

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

- 1 The Guidelines are formulated in accordance with “Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Securities and Futures Sector” 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 the securities firms in our countries recognize and assess risks of money laundering and financing of terrorist in businesses, and development of a program on anti-money laundering and combating the financing of terrorism, etc. as the basis for implementation.
2. The risk control mechanism or the internal control system of a securities firm should include identification, evaluation, management carried out for risks of money laundering and financing of terrorism, relevant written policies and procedures setup, 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 or appendix of examples stated in the 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 having a diversity of clients, 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 three indicators, that is, geography, client and product, and a further analysis for each risk project should be conducted to formulate the details of risk factors.

(1) Geographical risk:

1. The securities firm should identify regions with higher risk of money laundering and financing of terrorism.
2. 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 branch or referred to the appendix in consideration of individual needs.

(2) Client risk:

1. The securities firm shall take comprehensive consideration of an individual client's background, occupation and characteristics of socio-economic activities, region, organizational pattern and structure of a non-natural person client in order to identify risks of money laundering and financing of terrorism from the

client.

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

- (1) Geographical risk of the client: Determine the risk rating of the client'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.
- (2) Money laundering risk of the client's occupation and industry: Determine the risk rating of the client'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.
- (3) The channel where the client opened an account and built business relationships.
- (4) The amount in which the client opened an account and built business relationships.
- (5) Whether the client has characteristics of other high-risk money laundering and financing of terrorism; for example, the client is unable to make reasonable explanations when the address left too far from the branch, the client is a company with anonymous shareholders or being able to issue unregistered stocks, or the equity complexity of a corporate client, such as whether the shareholding structure is obvious unusual or overly complex relative to its nature of business.

(3) Product risk:

1. 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 an individual product or service.

2. The securities firm shall, before a new product or service entering the market, conduct a comprehensive risk assessment of money laundering, and establish appropriate risk management measures based on principles of risk control.
3. Risk factors for an individual product or service are listed as follows:
  - (1) The degree of association with cash
  - (2) Whether it is a face-to-face business relationship or transaction.
  - (3) Whether it is a money or value transfer service in a high amount.
4. The securities firm shall establish risk ratings and classification rules for different clients.

For the risk ratings of a client, they should have at least two ratings for risk classification, i.e. "high risk" and "general risk", as the basis for enhancing client 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 5<sup>th</sup> and 7<sup>th</sup> of the Guidelines, it shall not take simplified measures to a client with the "general risk" rating. The securities firm is not allowed to disclose the information about the risk rating of a client to its clients or persons unrelated to obligations of implementing anti-money laundering.

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

The securities firm may, based on results of a complete written risk analysis, define by

itself the types of clients which should be directly considered as low-risk clients. The results of a written risk analysis should be able to fully describe that the type of clients matches to lower risk factors.

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

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

Although the securities firm has assessed risks to the client when establishing a business relationship, for some clients, their overall risk profiles only become clear after making transactions through accounts by clients. Therefore, when finding out any significant change in information about the client's identification and background or detecting any change in the client's transaction patterns, the risk rating of the client should be adjusted in a timely manner.

As for the point of time to conduct a reassessment of client risk, examples are as follows:

- (1) When a client opens an additional account or builds new business relationships.
- (2) When conducting a regular review of a client according to risk ratings of a client
- (3) When reporting suspected money laundering transactions and it may lead to an event occurred that substantially change the risk profile of a client.

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 different control measures applicable to clients with different risk ratings based on risk profiles of clients.

The type and extent of control measures taken by the securities firm should be proportional to the risks of money laundering and terrorist financing, as well as the

scale of businesses.

As for risk control measures, the securities firm should take different control measures against all types of high-risk clients based on policies, monitoring 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 client, for examples:

1. Obtain relevant information about account opening and transaction purpose: such as the purpose of account, expected client transaction activities, etc.
2. Conduct the asset valuation for a client: obtain the client's sources of wealth, sources of fund for transactions, types and quantities of assets to conduct the asset valuation for a client.
3. Obtain the client's further business information: understand the client's latest business activities and transaction information.
4. Obtain descriptions and information about transactions going forward or completed.
5. Conduct site visits or telephone surveys based on client patterns to verify the client's actual operating status.

(2) Obtain the approval of the higher management level

(3) Increase the frequency of client review

(4) Enhance the monitoring mechanism

For clients with the highest risk rating, the securities firm shall conduct a client review at least once every two years. For those with low-risk ratings, the securities firm may take simplified measures based on its policies, monitoring and procedures of risk prevention. To simplify measures to confirm the client's identity, the following steps may be adopted:

(1) Reduce the frequency of updating the client'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.

However, when confirming the client's identity and continuous monitoring, simplified measures to confirm the client's identity shall not be taken in the following circumstances:

- (1) Where the clients are from or in countries and territories, including but not limited to those countries or territories which fail to comply with the suggestions of international money laundering prevention organizations, as released by international money laundering organizations via the Financial Supervisory Commission, and those that are materially defective in the prevention of money laundering and combating the financing of terrorism in any other countries or territories.
- (2) Where there is obvious evidence for the securities firm to suspect there are money laundering or terrorism financing activities involved with the client or in the transaction.

8. The securities firm shall establish a regular and comprehensive risk assessment of money laundering and financing of terrorism 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 clients, 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 clients, the way to implement the client 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 clients, 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.

9. The securities firm shall formulate a program on anti-money laundering and combating the financing of terrorism according to its risks of money laundering and financing of terrorist. In addition to the confirmation of the client's identity, record keeping, and internal policies, procedures and controls for reporting of currency delivery above a certain amount and transactions suspected of money laundering, the content should also include the management personnel designated to coordinate and supervise the implementation of anti-money laundering and combating the financing of terrorism, establish a proper employee selection process under careful consideration, implement consecutive employee training programs, and test the system effectiveness of anti-money laundering and combating the financing of terrorism for internal policies, procedures and controls such as the independent audit function. The action may be taken by the securities firm based on the relevant stipulations of the Guidelines.
  
10. The policies formulated by the securities firm in accordance with the Guidelines should be implemented after the approval of the board resolution (or Authority in charge according to the Delegation of Authority) and reported to the Financial Supervisory Commission for record with the "Guidelines Governing Anti-Money Laundering and Combating the Financing of Terrorism by the securities firming Sector." The policies should be reviewed each year. The same applies to any amendment thereto.

Appendix: References for formulating a list of regions with higher risks of money laundering and financing of terrorism

1. Countries or territories which fail to comply with the suggestions of international money laundering prevention organizations, as released by international money laundering organizations via the Financial Supervisory Commission, and those that are materially defective in the prevention of money laundering and combating the financing of terrorism in any other countries or territories.
2. Countries or territories under which economic sanctions or other similar measures are taken by the United Nations, the United States or the European Union.
3. Countries or territories which are Offshore Financial Centers (IMF Offshore Financial Centers. <http://www.imf.org/external/NP/ofca/OFCA.aspx>) released by International Monetary Fund.
4. Countries or territories with primary money laundering concern (Special Measures for Jurisdictions, Financial Institutions, or International Transactions of Primary Money Laundering Concern. [http://www.fincen.gov/statutes\\_regs/patriot/section311.html](http://www.fincen.gov/statutes_regs/patriot/section311.html)) indicated by USA PATRIOT Act's Section 311.
5. Countries or territories with a considerable degree of corruption listed by the Corruption Perceptions Index of Transparency International (Transparency International's Corruption Perceptions Index. [http://cpi.transparency.org/cpi2013/in\\_detail/](http://cpi.transparency.org/cpi2013/in_detail/)).
6. Countries or territories which provide the financing or support of terrorist (such as State Sponsors of Terrorism released by United States Department of State, <http://www.state.gov/j/ct/list/c14151.htm>) or involve the listing of terrorist group activities.