

# Model Guidelines for Credit Co-operatives' Anti-Money Laundering and Counter Terrorism Financing Policies and Procedures

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## Article 1

The Model Guidelines is established in accordance with the “Money Laundering Control Act”, “Counter- Terrorism Financing Act”, and “Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Banking Sector and Electronic Payment Institutions as well as Electronic Stored Value Card Issuers”. In addition to complying with the Model Guidelines, credit co-operatives should comply with “Regulations Governing the Deposit Accounts and Suspicious or Unusual Transactions”, “Rules Governing Offshore Banking Branches”, and “Directions for Confirming Customer Identity in Domestic Remittance Operations of Financial Institutions”, etc.

## Article 2

A credit co-operative’s internal control system established in accordance with Article 8 of “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” and its amendment should be approved by the board of directors. Such internal control systems should include:

- I. Policies and procedures for identifying, assessing, and managing the risk of money laundering and terrorism financing (“ML/TF”) established in accordance with “Guidelines for Banks Regarding Assessment of Money Laundering and

Terrorism Financing Risks and Adoption of Prevention Program” (“Guidelines of Assessment”) by The Bankers Association of the Republic of China (“Bankers Association”). See attachment.

- II. Anti-money laundering and countering the financing of terrorism (“AML/CFT”) programs established in accordance with the Guidelines of Assessment and based on risk assessment result and scale of business to manage and mitigate the risks identified and take enhanced control measures with respect to higher risk categories.
- III. Procedures for supervising the compliance of AML/CFT regulations and the implementation of AML/CFT programs. Such procedures, subject to self-inspection and internal audit, should be enhanced if necessary.

The identification, assessment and management of ML/TF risks provided in subparagraph I of last paragraph should at least cover the aspect of customers, geographic areas, and products, services, transactions or delivery channels, etc. In addition, a credit co-operative should comply with following rules:

- I. Generating a risk assessment report.
- II. Considering all risk factors to determine the credit co-operative’s level of risk and the appropriate measures to mitigate risks.
- III. Having a mechanism in place for updating risk assessment report periodically to ensure the update of risk profile.
- IV. Filing the risk assessment report to Financial Supervisory Commission (“FSC”) after it is completed or updated.

The AML/CFT programs provided in subparagraph II of paragraph 1 should include following policies, procedures and controls:

- I. Customer due diligence (“CDD”)
- II. Name screening on customers and related parties of a transaction.
- III. Ongoing monitoring of accounts and transactions.
- IV. Correspondent banking.
- V. Record-keeping.
- VI. Reporting of currency transactions that reach a certain amount.
- VII. Reporting of suspicious ML/TF transactions and reporting in accordance with “Counter-Terrorism Financing Act”.
- VIII. Appointment of an AML/CFT responsible officer.

- IX. Procedures for screening and hiring employees.
- X. An ongoing employee training program.
- XI. An independent audit function to test the effectiveness of AML/CFT system.
- XII. Others required in AML/CFT related regulations or by FSC.

The board of directors of a credit co-operative takes the ultimate responsibility for ensuring the establishment and maintenance of appropriate and effective AML/CFT internal controls. The board of directors and senior management should understand the credit co-operative's ML/TF risks and the implementation of AML/CFT programs, and take measures to form a strong AML/CFT culture.

### Article 3

The terms used in the Model Guidelines are defined as follows:

- I. "A certain amount" refers to TWD 500,000 (or equivalent foreign currency).
- II. "Currency transaction" refers to receiving cash or paying cash in a single transaction (including any transaction that is recorded on a cash deposit or withdrawal slip for accounting purpose), or exchanging notes.
- III. "Establishing business relationship" means that a person requests a credit co-operative to provide financial services and establish relationship that can continue for a duration, or that a person first approaches a credit co-operative as a potential customer and expects such relationship that may continue for a duration.
- IV. "Customer" refers to a person that establishes business relationship with a credit co-operative (including a natural person, a legal person, an entity other than a legal person, or a trust) or a person with whom a transaction is carried out by a credit co-operative. This generally excludes the third parties of a transaction. For example, an ordering bank in an outward remittance transaction does not treat the receiver as its customer.
- V. "Occasional transaction" refers to a transaction between a credit co-operative and a person that has no business relationship with the credit co-operative, including cash remittance, exchange of notes, paying fees, etc.
- VI. "Beneficial owner" refers to the natural person(s) who ultimately owns or controls a customer, or the natural person on whose behalf a transaction is being conducted. It includes the natural persons who exercise ultimate effective

control over a legal person or arrangement.

- VII. "Risk-based approach" refers to that a credit co-operative should identify, assess and understand the ML/TF risks that it is exposed to and take appropriate AML/CFT measures to effectively mitigate such risks. With such approach, a credit co-operative should take enhanced measures for higher risk scenarios while simplified measures may be taken for lower risk scenarios to effectively allocate resources and mitigate the identified ML/TF risks in the most appropriate and effective way.
- VIII. "Related parties of a transaction" refer to any third party, which is other than a credit co-operative's customers, involved in a transaction, such as the receiver of an outward remittance, or the sender of an inward remittance, etc.

#### Article 4

A credit co-operative should comply with following requirements when conducting CDD measures:

- I. A credit co-operative should avoid establishing business relationship or processing transactions if any of following scenarios is identified:
  - (i) A customer is suspected to use anonymous, fake name, figurehead, fictitious business or entity.
  - (ii) A customer refuses to provide relevant documentations required for the purpose of CDD except that a credit co-operative may verify the client's identify using reliable, independent source of information.
  - (iii) In the case that any person acts on behalf of a customer, it is difficult to verify that the person purporting to act on behalf of the customer is so authorized and the identity of that person.
  - (iv) Using counterfeit or altered identity documents.
  - (v) Identification documents presented are hard copies except for the business that permits the use of hard copies or soft copies of identification documents with other alternative measures under applicable regulations.
  - (vi) A customer delays the providing of required customer identification documents in an unusual manner.
  - (vii) The parties with whom a credit co-operative establishes business relationship are designated individuals or entities sanctioned under

Counter-Terrorism Financing Act and terrorists or terrorist groups that are identified or investigated. This requirement, however, does not apply to any payment made in accordance with subparagraph II to IV of paragraph 1 of Article 6 of “Counter-Terrorism Financing Act”.

(viii) Other unusual scenarios occur when a credit co-operative establishes business relationship with or processes transactions for a customer and the customer fails to provide a reasonable explanation.

II. A credit co-operative should perform CDD when:

- (i) Establishing business relationship with a customer.
- (ii) Carrying out any of following occasional transactions: Currency transactions above a certain amount, including situations where the currency transaction is carried out in several operations that appear to be linked.
- (iii) Identifying a suspicious ML/TF transaction.
- (iv) It has doubts about the veracity and adequacy of previously obtained customer identification data.

III. A credit co-operative should take CDD measures as follows:

- (i) Identifying the customer and verifying the customer identity using reliable, independent source documents, data or information, and retaining hard copies of customer identity documents or recording the relevant information thereon.
- (ii) In the case that any person acts on behalf of a customer to establish business relationship or conduct transactions, a credit co-operative should verify that the person purporting to act on behalf of the customer is so authorized. In addition, identify and verify the identity of that person in accordance with subparagraph III.(i), and retain hard copies of the agent’s identity documents or record the relevant information thereon.
- (iii) Identifying the beneficial owner and take reasonable measures, including using reliable source data or information, to verify the identity of the beneficial owner.
- (iv) CDD measures should include understanding and, as appropriate, obtaining information on, the purpose and intended nature of the business relationship.

IV. For an individual customers, a credit co-operative should obtain at least

following information to identify the customer identity when applying the requirements under last subparagraph:

- (i) Name;
- (ii) Date of birth;
- (iii) Permanent or residence address;
- (iv) Official identification number;
- (v) Nationality; and
- (vi) The purpose of residence or transaction of a foreign person (such as tourism, work, etc.)

V. For an individual customer that is identified by a credit co-operative as a high-risk customer or a customer that has certain high-risk factors in accordance with the credit co-operative's relevant requirements on customer ML/TF risk assessment, the credit co-operative should obtain at least any of the following information when establishing business relationship:

- (i) Any other names used or alias: such as the name used before marriage or change of name;
- (ii) Employer's address, post office box address, e-mail address (if any); or
- (iii) Landline or mobile telephone numbers.

VI. For a customer that is an entity or trustee of a trust, a credit co-operative, when applying the requirements under subparagraph III, should understand the business nature and obtain at least following information of the customer or the trust (including any legal arrangement similar to a trust) to identify and verify the customer identity:

- (i) The name, legal form, and proof of existence of the customer or trust;
- (ii) The articles of incorporation or similar powers that regulate and bind the entity or trust except in following circumstances:
  - 1. The entity or trust is one of entities provided in subparagraph VII.(iii) without any circumstances provided in Subparagraph III.(i) and (ii) of Paragraph 1 of Article 6.
  - 2. The entity customer confirmed has no articles of incorporation or similar powers;
- (iii) Following information of persons holding the position of senior management (including directors, supervisors, chief executive officer, chief financial officer, authorized representatives, temporary manager, partners, authorized signatories, or any natural person having equivalent

aforementioned position, a credit co-operative should determine the scope of senior management position by applying a risk-based approach) in an entity or trustee of a trust:

1. Name;
  2. Date of birth; and
  3. Nationality;
- (iv) Official identification number: such as identification number, tax identification number, registration number;
- (v) Registered address and main business addresses of an entity or trustee of a trust; and
- (vi) The purpose of the business relationship of an offshore entity or trustee of a trust.

VII. For a customer that is an entity or trustee of a trust, a credit co-operative, when applying the requirements under subparagraph III.(iii), should understand the ownership and control structure of the customer, and identify the beneficial owners of the customer and take reasonable measures to verify the identity of such persons through following information:

- (i) For a customer that is an entity:
1. The identity of the natural person(s) who ultimately has a controlling ownership interest in an entity (such as name, date of birth, nationality, and identification number, etc.) “Natural person(s) who ultimately have a controlling ownership interest in an entity” refers to any natural person that directly or indirectly owns more than 25 percent of shares or capital of the entity. In such case, a credit co-operative may request the customer to provide a shareholder register or other documents to support the identification of such person(s).
  2. If no natural person is identified under subparagraph VII.(i)1. or there is doubt as to whether the person(s) with the controlling ownership interest is the beneficial owner(s), the credit co-operative should identify the natural person(s) exercising control of the customer through other means. If necessary, a credit co-operative may obtain a certification from the customer to identify the beneficial owner(s).
  3. If no natural person is identified under subparagraph VII.(i)1. or VII.(i)1. above, a credit co-operative should identify the persons

holding the position of senior management.

- (ii) For a customer that is a trustee of a trust: a credit co-operative should identify the settlor, the trustee, the protector, the beneficiaries, and any other natural person exercising ultimate effective control over the trust, or the persons in equivalent or similar positions.
- (iii) The requirements under subparagraph III(iii) do not apply to a customer or a person having control over the customer that is one of the following entities, unless the customer or the person meets the description provided in subparagraph III(i) or subparagraph III(ii) or has issued bearer shares:
  1. R.O.C government;
  2. R.O.C. government-owned enterprise;
  3. Foreign government;
  4. Domestic public company or its subsidiaries;
  5. Company listed in other jurisdiction where it is required to disclose majority shareholders, and the subsidiaries of such company;
  6. Financial institution supervised by R.O.C. government, and investment vehicle managed by such financial institution;
  7. Financial institution incorporated or established in other jurisdiction where it is subject to regulatory requirements that are consistent with The Financial Action Task Force (“FATF”) AML/CFT standard, and investment vehicle managed by such financial institution. A credit co-operative should retain relevant documentation (such as record of public information search, AML policies and procedures of the financial institution, record of negative news search, certification of the financial institution, etc.) with respect to such financial institution and investment vehicle.
  8. Certain funds managed by R.O.C. government; or
  9. Employee stock ownership trust, or employee savings ownership trust.

VIII. For a customer with whom a credit co-operative establishes business relationship, the credit co-operative should take following measures to verify the identity of the customer, the person acting on behalf of the customer, and the beneficiary owners of the customers:

- (i) Verification through documents:



1. Individual:
    - (1) Verification of identity or date of birth: obtain an unexpired official identification document that bears a photograph of the individual (e.g. identification card, passport, residence card, driving license, etc.) If there is doubt as to the validity of such documents, a credit co-operative should obtain certification provided by an embassy official or a public notary. With respect to the identity or date of birth of the beneficial owners of an entity, a credit co-operative may not obtain original copies of the aforementioned document for verification, or may, according to the credit co-operative's internal operating procedures, request the entity and its authorized representative to provide a certification that specifies the identification data of the beneficiary owners. Part of the data on such certification, however, should allow a credit co-operative to perform verification through the certificate of incorporation, annual report, or other reliable source documents or data.
    - (2) Verification of address: obtain bills, account statements, or official documents, etc. from the individual.
  2. Entity or trustee of a trust: obtain certified articles of incorporation, government-issued business license, partnership agreement, trust instrument, certification of incumbency, etc. If a trust is managed by a financial institution described in paragraph 1 of Article 5 of Money Laundering Control Act, a certification issued by the financial institution may substitute for the trust instrument of the trust unless the jurisdiction where the financial institution is located is one of jurisdictions described in subparagraph III of paragraph 1 of Article 6.
- (ii) Verification through nondocumentary methods (if necessary), for example:
1. Contacting the customer by telephone or letter after an account has been opened.
  2. Checking references provided by other financial institutions.
  3. Cross-checking information provided by the customer with other reliable public information or private database, etc.

- IX. For a customer identified by a credit co-operative as a high-risk customer or a customer that has certain high-risk factors in accordance with the credit co-operative's relevant requirements on customer ML/TF risk assessment, the credit co-operative should perform enhanced verification, for example:
- (i) Obtaining a reply, signed by the customer or the authorized signatory of the entity, for a letter mailed to the address provided by the customer, or contacting the customer by telephone.
  - (ii) Obtaining evidence that supports an individual's sources of wealth and sources of funds.
  - (iii) Obtaining evidence that supports the sources of funds and destinations of funds of an entity or trustee of a trust, such as a list of main suppliers, a list of main customers, etc.
  - (iv) Site visit.
  - (v) Obtaining prior bank reference and contacting with the bank regarding the customer.
- X. A credit co-operative is not allowed to establish business relationship or conducting occasional transaction with a customer before completing CDD. If following requirements are met, however, a credit co-operative may complete verification after the establishment of the business relationship following the obtaining of identification data of the customer and beneficial owner:
- (i) The ML/TF risks are effectively managed. This includes the credit co-operative should take risk control measures with respect to the scenario that a customer may take advantage of verifying identity after transaction completed;
  - (ii) This is essential not to interrupt the normal conduct of business with customers; and
  - (iii) The credit co-operative ensures verification of the identity of the customer and beneficial owner is carried out as soon as it is reasonably practicable. If the credit co-operative fails to complete the verification of identity of the customer and beneficial owner in a reasonably practicable timeframe, it should terminate the business relationship with the customer and inform the customer in advance.
- XI. If a credit co-operative permits the establishment of the business relationship with a customer before completing customer identity verification, the credit co-operative should adopt relevant risk control measures, including:

- (i) Establishing a timeframe for the completion of customer identity verification.
- (ii) Before the completion of customer identity verification, business unit supervisory officer should periodically review the business relationship with the customer and periodically keep senior management informed of the progress of customer identity verification.
- (iii) Limiting the number of transactions and types of transaction before the completion of customer identity verification.
- (iv) Keeping the customer from making payment to any third party unless following requirements are met:
  - 1. There is no suspicion of ML/TF;
  - 2. The customer is assessed as a low ML/TF risk customer;
  - 3. The transaction is approved by senior management, whose level is determined on the basis of the credit co-operative's internal consideration for risk; and
  - 4. The names of recipients do not match with lists established for AML/CFT purposes.
- (v) If there is any doubt as to the authenticity, appropriateness or intention of the customer or beneficial owner, the exception provided in subparagraph XI.(iv) does not apply.
- (vi) A credit co-operative should determine the "reasonably practicable timeframe" provided in subparagraph X.(iii) based on a risk-based approach to the extent that timeframes are differentiated according to risk level. For example:
  - 1. The credit co-operative should complete customer identity verification no later than 30 working days after the establishment of business relationship.
  - 2. If customer identity verification remains uncompleted 30 days after the establishment of business relationship, the credit co-operative should suspend business relationship with the customer and refrain from carrying out further transactions (except to return funds to their sources, to the extent that this is possible).
  - 3. If customer identity verification remains uncompleted 120 days, the credit co-operative should terminate business relationship with the customer.

XII. For a customer that is a legal person, a credit co-operative should understand whether the customer is able to issue bearer shares by reviewing the article of incorporation or requesting a certification from the customer, and take one of the following measures to ensure the update of beneficial owners:

- (i) Requesting the customer to require bearer share holders who ultimately have a controlling ownership interest to notify the customer to record their identity, and requesting the customer to notify the credit co-operative immediately when the identity of such share holder changes.
- (ii) Requesting the customer, after each shareholders' meeting, to update the information of beneficial owners and provide identification data of any shareholder that holds a certain percentage (or above) of bearer shares. The customer should notify the credit co-operative immediately if, through other means, it is aware of the identity of any shareholder who ultimately has a controlling ownership interest changes.

XIII. When conducting CDD, a credit co-operative should utilize an in-house database or external source information to determine whether the customer, its beneficial owners or persons holding senior management position in the customer are or were politically exposed persons ("PEPs") entrusted by a domestic or foreign government or international organization.

- (i) If the customer and its beneficial owners are PEPs entrusted by a foreign government, the credit co-operative should treat such customer as a high-risk customer and take enhanced due diligence ("EDD") measures provided in subparagraph (i) of paragraph I of Article 6.
- (ii) If the customer and its beneficial owners are PEPs entrusted by a domestic government or international organization, the credit co-operative should perform risk assessment when establishing business relationship with the customer and re-perform in every subsequent year. For a customer treated by the credit co-operative as a high-risk customer, the credit co-operative should take EDD measures provided in subparagraph (i) of paragraph I of Article 6.
- (iii) If the persons holding senior management position in the customer are PEPs entrusted by a domestic or foreign government or international organization, the credit co-operative should take into account the influence that such person exerts on the customer, to determine whether

the customer is subject to EDD measures provided in subparagraph (i) of paragraph I of Article 6.

- (iv) For PEPs that had been entrusted by a domestic or foreign government or international organization, the credit co-operative should take into account relevant risk factors to assess their influence, and determine whether they are subject to the requirements under (i) to (iii) above by applying a risk-based approach.
- (v) The requirements under (i) to (iv) above also apply to family members and close associates of PEPs. The scope of aforementioned family members and close associates should be determined in accordance with the regulations established under paragraph 4 of Article 7 of Money Laundering Control Act.
- (vi) The requirements under (i) to (v) do not apply to the beneficial owners of or persons holding senior management positions in the entities described in subparagraph (iii) 1 to 3 and 8.

XIV. Other requirements that a credit co-operative should comply with when conducting CDD:

- (i) When the credit co-operative establishes a business relationship with a customer, conducts financial transaction above a certain amount with an occasional customer, or suspects the identification data of a customer is insufficient for CDD purpose, the credit co-operative should perform CDD through government-issued or other documents and keep records.
- (ii) The credit co-operative should perform EDD measures with respect to an account opened by, or a transaction processed by a professional intermediary on behalf of a customer.
- (iii) The credit co-operative should perform EDD measures with respect to a private banking customer.
- (iv) The credit co-operative should perform EDD measures with respect to a customer rejected by other bank.
- (v) For a non-face-to-face customer, the credit co-operative should perform CDD procedures that are as effective as those performed in the ordinary course of business and must include special and sufficient measures to mitigate the risks.
- (vi) For a customer establishing business relationship with the credit co-operative through internet, the credit co-operative should comply

with relevant operating Model Guidelines developed by The National Federation of Credit Co-operatives, R.O.C. (“NFCC”) and Bankers Association , and approved by regulators.

- (vii) For a customer that establishes business relationship with the credit co-operative through an authorized person, or that is suspected by the credit co-operative after the establishment of business relationship, the credit co-operative should verify the customer identity by contacting the customer by telephone, letter, or visit.
- (viii) For a customer that establishes business relationship with the credit co-operative through letter, after the establishment of business relationship, the credit co-operative should mail a registered letter with a return for verification.
- (ix) If the credit co-operative knows or is required to presume the source of fund of a customer is corruption or abuse of public assets, the credit co-operative should not accept, or should terminate, the business relationship with the customer if relevant regulatory requirements are met.
- (x) For a customer that fails to complete relevant CDD procedures, the credit co-operative should consider reporting a suspicious ML/TF transaction regarding to the customer.
- (xi) When the credit co-operative suspects certain customers or transactions may be involved in ML/TF and reasonably believe that performing CDD procedures may allow the customer aware of such information, the credit co-operative may not implement such procedures and instead report a suspicious ML/TF transaction.
- (xii) For other requirements regarding to establishing business relationship, please refer to the credit co-operative’s internal regulations.

XV. In the cases below where a credit co-operative may take following measures to the extent that the contract between the credit co-operative and the customer allows:

- (i) In the situation described in subparagraph I.(viii), the credit co-operative may decline the request of establishing business relationship or terminate the business relationship.
- (ii) For a customer that is recalcitrant in CDD, refuses to provide information of beneficial owners an persons holding controlling interest in the

customer, etc., or fails to explain the nature, intent, or source of fund of the transactions, etc., the credit co-operative may suspend the transactions, or suspend or terminate the business relationship.

- XVI. In the case that a customer in a business relationship or transaction is described in subparagraph I.(viii), a credit co-operative should report suspicious ML/TF transaction in accordance with Article 10 of Money Laundering Control Act. If such customer is a designated individual or entity sanctioned under Counter-Terrorism Financing Act, the credit co-operative is prohibited from the activities described in paragraph 1 of Article 7 of Counter-Terrorism Financing Act since the date of knowledge, and should report in accordance with the requirements of Counter-Terrorism Financing Act (please download the reporting format on the website of the Investigation Bureau, Ministry of Justice). If the credit co-operative is involved in the activities described in the subparagraph 3 and 4 of paragraph 1 of Article 6 of Counter-Terrorism Financing Act before aforementioned individuals or entities are listed as designated individuals or entities, the credit co-operative should obtain the approval of Counter-Terrorism Financing Committee in accordance with relevant regulations established under Counter-Terrorism Financing Act.

## Article 5

The CDD measures conducted by a credit co-operative should include following requirements in ongoing due diligence on customer identity:

- I. The credit co-operative should scrutinize transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the credit co-operative's knowledge of the customer, their business and risk profile, including where necessary, the source of funds.
- II. The credit co-operative should periodically review the sufficiency of the information used to identify customer and beneficial owners and ensure the update of such information. High-risk customers, especially, should be subject to at least annual review. For other customers, the credit co-operative should determine the frequency of review by applying a risk-based approach.
- III. When conducting CDD measures, a credit co-operative may rely on the customer identification data previously obtained and kept, and is not required to conduct such measures each time when the customer processes a transaction. If

the credit co-operative has doubts about the veracity and adequacy of previously obtained customer identification data, identifies a suspicious ML/TF transaction, or there is material change in the transaction or account activities of the customer that is inconsistent with its business profile, the credit co-operative should re-conduct CDD measures in accordance with the requirements of Article 4.

## Article 6

A credit co-operative should determine the extent to which it conducts CDD and ongoing due diligence measures described in paragraph 3 of Article 4 and Article 5 by applying a risk-based approach, including:

- I. For higher risk situations, the credit co-operative should take enhanced CDD and ongoing due diligence measures, which at least include following additional enhanced measures:
  - (i) Before establishing or adding new business relationship, the credit co-operative should obtain the approval of certain level senior management, determined according to the credit co-operative's internal consideration of risk.
  - (ii) The credit co-operative should take reasonable measures to understand the source of wealth and source of funds of the customer. The source of funds refer to the original source that generates such funds (e.g. salary, investment proceeds, disposal of real estate, etc.)
  - (iii) Conducting enhanced ongoing monitoring of the business relationship.
- II. For customers from high ML/TF risk jurisdictions, the credit co-operative should apply enhanced measures proportionate to the risks.
- III. For lower risk situations, the credit co-operative may take simplified measures commensurate with the lower risk factors. Simplified measures, however, should not be permitted in one of the following situations:
  - (i) Customers are high ML/TF risk jurisdictions, which include but are not limited to the jurisdictions, published by international anti-money laundering organizations and notified by FSC, that have serious deficiencies in AML/CFT, and other jurisdictions that fail to comply with or completely comply with the recommendations of such organizations.
  - (ii) The credit co-operative has sufficient reason to suspect the customers or



transactions may be involved in ML/TF.

A credit co-operative may take following simplified due diligence measures:

- I. Lower the frequency of updating customer identification data.
- II. Lower the extent to which the credit co-operative conducts ongoing monitoring, and review transactions that reach a reasonable amount.
- III. The credit co-operative is not required to collect specific information or take special measures to understand the purpose and the nature of the business relationship if these can be inferred from the transaction types or existing business relationship.

A credit co-operative should 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 when CDD measures have previously been undertaken and the adequacy and sufficiency of data obtained.

#### Article 7

A credit co-operative should perform CDD measures by itself. If regulatory requirements or FSC otherwise permits the credit co-operative may rely on third-parties to identify and verify the identity of customers, the person on behalf of the customer, or beneficial owners of the customer, or the purpose or nature of business relationship, the ultimate responsibility for CDD measures remain with the credit co-operative relying on the third party, which should be required to:

- I. Obtain immediately the necessary information concerning CDD measures.
- II. Take measures to satisfy itself that copies of identification data and other relevant documentation relating to CDD requirements will be made available from the third party upon request without delay.
- III. Satisfy itself that the third party is regulated, and supervised or monitored for, and has measures in place for compliance with, CDD and record-keeping requirements.
- IV. Satisfy itself that the jurisdiction where the third party is located has AML/CFT regulatory requirements consistent with FATF standard.

#### Article 8

A credit co-operative's mechanism for name screening on customers and related parties of a transaction should be conducted as follows:

- I. The credit co-operative should establish policies and procedures for name screening on customers and related parties of a transaction, by applying a risk-based approach, to detect, match, and filter whether customers, persons holding senior management position of a customer, beneficial owners of a customer, or related parties of a transaction are designated individuals or entities sanctioned under Counter-Terrorism Financing Act, or terrorists or terrorist groups identified or investigated by foreign governments or international organizations. In the case of true hit, the credit co-operative should undertake the measures provided in subparagraph XVI of Article 4.
- II. The policies and procedures for name screening on customers and related parties of a transaction should include at least the logic of matching and filtering, the operating procedure for name screening, and the standard of review, and should be documented.
- III. The credit co-operative should record the result of name screening, and keep such record in accordance with the requirements of Article 13.
- IV. The name screening mechanism should be subject to testing, including:
  - (i) Whether the sanction list and threshold setting are determined by applying a risk-based approach.
  - (ii) Whether the mapping between data input and system data field is correct and complete.
  - (iii) The logic of matching and filtering.
  - (iv) Model validation.
  - (v) Whether data output is correct and complete.
- V. The credit co-operative should determine whether such mechanism continues to appropriately reflect the risk identified and update the mechanism at proper time.

## Article 9

A credit co-operative's ongoing monitoring of accounts and transactions should be conducted as follows:

- I. The credit co-operative should integrate customer information data and

transaction data throughout the company step-by-step by information systems for enquiries processed by the head office or branch for the purpose of AML/CFT, in order to enhance its capacity of account and transaction monitoring. With respect to the customer data requested or enquired by each business unit, the credit co-operative should establish an internal control procedure and ensure the confidentiality of the data.

- II. The credit co-operative should establish policies and procedures for ongoing monitoring of accounts and transactions by applying a risk-based approach and use information systems to assist the identification of suspicious ML/TF transactions.
- III. The credit co-operative should review its policies and procedures for ongoing monitoring of accounts and transactions and update periodically to take into account regulatory requirements on AML/CFT, customer profiles, the size and complexity of business, the trend and information related to ML/TF obtained from internal or external sources, the result of internal risk assessment, etc.
- IV. Policies and procedures for ongoing monitoring of accounts and transactions should include at least complete and documented monitoring types, parameters, thresholds, operating procedures for the conducting and monitoring of alerts, procedures for reviewing monitoring cases, and the standard of reporting.
- V. The mechanism provided in last subparagraph should be subject to testing, including:
  - (i) Internal control procedure: review the roles and responsibilities of persons or business units related to the mechanism for monitoring accounts and transactions.
  - (ii) Whether the mapping between data input and system data field is correct and complete.
  - (iii) The logic of detection scenario.
  - (iv) Model validation.
  - (v) Data input.
- VI. In the cases where the credit co-operative identifies or has reasonable grounds to suspect customers, or the funds, assets or intended or performed transactions of the customers are related to ML/TF, regardless of the amount, value, or whether transactions are completed, the credit co-operative should perform enhanced review of the customer identity.
- VII. The red flags for suspicious ML/TF transactions provided in the Annex are not

exhaustive. The credit co-operative should select or develop suitable red flags based on its size of assets, geographic areas, business profile, customer base profile, characteristics of transactions, and the credit co-operative 's internal ML/TF risk assessment or information of daily transactions, to identify red flag transactions of potential ML/TF.

- VIII. For red flag transactions identified in accordance with last subparagraph, the credit co-operative should determine whether such transactions are reasonable (e.g. whether such transactions are apparently incommensurate with the identity, income, or scale of business of the customer, unrelated to the customer's business profile, do not match the customer's business model, no reasonable economic purpose, no reasonable explanation, no reasonable purpose, or unclear source of funds or explanation) and keep review records. If the credit co-operative determines such transaction is not a suspicious ML/TF transaction, the credit co-operative should record the reason for the decision. If the credit co-operative determines such transaction is suspicious ML/TF transaction, in addition to performing CDD measures and retaining relevant documentations, the credit co-operative should report to the Investigation Bureau, Ministry of Justice within 10 business days since such transaction is identified and confirmed as a suspicious ML/TF transaction.
- IX. With respect to red flags for suspicious ML/TF transactions, the credit co-operative should determine the ones that are required to be monitored with the assistance of related information systems by applying a risk-based approach. For those that are monitored without the assistance of information systems, the credit co-operative should also, by other means, assist employees to determine whether transactions are suspicious ML/TF transactions when they are processed by customers. The assistance of information system cannot replace the judgment of employees. The credit co-operative is still required to strengthen employee training to allow employees capable of identifying suspicious ML/TF transactions.

Reporting of suspicious ML/TF transactions:

- I. When an employee of a business unit identifies any abnormal transaction, the employee should immediately report such transaction to a supervisory officer.
- II. The supervisory officer should determine as soon as possible whether such transaction is subject to reporting requirements. If it is determined that such

transaction should be reported, the supervisory officer should immediately request the employee complete a report (please download the reporting format on the website of the Investigation of Bureau, Ministry of Justice).

- III. After the report is approved by the head of the business unit, the credit co-operative should submit the report to the responsible unit.
- IV. After the report is submitted by the responsible unit and approved by AML/CFT Responsible Officer, the credit co-operative should file the report immediately to the Investigation of Bureau, Ministry of Justice.
- V. In the case of an apparently significant and urgent suspicious ML/TF transaction, the credit co-operative should immediately report to the Investigation of Bureau, Ministry of Justice by fax or other feasible means and then immediately submit the hard copy of the report. The credit co-operative is not required to submit the hard copy of the report, provided that the Investigation of Bureau, Ministry of Justice confirms the receipt of such report by sending a fax reply (please download the format on the website of the Investigation of Bureau, Ministry of Justice. In addition, the credit co-operative should retain the fax reply.

Requirements on the confidentiality of reporting data and information are as follows:

- I. Employee at all levels should keep the reporting of suspicious ML/TF transactions confidential and should not disclose such information. A credit co-operative should provide employees trainings or materials on how to avoid the disclosure of such information in the interaction with customers and in daily operation.
- II. All documents related to such reporting should be classified as confidential. In the cases of any disclosure, a credit co-operative should take measures in accordance with relevant requirements.
- III. AML responsible unit, compliance officers or internal auditors should be able to timely obtain customer identification data and transaction record to the extent that requirements on confidentiality are met.

A credit co-operative should record the result of monitoring of accounts or transactions and keep such record in accordance with the requirements of Article 13.

## Article 10

Prior to the launch of new products or new business practices (including new payment mechanism, the use of new technologies for pre-existing or new products or businesses), a credit co-operative should perform ML/TF risk assessment for such products or business practices and take measures to manage and mitigate the risks identified.

## Article 11

A credit co-operative should comply with following requirements on remittance:

- I. The credit co-operative should comply with following requirements on domestic New Taiwan Dollar remittance:
  - (i) The ordering credit co-operative of domestic remittance should provide the information of the originator and the beneficiary in one of the following manners:
    1. Providing the information of the originator and the beneficiary with the remittance transaction.
    2. Providing the account number of the originator and the beneficiary or a transaction reference number which permits traceability of the transaction with the remittance transaction, and providing the information of the originator and the beneficiary within 3 business days of receiving a request either from the beneficiary financial institution or from competent authorities. However in cases where prosecutors office, judicial organ, or police agency and subordinate branch requests the credit co-operative to provide such information immediately, the credit co-operative should provide accordingly.
  - (ii) The ordering credit co-operative should retain all information regarding to the originator and the beneficiary.
  - (iii) Aforementioned originator information should include the name of the originator, the account number where such an account is used to process the transaction (in case where such information is absent, providing a transaction reference number which permits traceability of the transaction), and the address, identification number, or date of birth and

place of birth of the originator.

- (iv) Aforementioned beneficiary information should include: the name of the beneficiary, the beneficiary account number where such an account is used to process the transaction (in case where such information is absent, providing a transaction reference number which permits traceability of the transaction).

**II.** In case where the credit co-operative fails to comply with the requirements of last two subparagraphs, it is prohibiting from conducting remittance business.

## Article 12

A credit co-operative should comply with following requirements on currency transactions above a certain amount:

- I. The credit co-operative should verify customer identity and retain relevant documentation.
- II. The credit co-operative should comply with following requirements on the measures of the verification of customer identity:
  - (i) Verify customer identity with the identification documents or the passport provided by the customer, and record the name, date of birth, address, telephone number, account number where the account is used to process the transaction, transaction amount, and identification number of the customer. In case where the customer is the owner of the account used to process transactions, however, the credit co-operative may not verify the identity but describe the transaction is processed by the account owner on transaction records.
  - (ii) In case where the transaction is processed by a person acting on behalf of the customer, the credit co-operative should verify the person's identity with the identification documents or the passport provided by the person, and record the name, date of birth, address, telephone number, account number where the account is used to process transactions, transaction amount, and identification number of the person.
  - (iii) In case where the transaction is an occasional transaction, the credit co-operative should verify the customer identity in accordance with the requirements of subparagraph III of Article 4.

- III. Except for the situations described in paragraph 2 and paragraph 3, the credit co-operative should report such transactions within 5 business days after the completion of transactions in the way of media reporting (please download the format on the website of the Investigation of Bureau, Ministry of Justice) to the Investigation of Bureau, Ministry of Justice. In case where the credit co-operative fails to complete media reporting with a justified reason, it may submit a hard copy of the report after obtaining the approval from the Investigation of Bureau, Ministry of Justice.
- IV. The credit co-operative should retain the reporting data and relevant documentations submitted to the Investigation of Bureau, Ministry of Justice in accordance with the requirements of Article 13.

The credit co-operative is exempt from reporting following currency transactions above a certain amount to the Investigation of Bureau, Ministry of Justice but remains required to verify customer identity and retain relevant documentations:

- I. Payments deposited into an account opened by a government, a government-owned enterprise, an entity commissioned to exercise public authority (within the scope of commission), a public or private school, a public utility, and a fund established by a government in accordance with applicable regulatory requirements.
- II. Payments collected or made for a government treasury by a financial institution acting as its commissioned bank.
- III. Inter-financial institution transactions and funding activities. However, in case where cash payments above a certain amount made to a customer of another financial institution through an inter-financial institution account, such as cashing a check issued by another financial institution, the credit co-operative should remain subject to relevant requirements to conduct such transactions.
- IV. Payments made by a public welfare lottery retailer for the purpose of acquiring lottery for sale.
- V. Payment collected under a collection service (excluding the payments deposited into an account used to collect capital contribution from shareholders, and payments collected for credit card bill), provided that the payment notice clearly specifies the counterparty's name, identification number (including a reference number which permits traceability of the transaction party's identity), type and amount of the transaction. However, the duplicate copy of the payment notice



should be retained as an evidence of the transaction.

For an entity account opened by department stores, wholesale stores, convenience store chains, gas stations, hospitals, clinics, transportation businesses, restaurants, and hotels, etc. which must often or regularly deposit cash above a certain amount based on business needs, the credit co-operative may, after verifying such needs, submit a list of such entities to the Investigation Bureau, Ministry of Justice for approval. If the Investigation Bureau, Ministry of Justice provide no comment against the list, payments deposited into such account are exempt from verification and reporting on a case-by-case basis. The credit co-operative should perform at least annual review of the counterparty. If the counterparty with which the credit co-operative no longer has the business relationship described in this paragraph, the credit co-operative should report to the Investigation Bureau, Ministry of Justice.

For the transactions described in last two paragraphs, in case where a suspicious ML/TF transaction is identified, the credit co-operative should remain subject to the requirements of Article 10 of Money Laundering Control Act and paragraph 2 of Article 7 of Counter-Terrorism Financing Act.

### Article 13

A credit co-operative should keep records on customers and transactions with hard copies or electronic data in accordance with following requirements:

- I. The credit co-operative should maintain, for at least five years, all necessary records on transactions, both domestic and international. However in case where laws otherwise provide a longer period for record-keeping, the credit co-operative should comply with such laws. The aforementioned necessary records include:
  - (i) The name, or account number or identifier of each party involved in a transaction.
  - (ii) Date of transaction.
  - (iii) Currency and amount of transaction.
  - (iv) The way funds are deposited or withdrew, such as cash, checks, etc.
  - (v) Destination of funds.
  - (vi) Ways to provide instructions or authorities.

- II. For currency transactions above a certain amount, the credit co-operative should keep relevant records on the verification and reporting of such transactions for at least 5 years in the original manner. For ways to record the information obtained through the CDD procedures, the credit co-operative may determine a way to record such information based on its own consideration and the principle of consistency across the entire credit co-operative.
- III. For the reporting of a suspicious ML/TF transactions, the credit co-operative should keep relevant records of reporting for at least 5 years in the original manner.
- IV. The credit co-operative should keep following information after the business relationship is ended, or after the date of occasional transaction for at least 5 years. However in case where laws otherwise provide a longer period for record-keeping, the credit co-operative should comply with such laws:
  - (i) All records obtained through the CDD measures, e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents.
  - (ii) Account files.
  - (iii) Business correspondence, including the information of the background or purpose of complex, unusual large transactions obtained from enquiries, and the result of any analysis undertaken.
- V. The records kept by the credit co-operative should be sufficient to permit reconstruction of individual transactions so as to provide evidence for the determination of criminal activity.
- VI. The credit co-operative should ensure to rapidly provide transaction records, the CDD information, and relevant information, etc. to competent authorities upon appropriate authority.

## Article 14

### Responsible officer:

- I. The credit co-operative should deploy adequate and sufficient AML/CFT officers and resources according to its size and risks, etc. The board of directors should appoint a senior officer to serve as AML/CFT responsible officer, who should be sufficiently authorized to coordinate and supervise AML/CFT affairs, and ensure such officers and responsible officer do not take other responsibility which

conflicts with their AML/CFT responsibilities.

- II. Responsible officer described in last subparagraph are in charge of following affairs:
  - (i) Supervising the planning and implementation of policies and procedures for identifying, assessing and monitoring ML/TF risks.
  - (ii) Coordinating and supervising the implementation of the credit co-operative-wide ML/TF risk identification and assessment.
  - (iii) Monitoring risks related to ML/TF.
  - (iv) Developing AML/CFT programs.
  - (v) Coordinating and supervising the implementation of AML/CFT programs.
  - (vi) Confirming the compliance with relevant AML/CFT regulatory requirements, including relevant Model Guidelines or self-regulatory rules established by associations of financial services industry and approved by FSC.
  - (vii) Supervising the reporting of suspicious ML/TF transactions and properties or property interests and locations of designated individuals or entities sanctioned under Counter-Terrorism Financing Act to the Investigation Bureau, Ministry of Justice.
- III. The responsible officer described in subparagraph I should report to the board of directors and supervisors (board of supervisors) or audit committee at least every half year. If any significant non-compliance is identified, responsible officer should immediate report to the board of directors and supervisors (board of supervisors) or audit committee.

## Article 15

The implementation, audit, and statement of the AML/CFT internal control system:

- I. A credit co-operative should appoint a senior officer to serve as a supervisory officer responsible for supervising the implementation of AML/CFT and the implementation of self-inspection pursuant to relevant requirements of “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” of the business unit.
- II. The internal audit unit of a credit co-operative should audit and provide auditor opinion on following matters:
  - (i) Whether ML/TF risk assessment and AML/CFT programs meet regulatory

requirements and are implemented.

(ii) The effectiveness of AML/CFT programs.

III. Responsibilities of internal audit unit:

(i) Determining the matters subject to audit according to internal control measures and relevant regulations, conducting periodic audit, and testing the effectiveness of AML/CFT programs and risk management quality of operations, departments and branches (or subsidiaries).

(ii) The auditing method should cover independent transaction testing, including selecting transactions related to high-risk products, customers, and geographic areas to verify the credit co-operative has effectively implemented relevant AML/CFT regulatory requirements.

(iii) In case where any deficiency in the implementation of specific management measures is identified, internal audit unit should periodically report to AML/CFT responsible officer for review and provide such information as a reference of employee training.

(iv) In case where internal audit unit identifies any intentional disguise of significant non-compliance but fails to disclose such information, head office competent unit should take appropriate actions.

IV. A credit co-operative's chief executive officer should supervise each unit to the extent that the implementation of AML/CFT internal control system is assessed and reviewed by each unit in a prudent manner. The chairman, chief executive officer, chief auditor, and AML/CFT responsible officer should jointly issue a statement for AML/CFT internal control system and submit to board of directors for approval. Within 3 months after the end of each fiscal year, the credit co-operative should disclose the statement on its website and publish the statement through a website designated by FSC.

## Article 16

### Employee hiring and training:

I. A credit co-operative should establish prudent and appropriate procedures for screening and hiring employees, including reviewing whether a candidate has decent personality and professional knowledge required for the job.

II. A credit co-operative's AML/CFT responsible officer, AML/CFT officers, and business unit supervisory officers should meet one of following requirements

within 3 months after the appointment. The credit co-operative should establish relevant control mechanism to ensure the compliance of such requirements:

- (i) Having at least 3-year experience as a compliance officer or AML/CFT officer.
- (ii) Attending at least 24-hour training classes provided by an institution recognized by FSC and obtaining a certificate of completion after passing an exam. For a person who has been qualified for a compliance officer, however, may be treated as meeting the qualification requirement provided in subparagraph II.(ii) after attending 12-hour AML/CFT training classes.
- (iii) Obtaining a domestic or international AML/CFT professional certificate issued by an institution recognized by FSC.

III. In case where the officers described in last subparagraph were appointed before June 30<sup>th</sup>, 2017, they may be treated as meeting the qualification requirements if one of following requirements are met:

- (i) Meeting the qualification requirements of subparagraph II.(i) or (ii) before June 30<sup>th</sup>, 2017.
- (ii) Meeting the qualification requirements of subparagraph II.(ii) by one of the following deadlines:
  - 1. For the credit co-operative's AML/CFT responsible officer and AML/CFT officers, within 6 months after the appointment.
  - 2. For the credit co-operative's business unit supervisory officers, within 1 year after the appointment.

IV. The credit co-operative's AML/CFT responsible officer, AML/CFT officers, and domestic business unit supervisory officers should attend at least 12-hour AML/CFT trainings each year provided by the credit co-operative or external training institutions agreed by AML/CFT officer described in subparagraph 1 of Article 15. Such trainings should at least cover new updates on regulatory requirements, and ML/TF trends and red flags. Those who obtain domestic or international AML/CFT professional certificates issued by an institution recognized by FSC may be exempt from satisfying the requirements on training hour for the same year.

V. The credit co-operative should arrange AML/CFT trainings each year that have appropriate contents and training hours determined according to the nature of business for its directors, supervisors, chief executive officer, compliance officers,

internal auditors and salesmen, to allow them to understand their AML/CFT duties and have the expertise required for such duties.

If employees meet one of the following descriptions, the credit co-operative should examine the affairs that they are responsible for by sampling and, if necessary, may seek assistance from internal audit unit.

- I. Employees have luxury lifestyle that is inconsistent with their salary.
- II. Employees has scheduled for leave but do not take the leave without a reason.
- III. Employees fail to explain the large amount inflow or outflow in their account.

In case where employees have one of the following contributions to AML/CFT, a credit co-operative should reward them appropriately:

- I. Employees identify suspicious ML/TF transactions and report such transactions in accordance with relevant AML regulatory requirements to the extent that they contribute to the prevention or investigation of criminal activities.
- II. Employees attend domestic or foreign AML/CFT seminars with outstanding performance, or collect foreign regulatory requirements and provide materials that are valuable to the credit co-operative's AML/CFT activities.

A credit co-operative may take following measures to conduct orientations and trainings:

- I. Orientations: a credit co-operative should arrange orientations to include at least certain-hour training classes on AML/CFT regulatory requirements and legal responsibilities of employees of financial services industry to allow new employees to understand relevant regulatory requirements and responsibilities.
- II. Trainings:
  - (i) Initial trainings on regulatory requirements: after Money Laundering Control Act and Counter-Terrorism Financing Act enter into force or get amended, the credit co-operative should conduct trainings on such regulatory requirements for employees within a shortest period to introduce Money Laundering Control Act, Counter-Terrorism Financing Act, and relevant regulatory requirements, and explain the credit co-operative's relevant measures in response to those changes, and having employee training unit implement the trainings.
  - (ii) Regular trainings:

1. Each year employee training unit should periodically conduct relevant trainings for employees to learn, in order to strengthen the judgment of employees, implement AML/CFT functions, and prevent employees from non-compliance. Such trainings may be arranged into other professional trainings to include appropriate relevant classes.
  2. The trainings may be instructed by employees trained by the credit co-operative. In addition, the credit co-operative may invite scholars or experts as instructors if necessary.
  3. To allow employees to sufficiently understand the characteristics and types of ML/TF in order to facilitate the identification of suspicious ML/TF transactions, the trainings should be supplemented by real cases in addition to the introduction of relevant regulatory requirements.
  4. A credit co-operative should periodically understand an employee's attendance in trainings. For an employee who never attends, AML/CFT responsible unit should urge the employee to attend relevant trainings if necessary.
  5. In addition to internal trainings, the credit co-operative may select employees to attend trainings provided by external training institutions.
- III. Lectures for specific topics: in order to enhance employees' understanding of AML/CFT regulatory requirements, the credit co-operative may conduct lecturers for specific topics and invite scholars or experts to visit the credit co-operative as lecturers.

## Article 17

### Others that require attention:

- I. In case where customers meet one of the following descriptions, a credit co-operative's employees should decline their requests in a euphemistic manner and report to direct managers.
  - (i) Insisting not to provide relevant data for identity verification when being told it is necessary according to regulatory requirements.
  - (ii) Any individuals or entities compel or attempt to compel credit

co-operative employees not leave transaction records or complete reporting form.

- (iii) Attempting to persuade employees not to collect data that is required to complete the transaction.
- (iv) Enquiring the possibility of avoiding being reported.
- (v) Eager to explain the source of fund is clean or the transaction is not for money laundering purpose.
- (vi) Insisting transactions must be completed immediately without a reasonable explanation.
- (vii) Descriptions provided by the customers apparently do not match the transactions.
- (viii) Attempting to provide interest to employees to obtain the credit co-operative's services.

II. In case where a credit co-operative also operates other business, relevant Model Guidelines for such business should apply to the department in charge of the business as well. For example, in case where a credit co-operative also operates trust business, the Model Guidelines for bills houses should apply to such trust department.

## Article 18

A credit co-operative should establish its own internal Guidelines Governing Anti-Money Laundering and Countering the Financing of Terrorism ("Internal Guidelines") by reference to the Model Guidelines and implement the Internal Guidelines after obtaining approval from the board of directors. The credit co-operative should report the Internal Guidelines to FSC and perform annual review of the Internal Guidelines. In the case of amending the Internal Guidelines, the requirements of this Article also apply.

## Article 19

The Model Guidelines should be implemented after the approval of the board of directors of the NFCC and FSC. In the case of amending the Model Guidelines, the requirement of this Article also apply.