (or subsidiaries) in consideration of individual needs.

(2) Customer risk:

- i. The securities firm shall take comprehensive consideration of an individual customer's background, occupation and characteristics of socio-economic activities, region, organizational pattern and structure of a non-natural person

customer in order to identify risks of money laundering and financing of terrorism from the customer.

ii. When identifying the risk of an individual customer and determining her/his risk rating, the securities firm may take the following risk factors as the Basis of Assessment:

(i) 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 financing of terrorism defined by securities firms.

(ii) Money laundering risk of the customer's occupation and industry: Determine the risk rating of the customer's occupation and industry based on money laundering risk of occupations and industries defined by securities firms. High-risk industries such as businesses engaged in intensive cash transactions, or firms or trusts easily applied to hold individual assets.

(iii) The organization that an individual customer is employed by.

(iv) The channel through which the customer opened an account and built business relationships.

(v) The monetary amount of the first transaction which established a business relationship.

(vi) The products and services that the customer is applying to transact.

(vii) Whether the customer has characteristics of other high-risk money laundering and financing of terrorism; for example, the customer is unable to make reasonable explanations when the address left too far from the branch, the customer is a company with anonymous shareholders or being able to issue unregistered stocks, 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.

(3) Risks of products and services, transactions, or payment channels:

- i. The securities firm shall identify an individual product or service which may bring higher risks of money laundering and financing of terrorism based on the nature of individual products and services, transactions, or payment channels.
 - ii. The securities firm shall, before launching a new product or service or introducing a new line of business (including a new payment mechanism, or applying new technology to existing or brand new products or business),, shall conduct a risk assessment of money laundering and terrorism financing with respect to the product, and establish appropriate risk management measures to reduce identified risks.
 - iii. Risk factors for individual products and services, transactions, and payment channels are listed as follows:
 - (i) The degree of association with cash.
 - (ii) Whether it is a face-to-face business relationship or transaction.
 - (iii) Whether it is a money or value transfer service in a high amount.
 - (iv) An anonymous transaction.
 - (v) Receiving funds from an unknown or unrelated third party.
4. The securities firm shall establish risk ratings and classification rules for different customers.
- For the risk ratings of a customer, they should have at least two ratings for risk classification, i.e. "high risk" and "general risk", as the basis for enhancing customer review measures and implementation of Strength of continuous monitoring mechanisms. For a securities firm which adopted only two risk ratings, since its "general risk" rating is still higher than "low risk" rating indicated in points of 5th and 7th of these Guidelines, it shall not take simplified measures to a customer with the "general risk" rating. The securities firm is not allowed to disclose the information about the risk rating of a customer to its customers or persons unrelated to obligations of implementing anti-money laundering or countering terrorism financing.

5. Those persons that hold important political positions in foreign governments, terrorist groups, or groups under economic sanctions, and identified or investigated by foreign governments or Anti-Money Laundering Organizations, and individuals, legal persons, or organizations sanctioned under the Terrorism Financing Prevention Act, are regarded directly as high-risk customers. The securities firm may, based on its own business type and consideration of associated risk factors, formulate types of customers which should be directly considered as high-risk customers.

The securities firm may, based on 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 type of customers matches to lower risk factors.

6. For customers to establish new business relations, the securities firm shall determine their risk ratings when establishing business relations.

For existing customers with identified risk ratings, the securities firm shall conduct a risk reassessment of customers based on its policies and procedures to assess risks.

Although the securities firm has assessed risks to the customer when establishing a business relationship, for some customers, their overall risk profiles only become clear after making transactions through accounts by customers. Therefore, the securities firm shall conduct customer due diligence (CDD) on existing customers based on the customer's materiality and risk level, conduct due diligence on the existing relationships, and adjust the risk level at appropriate times, taking into account when CDD was previously conducted and the adequacy of data obtained. The above appropriate times shall at least include:

- (1) When a customer opens an additional account or builds new business relationships.
- (2) At the time of the regular review which is set on the basis of materiality and risk

level of a customer.

- (3) When learning of material changes of customer identity and background information.
- (4) When reporting suspected money laundering and terrorism financing transactions and it may lead to an event occurred that substantially change the risk profile of a customer.

The securities 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. In particular, the firm shall review high-risk customers at least once a year.

7. The securities firm shall establish the corresponding control measures according to identified risks to reduce or prevent risks of money laundering. The securities firm shall determine applicable control measures based on risk profiles of customers.

As for risk control measures, the securities firm should take different control measures against high-risk customers and customers with particular risk factors based on policies and procedures of risk prevention to effectively manage and reduce the known risks, examples are as follows:

- (1) Conduct the Enhanced Due Diligence for a customer, for examples:
 - i. Obtain relevant information about account opening and transaction purpose: such as the purpose of account, expected account usage (e.g. expected monetary amount, purpose, and frequency of transactions).
 - ii. 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.
 - iii. For a customer that is a legal person, group, or trustee, obtain further business information on the customer: understand the customer's latest financial information and business activities and transaction information, to determine the

sources of the customer's assets and funds and the destinations of the funds.

- iv. Obtain descriptions and information about transactions going forward or completed.
 - v. Conduct site visits or telephone surveys based on customer patterns to verify the customer's actual operating status.
- (2) Obtain the approval of the senior managers who are responsible for approval matters based on the securities firm's internal risk assessment before establishing or developing new business relationships.
 - (3) Increase the frequency of customer review
 - (4) Business relationships should be kept under ongoing enhanced monitoring.

Except for cases set out in the proviso of subparagraph 3 of Point 4, for those with low-risk ratings, the securities firm may take simplified measures based on its policies and procedures of risk prevention. The simplified measures should be appropriate for the lower risk factors. To simplify measures to confirm the customer's identity, the following steps may be adopted:

- (1) Reduce the frequency of updating the customer's identification information.
- (2) Reduce the degree of continuous monitoring, and use a reasonable threshold amount as a basis for reviewing transactions.
- (3) If the purpose and nature can be deduced from the transaction type or the established business relationship, gathering specific information or performing special measures will not be necessary to understand the purpose and nature of the business relationship.

8. The securities firm shall establish a regular and comprehensive risk assessment of money laundering and financing of terrorism and produce risk assessment reports for the management to be able to timely and effectively understand the overall risks faced by securities firms in money laundering and financing of terrorism, and decide the

mechanism which should be established and develop appropriate measures to risk reduction.

The securities firm shall build a regular and comprehensive risk assessment of money laundering and financing of terrorism 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 securities firm 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, the amount or proportion of transactions involving high-risk areas, etc.
- (5) Business and products, including the channel and manner to provide services and products to customers, the way to implement the customer review measures, such as the extent to use of information systems, whether the third person is entrusted to perform the review, etc.
- (6) The inspected results from internal audit and the supervisory authority.

When the securities firm conducts a comprehensive risk assessment of money laundering and financing of terrorism, in addition to considering the above indicators, the information obtained from other internal and external sources is recommended as supporting information. For example:

- (1) The management reports provided by the securities firm's internal management (such as supervisors of business units, or relationship managers of customers, etc.).
- (2) Relevant reports released by international organizations and other countries for prevention of money laundering and combating financing of terrorism.
- (3) Information released by the Competent Authorities on risks of money laundering and financing of terrorism.

The results of the securities firm's comprehensive risk assessment of money laundering and financing of terrorism should be used as a basis for the development of a program on anti-money laundering and combating the financing of terrorism. The securities firm should allocate adequate personnel and resources based on the results of risks assessment and take effective countermeasures to prevent or reduce risks.

With any major change in the securities firm itself, such as the occurrence of major events, major development of management and operation, or the happening of new relevant threats, the assessment should be re-conducted.

The securities firm shall submit the risk assessment report to the competent authority for recordation when it completes or updates the report.