

National Money Laundering and Terrorist Financing Risk Assessment Report

Anti-Money Laundering Office, Executive Yuan:

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Chapter 1 Introduction

Taiwan officially passed and promulgated the Money Laundering Control Act and established the first Financial Intelligence Unit in Asia Pacific in 1997. It also joined the APG as a founding member of the organization in 1998 and led the anti-money laundering (AML) framework and regulations in Asia Pacific by implementing global standards released by the Financial Action Task Force (FATF). In response to the rise of concerns and the growing regulatory requirements for countering the financing of terrorism (CFT), Taiwan also officially promulgated the Counter-Terrorism Financing Act in 2016 to enhance the international and regional security. In 2016, as the Mega Bank in Taiwan was fined by the New York State Department of Financial Services, Taiwan recognized that further improvements in the AML/CFT operations are urgent. The government of Taiwan introduced an overhaul of the Money Laundering Control Act in 2016 and established the Anti-Money Laundering Office under the Executive Yuan in 2017 to elevate the overall level of policy planning for AML operations. Taiwan's AML/CFT operations are supported by high-level political resolve and people from all walks of life.

The FATF Methodology published in 2012 requires member jurisdictions to adopt a risk-based AML/CFT framework. As a member of the APG, Taiwan shall also comply with the requirements specified in the Methodology. Taiwan has not performed a comprehensive national-level ML/TF risk assessment in the past. Related measures and development of the AML/CFT operations were based on the finding of gaps between regulatory framework and international standards. With the results of national-level risk assessments, the related AML/CFT operations could focus on priority actions in view of the limited resources. In addition, as the new framework aims to include tens of thousands of individuals working in financial and non-financial institutions under the regulation, the risk assessment can make such policies more flexible, particularly for the small and medium enterprises, comprising the backbone of Taiwan's industries. Risk assessment and a risk-based approach can therefore lead to more positive results.

In the BASEL AML Index 2017 Report published by Basel Committee on

Banking Supervision (BCBS) in 2017, Taiwan ranked 136th among 146 countries and regions in the world in regard to ML risks. Taiwan also ranked 106th in the "Global Terrorism Index" report published by the Australian think tank Institute for Economics and Peace. Its terrorist financing risks are extremely low. However, Taiwan's advanced trade, financial service sectors and its geographic location as an important economic and trade hub in Asia Pacific make it inevitable to adopt an international approach and perspective for AML/CFT operations. Its primary goals are to comply with international regulations and develop a high-quality and stable environment for development. Through this national risk assessment, Taiwan will adopt necessary measures to offset risks and propose a National Action Plan to build a foundation for an effective AML/CFT framework and operations.

Chapter 2 Legal Policies and Organisational Framework

Taiwan's AML/CFT regulations are sufficiently comprehensive and encompass a wide range of government agencies whose compliances are required. Taiwan's related AML/CFT policies and organisational framework of competent authorities are described below.

I. Taiwan's AML/CFT Legal Framework

With regard to AML policies, the overall policy structure aims to require various financial institutions and non-financial institutions to implement control measures that focus on strengthening awareness and operations of law enforcement agencies' pursuit of money flows. High-level announcement by government agencies in recent years have been focused on policies for strengthening control on money flow and preventing criminals from profiting from criminal activities. In terms of terrorist financing policies, Taiwan's overall counter-terrorism policies are focused on "strengthening international cooperation" and "keep terrorists outside borders". Taiwan's AML/CFT legal framework is based on two laws including Money Laundering Control Act and Counter-Terrorism Financing Act. The Money Laundering Control Act provides comprehensive regulations on money laundering offences, the Financial Intelligence Unit, and the internal control mechanisms, obligations for prevention of money laundering, border money flow control, and international cooperation for financial institutions and DNFBPs. The Money Laundering Control Act, Counter-Terrorism Financing Act, and important related regulations are summarized below and listed in Attachment 1.

(I) Money Laundering Control Act

The Money Laundering Control Act was enacted in 1996 and it was the first legislation dedicated to preventing money laundering in Asia. It has been amended numerous times and it has been substantially revised in 2016 in response to the new FATF standards published by FATF in 2012 and material penalties imposed on domestic financial institutions by foreign

financial supervisory authorities. The amendment was promulgated by the President on December 28, 2016 and officially implemented on June 28, 2017. The amendment was the most important amendment since the enactment of the law in 1996. The contents were strengthened to adopt a risk-based approach required by new standards and included four key points, including the possibility of prosecution of past ML offences, strengthened money flow control measures, improved internal auditing and internal controls, and strengthened international AML cooperation. The amendment strengthened Taiwan's legislation on money laundering to meet international standards published by the FATF and the elevation of the Act in legal hierarchy strengthened government agencies' implementation of policies and the actual practice in related industries.

(II) Counter-Terrorism Financing Act

The FATF initiated the Fact-Finding Initiative against terrorist financing in 2016 in response to the Paris terrorist attacks to investigate the implementation of CFT legislation by member jurisdiction. Taiwan had only enacted related regulations on terrorist financing offences in the Money Laundering Control Act but had lacked regulations on criminalizing financing terrorist and terrorist organizations and it also did not impose targeted financial sanctions. The Counter-Terrorism Financing Act was promulgated on July 27, 2016 to prevent the deficiencies in laws and regulations from restricting Taiwan's response measures against related international terrorist activities. Taiwan's Counter-Terrorism Financing Act included criminalizing the financing of terrorism activities, terrorists and terrorist organizations and implementing targeted financial sanctions for terrorist financing and proliferation.

II. Taiwan's AML/CFT Competent Authorities

Competent authorities involved in AML/CFT operations in Taiwan include almost all relevant administrative and judicial agencies. Taiwan's AML/CFT legal framework and policies have always been led by the Ministry of Justice which enacted the Money Laundering Control Act and the Counter-Terrorism Financing Act. It also coordinates AML/CFT policies

of related agencies. The Anti-Money Laundering Office under the Executive Yuan was established in March 2017 in response to the material penalties imposed on domestic financial institutions by foreign financial supervisory authorities in 2016 and to improve coordination in AML/CFT policies in Taiwan and supervise the policies and investment of resources by related agencies. The Office is responsible for policies formulation and supervision.

With regard to prevention measures, financial institutions and DNFBPs are supervised and managed collectively by the agencies. Financial institutions are supervised by the Financial Supervisory Commission (FSC), Bureau of Agricultural Finance of the Council of Agriculture under the Executive Yuan, and the Central Bank. DNFBPs are supervised by the Department of Prosecutorial Affairs of the Ministry of Justice, Securities and Futures Bureau of the FSC, Department of Land Administration of the Ministry of the Interior, Department of Commerce of the Ministry of Economic Affairs, Civil Department of the Judicial Yuan, Taxation Administration of the Ministry of Finance, etc.

Law enforcement agencies include all levels of Prosecutors' Offices of the Ministry of Justice, Investigation Bureau of the Ministry of Justice (MJIB), Anti-Money Laundering Division of MJIB as the role of financial intelligence unit, Agency Against Corruption of the Ministry of Justice, Administrative Enforcement Agency of the Ministry of Justice, Criminal Department of the Judicial Yuan and various courts, National Police Agency of the Ministry of the Interior, National Immigration Agency of the Ministry of the Interior, and the Ocean Affairs Council Coast Guard Administration.

Agencies involved in international cooperation include the Department of International and Cross-Strait Legal Affairs of the Ministry of Justice, Ministry of Foreign Affairs, Mainland Affairs Council, and units responsible for international cooperation in various agencies. Related agencies are also involved in terrorist financing affairs. Before the FATF published the new FATF standards, AML/CFT operations in Taiwan were headed by the Ministry of Justice and the Financial Supervisory Commission. However, after the promulgation of the new FATF standards, more agencies in Taiwan became involved in AML/CFT operations due to the increase in the issues of concern and requirements for inter-agency coordination. The adequacy of resources for control measures and policy

implementation in Taiwan, responsibilities related agencies, and their budgets and number of personnel are specified in Attachment 2.

Chapter 3 Risk Assessment Procedures and Methodology

I. Risk Assessment Procedures

Taiwan's AML/CFT policies and framework are based on the FATF's 40 Recommendations. The adjustments in legal framework and implementation of policies had been focused on bridging the gap between policies and international standards rather on a risk-based approach. The first Recommendation of FATF 40 recommendations revised in 2012 specifically require countries to identify and assess risks, adopt enhanced or simplified measures based on the risk assessment results and adopt risk mitigation measures. As a member of APG, Taiwan shall comply with requirements in related recommendations.

Taiwan had never performed national-level ML/TF risk assessments in the past, and was unfamiliar with the risk assessment methodology and procedures. Due to its unique international status, Taiwan was constrained by limited international resources and lack of related technical support from international organizations. The AML policies and activities in Taiwan were led by the Ministry of Justice yet risk assessment required integrated efforts through inter-agency groups and it was challenging at the initial stage. With the support from high-ranking government officials and all sectors, Taiwan established the Anti-Money Laundering Office (AMLO) under the Executive Yuan in 2017 to lead Taiwan's ML/TF risk assessments. It was then on the right track with high level of political commitment, support from various domestic sectors, and assistances provided by foreign consultants.

With the assistance provided by consultants to Taiwan, the AMLO of Executive Yuan held the first workshop in 2017 to discuss the national ML/TF risk assessment process and methodology. Taking into consideration that it was the first time Taiwan to conduct ML/TF risk assessment at national level, the planning of NRA process and the development of a methodology should be adaptable to the country's context and met the practical needs of various entities in this jurisdiction. After the overall process was planned, the AMLO as

the leading agency for NRA subsequently developed a critical working plan and had it approved by the Executive Yuan. The NRA procedures include the following parts: planning overall process; undertaking inherent risk assessments; understanding current control measures and assessing residual risks; developing national action plan to mitigate residual risks. These are detailed in the diagram below.



The purpose of planning overall process is to ensure that the information of risk assessment includes the source, nature, and extent of each risk, and that the results provided to the relevant authorities will be sufficient in assisting in the development of appropriate risk mitigation measures. Principles considered for risk assessment process include: the purpose, scope, assessment process, assessment phases, assessment participants, users of assessment information and other relevant groups, usable information, assessment of final results, publicity methods and strategies, and even mechanism for follow-up risk updates. The aforementioned process aims to identify the "inherent risks" in money laundering and terrorist financing in Taiwan by analyzing "ML and TF threats" and "ML and TF vulnerabilities". In addition, the analyses of the gaps between existing control measures and FATF standards are used to assess residual risks and the results of assessments on "inherent risks" and "residual risks" are used to determine the priority of various risk mitigation measures in the subsequent National Action Plan.

After the risk assessment process was planned, Taiwan organized 4 large-scale national ML/TF risk assessment meetings and dozens of small-scale meetings involving different agencies from June 2017 to March 2018 to identify and assess inherent and residual risks. A total of 37¹ government agencies and

¹ Government agencies included: National Security Bureau, Criminal Division of the Judicial Yuan, Civil Division of the Judicial Yuan, Ministry of Foreign Affairs, Ministry of National Defense, Ministry of Education, Ministry of Justice, Ministry of Economic Affairs, Ministry of Labor, Ministry of Health and

authorities and a total of 31² industry associations and institutions from the private sector participated in the process. The 4 large-scale national risk assessment meetings are as follows:

I. Taiwan organized the first National ML/TF Risk Assessment Procedure Meeting in June 2017 which invited participants from various government and private-sector entities. The meeting had two objectives: one was to help related public and private-sector entities understand the FATF Methodology, assessment process, and national risk assessment methodology, and the other was to identify and assess "money laundering threats". The identification and assessment of "money laundering threats" included qualitative and quantitative approaches. Prior to the meeting, law enforcement agencies provided key information required in the threats profiles based on practical law enforcement experience, STRs and analysis reports disseminated by the FIU, and statistics from related competent authorities. The participants in the meeting assessed and rated all threats by consensus.

II. Taiwan organized the second National ML/TF Risk Assessment Procedure

Welfare, Financial Supervisory Commission, Environmental Protection Agency of the Executive Yuan, Ministry of Culture, Mainland Affairs Council of the Executive Yuan, Coast Guard Administration of the Executive Yuan, Central Bank, National Communications Commission, National Police Agency of the Ministry of the Interior, National Immigration Agency of the Ministry of the Interior, Department of Land Administration of the Ministry of the Interior, Department of Civil Affairs of the Ministry of the Interior, Cooperative & Civil Association Preparatory Office of the Ministry of the Interior, Taxation Administration of the Ministry of Finance, Department of International Fiscal Affairs of the Ministry of Finance, Maritime and Port Bureau of the Ministry of Transportation and Communications, Investigation Bureau of the Ministry of Justice, Administrative Enforcement Agency of the Ministry of Justice, Agency Against Corruption of the Ministry of Justice, Bureau of Foreign Trade of the Ministry of Economic Affairs, Bureau of Agricultural Finance of the Council of Agriculture under the Executive Yuan, Banking Bureau of the FSC, Securities and Futures Bureau of the FSC, Insurance Bureau of the FSC, Financial Examination Bureau of the FSC, Office of Homeland Security and Anti-Money Laundering Office of the Executive Yuan, etc.

² Industry associations and institutions of the private sector included: The Bankers Association of the Republic of China, Chunghwa Post, Agricultural Bank of Taiwan, National Federation of Credit Co-operatives, R.O.C. Bills Finance Association, R.O.C. Life Insurance Association, R.O.C. Non-life Insurance Association, Taiwan Insurance Institute, Insurance Anti-Fraud Institute, Taiwan Securities Association, Securities Investment Trust & Consulting Association of the R.O.C., Taiwan Depository Clearing Corporation, Chinese National Futures Association, Trust Association of R.O.C., Insurance Brokerage Association of Taiwan, Insurance Agency Association of the Republic of China, Land Administration Agent Association of the R.O.C., Chinese Association of Real Estate Brokers, Real Estate Marketing Agency Association of the R.O.C., Taiwan Bar Association, Taiwan CPA Association, Taiwan Stock Exchange Corporation, Taipei Exchange, Taiwan Futures Exchange, Taiwan Academy of Banking and Finance, Jewelry's & Gold Association, Tax-Accountancy Association Union, R.O.C., Certified Public Bookkeepers Association, Accountancy & Tax Agent Association of Taipei, Taipei Leasing Association, R.O.C., foreign currency exchange counters, etc.

Meeting in September 2017 which included various government and private-sector entities. The objective of the meeting was to identify and assess "money laundering and terrorist financing vulnerabilities". The identification and assessment of "money laundering and terrorist financing vulnerabilities" also included qualitative and quantitative approaches. Prior to the meeting, the competent authorities and the public sector jointly worked on vulnerability profiles for various sectors based on information and practical experiences of supervisory authorities, self-regulated bodies, and the private sector, as well as statistics from competent authorities. The participants in the meeting assessed and rated the vulnerabilities of all sectors by consensus.

III. Taiwan organized the third National ML/TF Risk Assessment Procedure Meeting in January 2018. The objective of the meeting was to validate "money laundering threats" and "money laundering and terrorist financing vulnerabilities", to identify "terrorist financing threats", and to analyze "residual risks". With regard to the verification of "money laundering threats" and "money laundering and terrorist financing vulnerabilities", the public and private sectors jointly reviewed and provided overall adjustments to the contents and ratings of money laundering threats and money laundering and terrorist financing vulnerabilities from the first and second meetings. They analyzed the gaps between Taiwan's existing laws/supervision/prevention measures and FATF assessment standards based on the identified inherent risks to assess residual risks. At the same time, TF threats are assessed based on the TF Risk Analysis Profile provided by competent authorities prior to the National Risk Assessment Procedure Meeting. Accounting for the sensitive issue, competent authorities were invited to close-door meetings on September 25, 2017 and December 27, 2017. The experts from various sectors were provided with reference information including international sources such as the Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada issued in 2015, the Regional Risk Assessment Report for Southeast Asia and Australia published in 2016, and "Global Terrorism Index" issued by the Institute for Economics and Peace (IEP) in Australia in 2016 and 2017. The participating experts determined the ratings by consensus.

IV. Taiwan organized the fourth National ML/TF Risk Assessment Procedure

Meeting in March 2018. The objective of the meeting was to review and validate the "terrorist financing threats" discussed in the third meeting and to identify and assess the vulnerabilities of "legal persons", "trusts", and "non-profit organizations". In addition, the participants also sought to develop risk mitigation measures and the National Action Plan for identified residual risks.

Taiwan's risk assessment process features adaptability, sustainability, repeatability, and evolving to improve over time. Characteristics of Taiwan's procedures include: (I) Total and effective review of key risk factors, including threats, vulnerabilities, and consequences, which enables assessment of inherent and residual risks; (II) Inclusiveness, meaning that all government agencies and those of the private sector concerned with AML/CFT are able to participate and share results in the process; (III) Easy to use and understand; (IV) Able to accommodate a nation's current analysis status and limitations due to lack of data and statistics; (V) Transparent and rigorous process; (VI) Facilitates understanding of inherent risks, establishment of risk-based mitigation strategies, establishment of AML/CFT policies, and prioritization of nationwide interdepartmental actions to conform to FATF's standards and expected goals.

After the completion of the ML/TF risk assessments in Taiwan, the risk assessment results were officially verified in March 2018 and announced by the head of the administrative authority, the Premier, to various public and private sectors to facilitate the public sectors to re-evaluate their internal policies, regulations as well as the reasonableness of resources deployments and to help the private sectors integrate the national risk assessment results into industry risk analyses performed by various government agencies and risk assessments of private institutions in order to implement effective AML/CFT operations.

After Taiwan completed the first national-level risk assessments, the AML Office of the Executive Yuan shall continue to update the assessment based on 3-year cycles to meet demands in the latest development in risk assessment and respond to changes in international standards and domestic ML/TF patterns. The next NRA is scheduled for 2021.

II. Risk Assessment Methodology

The risk assessment methodology adopted by Taiwan is focused on the assessment of ML threats and vulnerabilities and an independent assessment of

TF risks due to the unique nature of TF risks. In addition, in the process of assessing ML threats and vulnerabilities, legal persons, trusts that are not classified into specific sectors and non-profit organizations that are commonly used as terrorist financing channels are assessed separately due their unique nature and limited related information.

With regard to ML threats, considering that it is the first risk assessment, the time required for the process, and the possibility of information collection, all 22 predicate offences defined in the FATF's 40 Recommendations glossary are included in the assessment. Addressed in the previous mutual evaluation and the information loop, the issues of underground remittance and professional money launderers in Taiwan become prominent. To understand the threats posed by such issues, the third-party money laundering threat is included as a subject of assessment for "ML risks". Therefore, there are a total of 23 "ML threats" for assessment. The 3 selected rating factors in the process of assessment include "Actors' capacity", "Scope of ML activity" and "Estimated of Proceeds of Crime Annually". Data collection on various criminal activities includes the number of suspicious transaction reports, the number of cases disclosed by the FIU, the number of cases processed by law enforcement agencies, and the estimated proceeds from predicate offences. The identification results are divided into four ratings and the definitions are detailed in Attachment 3.

With regard to ML/TF vulnerabilities, the 5 selected rating factors included "Sector's inherent characteristics", "Nature of products and services provided by the sector", "Nature of business relationship with the clientele", "Geographic reach of sector's activities", and "Nature of delivery channels". Data collection include the number and size of the sector, information on their product and service, geographical locations of clients and service activities etc. The assessment results are divided into four ratings and the definitions are detailed in Attachment 4.

With regard to TF threats, the threat profiles on terrorism (including terrorist financing) adopted by Taiwan included 3 selected rating factors: actors' capacity, scope of terrorists' and terrorism organizations' activities, and estimated TF Proceeds. Authorities also referenced international papers, typology reports, and other (regional or supranational) TF risk assessment reports to analyze the following 7 indicators in detail: (I) "the degree of direct

and indirect exposure of terrorism financiers to terrorist organizations;" (II) "the knowledge, skill, and professionalism of terrorism financiers to engage in terrorist financing;" (III) "the network, resource, and terrorist financing execution capabilities of terrorism financiers;" (IV) "the scope and region of terrorist financing operations;" (V) "the estimated annual terrorist financing amounts from Taiwan;" (VI) "the diversified methods with which terrorism financiers collect and handle funds;" and (VII) "the degree in which the funds collected is used to harm Taiwan or its international interests."

In the chapters on legal persons, trusts, and non-profit organizations, the assessment methodology only offered explanations from the perspective of information transparency. Certain assessments were conducted through simple dichotomy in risk assessment results by assigning higher/at risk and lower/no risk ratings. As current information for legal persons and trusts is not sufficient and comprehensive, the risk exposure remains unclear. Competent authorities and law enforcement agencies have provided with available information, organized side meetings, and sought to identify such risks through verifications by participants in the National Risk Assessment Meetings. With regard to legal persons, risk assessments discussed on different types of legal persons in order to better understand the vulnerabilities of different types of legal persons. With regard to trusts, the competent authorities analyzed the risk and reviewed law enforcement investigation cases regarding the abuse of trust during the assessment. With regard to non-profit organizations, authorities have also adopted the Vulnerability Analysis Profiles for "ML/TF risks" and selected 3 rating factors including the inherent characteristics, geographical scope, and service delivery channels of non-profit organizations. While assessing inherent vulnerabilities of domestic non-profit organizations in different categories, the participants focused on analyzing the scale of related non-profit organizations (including non-profit organizations with more financial resources or non-profit organizations with greater participation in international affairs), the legal status of charities (including regulated or unregulated), types of donors, department structure/composition complexity or relationship with other entities, nature and scope of activities, locations where non-profit organizations operate, those that conduct activities in high-risk jurisdictions, those with donors from high-risk jurisdictions, anonymous donations etc.

Chapter 4 Overview of the Risk Assessment Report

In regard to national perspective, this ML/TF risk assessment report helps our country on reviewing the existing laws and regulations, determining the adequacy of resource deployment and management measures conducted by competent authorities, and recognizing whether appropriate adjustments are needed. The results of national risk assessment also give hands to assessing the reasonable risk factors and equivalent parameters for sectoral risk assessments, conducted by competent authorities or for institutional risk assessments conducted by private sectors. Nevertheless, consistency could be sustained horizontally on policy implementation and resources allocation, through various competent authorities; and different AML/CFT assessments from national level to government agencies and private sector, could be top-down at the same page. The report can also be interpreted as a response to the newly standards published by the FATF in 2012, as FATF emphasizes the importance of a risk-based approach in ML/TF prevention operations with limited resources.

Attention should be paid on the fact that this report reveals the assessment of inherent risks, rather than residual risks. It duly means the focus of this report is on providing the readers with an overview of the risks before implementing mitigation measures, and allow the relevant agencies to implement possible follow-up actions and control measures. Competent authorities may also consider amendments to the laws and regulations in place, or applicable policy adjustments based on the results of the report. As an assessment of inherent risks, offences or sectors/industries rated as high-risk, merely reflect the extent of their exposure to ML/TF risks and no management conclusion can be made such as the existing regulations or management and control measures are ineffective. The residual risks after implementation of mitigation measures, are particularly addressed through National Action Plan, which is summarized in the final chapter of this report.

I. Money Laundering Risks

The money laundering threat identification in this report reveals that Taiwan is severely affected by 8 very high risk ML threats including drugs, fraud, organized crime, corruption, smuggling, securities crimes, third-party money laundering, and

taxation crimes; High-risk threat is intellectual property right crimes. The top 5 destination jurisdictions of the outbound criminal proceeds are comprised of Mainland China, Hong Kong, Macao, Malaysia, as well as the Philippines, Indonesia and Vietnam (the latter 3 jurisdictions are equally ranked as number five). In contrast, the top five inbound source jurisdictions of criminal proceeds are Mainland China, Hong Kong, Macao, Vietnam, the Philippines, and Indonesia (the latter 2 jurisdictions are equally ranked as number five).

The identification of relevant money laundering risk indicates Taiwan is a targeted channel abused for money laundering activities due to its democratic and liberal environment, geographically ties with high-risk and concerned jurisdictions, vibrant financial and economic activities, and also the intensive usage of cash in private consumption. Industries/sectors with very high levels of vulnerabilities include domestic banks and offshore banking unit. Industries/sectors with high levels of vulnerabilities comprise offshore insurance unit, offshore securities unit, branches of foreign banks in Taiwan, Chunghwa Post, securities firms, jewelry businesses, accountants, lawyers, real estate agents, agricultural financial institutions, life insurance companies, securities investment trusts, etc. Among the activities of concerned industries, the top five jurisdictions with the most frequent transactions are Hong Kong, the United States, Japan, Mainland China, and Singapore.

As for cash outflow and inflow of criminal proceeds taking place, accounts opened in paper-company jurisdictions such as the British Virgin Islands, Samoa Islands, and Cayman Islands show up in various criminal activities. These jurisdictions are not within the scope of physical trade or population flows Taiwan engaged.

For legal persons and trusts, which are considered with special attributes in the operations of businesses, they are independently assessed in order to gain an understanding on the risks of being abused. Due to the lack of information transparency in legal persons, the severity of abuses as criminal channels has increased in recent years. Companies limited by shares and limited companies, which are not public companies, are particularly at high risk. With regard to trusts, offshore trusts currently have comparable higher risks.

II. Terrorist Financing Risks

With respect to the identification of TF risks, except for uncommon individual cases within the territory of Taiwan that had been confirmed as immaterial, no

substantial TF threat has been identified so far. Taiwan has a stable population composition with increased foreign immigrants in recent years. However, the population flow was mainly due to work requirements (Taiwan had a total of 676,142 foreign immigrant workers as of December 2017). In Taiwan, harmonies in terms of religion, lifestyle habits, languages are found in diversity and no evidence indicating terrorist activities or terrorist financing are involved. No related activities have been found in the business practices conducted by miscellaneous sectors in Taiwan. The three major vulnerable non-profit organizations include civil associations, religious foundations, and charity foundations, which have been identified at potential high risks due to insufficient information for anonymous donations. The overall TF risk is extremely low.

Taiwan has a prosperous economic environment and is highly dependent on international trade. It occupies an important geographical location in Asia Pacific Region and borders world economic giants and high-risk countries designated by FATF. These aforementioned factors and the occurrence of several recent cases on proliferation of weapons of mass destruction have made the combating proliferation of WMD issue increasingly important. However, since the proliferation issue poses direct threats on global and regional security and FATF does not recommend adopting a risk-based approach for forestalling such threats, proliferation issue shall not be included in the scope of the National Risk Assessment Report. As an important member of the international community, Taiwan has strengthened legal and regulatory frameworks and adopted reasonable measures on economic sanctions in response to FATF recommendations on proliferation. In responding to recent cases, the government has promptly adopted a positive and clear strategy of deterrence and implemented targeted financial sanctions in accordance with the Terrorism Financing Control Act, which aims to effectively curb such cases from reoccurring and established close and positive international cooperation to express the firm position of the government of Taiwan on this issue.

Chapter 5 Risk Assessment Results: Money Laundering Threats

The money laundering threat identification reveals that Taiwan is severely affected by 8 major types of very high-risk ML threats including drug trafficking, fraud, organized crime, corruption and bribery, smuggling, securities crime, third-party money laundering, and tax crimes.

The summary table of identified ML Threats is provided as below:

List of ML/TF Threat profiles' overall ratings			
LOW	MEDIUM	HIGH	VERY HIGH
1. Trafficking in human beings (migrant smuggling)	1. Illicit arms trafficking	1. Counterfeiting and piracy of product, IPR crime	1. Drug trafficking
2. Sexual exploitation	2. Illicit trafficking in stolen and other goods		2. Fraud
3. Counterfeiting currency	3. Theft		3. Smuggling
4. Murder, grievous bodily injury	4. Kidnapping, illegal restrain		4. Tax crimes
5. Robbery	5. Environmental crime		5. Organized Crime
6. Extortion	6. Forgery		6. Securities Crime
7. Piracy			7. Corruption and bribery
8. Terrorism (TF)			8. Third-Party ML

Very High Threat: Drug Trafficking

The most threatening drugs in Taiwan are the ketamine (Category 3), amphetamine (Category 2) and their precursor ingredients, and heroin (Category 1). They are usually smuggled by fishing boats or concealed in freight or air shipping containers from Mainland China or Southeast Asian countries. In some cases, small amounts of illicit drugs are smuggled by drug mules. There has been an increase of marijuana trafficked from overseas via international mail packages or hidden in shipping containers.

Trafficking and distribution of ketamine, amphetamine, and heroin are conducted by organized criminal rings that have international capacity. The actors are for-the-profit groups or sub-groups organized by drug dealers, gangsters in Taiwan and drug rings in Mainland China, gangsters in Hong Kong, Chinese gangs as well as local drug rings in Southeast Asia countries. Their activity networks are mainly based in Mainland China (including Hong Kong and Macao) and Southeast Asia and extended to global operations. Drug trafficking is a lucrative and cash-intensive business. Drug dealers use cash only in Taiwan to avoid detection by LEAs through tracing financial transaction records. Criminal groups utilize parallel, well-structured channels to deliver drugs and money in order to secure cross-border transactions. Due to their detailed division of labor and high alert levels, the drug trafficking groups understand the importance of concealing illicit proceeds and the financial channels as well as the financial control gaps between related countries. They also have access to underground financial channels of those countries and are capable of using cross-border money-laundering networks by using local and foreign financial and non-financial institutions through the partnership between organized criminal groups in related countries. For example, a drug dealer deposits the proceeds in cash and notifies a designated person overseas, who then immediately make multiple transactions to transfer the money to other countries via online banking. They also launder drug proceeds through trading companies or Hong Kong businesses in Taiwan designated by Mainland Chinese drug traffickers, including jewelry, watches, and communication equipment businesses that frequently conduct monetary transactions with companies in Mainland China. They make use of underground remittance channels or trading company to commingle dirty money with legitimate money or perform false transactions with foreign shell companies to wire money overseas. They also

use money mules to carry cash in suitcases and pockets across borders to launder money in foreign casinos. The actors are highly knowledgeable and skilled in money laundering. Marijuana trafficking is mostly conducted by individuals through the Dark Net. Virtual currencies such as Bitcoins have been recently used for drug transaction payments that particularly involved marijuana trafficking. Money laundering with virtual currencies should not be ruled out.

Sectors involved in laundering money by drug trafficking and distribution rings include domestic banks (and their overseas branches) or branches of foreign banks in Taiwan. They also use Internet banking services and virtual currencies as well as jewelry business in Taiwan and Mainland China, Hong Kong trading companies (including their branch companies in Taiwan), and underground remittance operators in Taiwan, Mainland China, and Southeast Asian countries, and casinos in Macao and the Philippines. Drug rings in Taiwan often use cash to purchase high-end cars.

Countries and areas involved in outflows and inflows of criminal proceeds may be different depending on the types of drug, but overall the countries and areas involved in outflows of drug proceeds include Mainland China (and Hong Kong and Macao Special Administrative Regions), Canada, and the United States. The main source countries and areas of criminal proceeds include Malaysia, Australia, Japan, and Indonesia. The scope and complexity of money laundering involved in drug trafficking is very high. The estimated proceeds of crime, based on the wholesale market price of drugs seized and the money confiscated by law enforcement authorities annually are approximately NT\$18 billion each year.

Very High Threat: Fraud

Fraud crimes in Taiwan can be generally classified into (1) general fraud (e.g. business fraud, insurance fraud, and scammers); (2) Internet and telecommunications fraud; and (3) Ponzi schemes (illegal fundraising which is a violation of the Banking Act in Taiwan). The criminal activities with the highest threat levels are Internet and telecommunications fraud and Ponzi schemes because they generally involve organized crime and substantial amounts of criminal proceeds while victims of Ponzi schemes suffer up to NTD tens of billions in losses.

Internet and telecommunications fraud are organized crimes. They leverage Internet telephone and various information/communication technologies to set up domestic or offshore server stations for conducting telecommunications fraud. They keep their criminal approaches up-to-date by taking advantage of security loopholes generated from big developments in information and communication confluence technologies as well as financial liberalization. They utilize a wide variety of means to trick their victims into wiring money to designated dummy accounts, and order money mules to withdraw the money to circumvent police crackdown. For instance, fraud rings' operations against people in Taiwan generate substantial amounts of illegal proceeds. As the amount of money swindled from victims is usually substantial, fraud rings wire the money first to a transfer/laundry center, which, in turn, wires the money layer by layer to lower the risk of being discovered. A large sum of money is thus split into several portions, which are then wired to multiple dummy bank accounts. The money is then wired to more dummy bank accounts on the next layer for to disperse risks. The leader of the fraud ring would then order money mules at various locations to withdraw the proceeds from ATMs and hand the money over to the leader of the fraud ring. In cases of foreign fraud rings victimizing citizens of Taiwan or domestic fraud rings victimizing foreign nationals, proceeds are laundered through the aforementioned methods before being wired overseas via dummy accounts in banks or underground remittance services to the leader of the fraud ring overseas.

Ponzi schemes, also known as illegal fundraising, are also organized crimes. Criminal rings often collect cash when they accept funding and create breakpoints in traces of the funds. They also use bank accounts to perform continuous fixed-sum money transfers or use small cash deposits to launder money or use underground remittance services to wire proceeds out of the country.

The two types of fraud rings mentioned plan in advance and they launder money by rounding off funds with professional and organized division of labor. Businesses involved in the transactions include the service sector, telecommunications, information services, and the financial sector. They are highly complex and the criminal activities involve multiple countries. They often use dummy accounts to withdraw cash or perform separate money transfers to

create multiple breakpoints in traces of the funds to evade investigations. They are highly knowledgeable and skilled in money laundering crimes.

Fraud rings often use underground remittance, jewelry store operators, or travel agencies to transfer proceeds overseas. They also set up shell companies or use foreign third parties to perform false transactions and wire money through OBU accounts. Ponzi scheme operators may seek the aid of professionals such as attorneys, accountants, and bookkeepers to assist in laundering money or they may purchase real estate or jewelry to launder money. In recent years, there have also been cases of fraud involving false prostitution or false investment in Bitcoins. The criminals request victims to provide accounts and passwords and transfer funds in Bitcoins to the criminal ring's electronic wallets to launder the money overseas.

The estimation of proceeds is based on the total loss of assets of victims in various types of frauds (including general fraud, Internet and telecommunications fraud, and Ponzi schemes). An estimated NT\$35 billion in proceeds each year is channeled to Mainland China, Hong Kong, Macao, Indonesia, and Malaysia. The proceeds flowed into countries including Mainland China, Hong Kong, and Macao.

Very High Threat: Organized Crime

The definition of "organized crime" in Taiwan refers to specific illegal actions perpetrated by "criminal organizations" defined in the Organized Crime Prevention Act. The definitions of organized crime in Article 2, Paragraph 1 of the Act is based on the definitions of "organized criminal group" specified in Article 2 of the United Nations Convention against Transnational Organized Crime and the permanent or profit-seeking element has been added. In addition, in response to the issue of transnational criminal activities, gang crime in relation to drug trafficking, human trafficking and telecommunication fraud have been included and constitutes organized crime. The organized criminal organizations in Taiwan consist mainly of "Heaven Alliance", "Bamboo Union", and "Four Seas Gang". Criminal organizations often conceal illegal activities behind legitimate fronts or use violence to gain profits such as:

1. Operating special businesses such as dance parlors and wine houses, video game stores, Internet cafes, gravel sites, waste soil sites, cable TV companies, investment companies, security companies, pawnshops, participation in

elections for local representatives, and establishment of non-profit organizations etc.

2. Settling affairs through violence, using violence to control tenders for public construction projects, interfere in urban renewal, interfere in elections, taking up territories for extortion from businesses, operating underground banks, using violence to claim debts, operating underground casinos, organizing lotteries, smuggling of drugs and firearms, telecommunications and Internet fraud, human trafficking etc.

Organized crimes involve criminal groups and their criminal activities can be observed in all sectors. Criminal groups use multiple domestic and foreign industries and group resources such as underground banks, casinos, and business operations for funding and fund transfers to ensure their access to funds or use cash transactions to prevent investigations on the money flow by law enforcement agencies. Transnational groups separate human, cargo, and money flow to ensure transaction safety and evade investigation. Some groups have also been discovered contacts with foreign criminal organizations such as designated violent criminal organizations in Japan. They are highly knowledgeable and skilled in money laundering.

Taiwan has focused less on investigating money flow in past investigations on organized crime. According to the information we have, the possible money-laundering channels include underground remittance operators, jewelry store operators, offshore casinos, or wire remittances through shell companies or dummy accounts, or using people to bring cash across borders.

As organized crimes are characterized by their inclusion of other criminal activities, estimates of proceeds based on cases involving drugs, fraud, violence etc. amount to approximately over tens of billions of NTD each year.

Very High Threat: Corruption and Bribery

In Taiwan, one needs to pass national examinations to be eligible to serve as an entry-level government employee. Senior government officials almost possess a good educational background as well as abundant work experience. Therefore, government employees committing corruption tend to be intellectual criminals; not only are they familiar with the regulations, they can also identify system loopholes. As a result, they have a good command of

money-laundering know-how. In most cases, perpetrators of corruption such as heads of towns and townships or representatives who embezzle small amounts of supplementary construction fees or assistant subsidies demand that bribers make payments in cash to conceal the trace of financial flow, then store the cash or foreign currencies in safety deposit boxes at banks or purchase traveler's checks for consumption overseas. They also use bank accounts of relatives or confidants or use dummy accounts. Perpetrators are also aware of inspections on large currency withdrawals and withdraw cash separately. Perpetrators who are judges or prosecutors often use attorneys as intermediaries.

Some corruption cases involve groups of criminals that including, law enforcement agents, borderlines protection law enforcement, river patrol agents, or mortuary services those were mostly involve in small amounts of cash bribes. With the exception of high-level officials who are capable of laundering money across borders, most corruption criminals adopt more traditional methods of money laundering including purchasing gold bars and single-payment life insurance policies. Their knowledge of money laundering may come from wealth management consultants. They are highly knowledgeable and skilled in money laundering crimes.

Corruption crimes mostly involve direct cash payment and possible channels including the purchase of precious metals (e.g. gold bars), cash payment for insurance premiums for purchasing single-premium life insurance policies or savings insurance policies, purchase of expensive cars, real estate, stocks, or funds. They also use underground remittance channels to wire money overseas to purchases real estate or request bribers to wire money to relatives or confidants' offshore accounts. It is evident that the banking, securities, jewelry businesses, and real estate brokerages in Taiwan may all be involved in money laundering activities related to corruption offences.

Estimation of the proceeds from corruption in Taiwan is based on the proceeds involved in the prosecutions of corruption cases investigated by local Prosecutors Offices that are compiled by the Ministry of Justice. The proceeds amounted NT\$430 million dollars in 2015, NT\$240 million dollars in 2016, NT\$520 million dollars in 2017. The average amount in the past three years is approximately NT\$ 400 million each year.

Very High Threat: Smuggling

The smuggled products in recent periods include tobacco, alcohol, and high-profit controlled agricultural products such as dried mushrooms. Tobacco products, which account for the largest share with approximately half of smuggled products, are followed by agricultural products and alcohol. Smuggled tobacco products originate mostly from the Philippines and smuggled through fishing boats. The entrepot smuggling may include shipping from Malaysia and Dubai, and transferring to Japan or the Asia Pacific region through Taiwan. Dried mushrooms and other high-profit controlled agricultural products, nevertheless, are mainly smuggled via fishing boats and containers. Most smuggling behaviors conducted with shipping containers might involve organized groups. The smuggling methods are as follows:

1. Transportation by fishing boat: Main actors include individuals and groups who conceal smuggled items on or in the decks, masts, fuel tanks, and hidden compartments of fishing boats or mixed in fishery goods to evade inspections; alternatively, they also transport the products on fishing boats and dump them offshore before picking up by speedboats, fishing rafts, or barges to evade investigations.
2. Concealed or swapped in containers: The main actors are mainly groups who take advantage of random inspections on container customs clearance procedures in place to conceal smuggled goods in regular imports and bypass customs inspection or conceal smuggled goods in hidden parts of containers to evade inspections and pass customs inspections.
3. Use of entrepot containers: The main actors are mainly groups who use entrepot containers to allow goods to enter the borders and swap the goods at the container terminals or swap containers during the transferring process.
4. Use of false declaration forms or forged seals: These include the use of documents or seals for other regular cargo as declaration forms for containers with smuggled goods to pass customs.
5. Transportation through passenger (luggage) or express delivery packages: The main actors include individuals and groups who use the Mini Three Links to divide and move goods. Individuals deliver smuggled goods to Kinmen, accumulate to a certain amount, and then transport via

passengers, express delivery, mail, or concealed in cargo containers to Taiwan Island for profits. Such instances are less common.

The profits from smuggling are based on the high price gap between low cost of foreign-source procurement and the controlled domestic prices. Criminals seek to evade mandatory levies that are required for imports through normal channels, including tariff, VAT (Value-Added Business Taxes), tobacco and alcohol tax, profit-seeking enterprise income tax, and Health and Welfare Surcharge of Tobacco Products. The profits are several times the cost of the products and are extremely high. Smugglers involve organized criminal organizations are all capable of creating distribution networks and payment channels for subsequent wholesale and retail deals. They may also cooperate with domestic gangs or cross-border organizations.

Smuggling distribution exploits betel nut kiosks, construction site's convenience stores, or mom and pop shops to collect cash. As the payments are highly cash-intensive, money-laundering channels include the financial institutions in Southeast Asia and operators of underground remittances, jewelry businesses, and illegal casinos. Therefore, industries that may be involved include banking industry, underground financial services, jewelry businesses, and illegal casino operators.

Based on the quantity of smuggled cigarettes seized at customs and smuggled cigarettes detected in the market in 2016, the proceeds are estimated, based on market prices, around NTD 1 billion.

Very High Threat: Securities Crimes

Securities crimes specified in this section refer to violations of related provisions in the Securities and Exchange Act and punishable by Article 171 of the Securities and Exchange Act. The scope include insider trading³, market manipulation⁴, securities fraud⁵ and asset embezzlement⁶.

³The main offenders in insider trading are mainly individuals in companies that are aware of major positive or negative information within the company, lawyers, accountants, and financial advisory companies that are informed based on professional relations, and those who learned of the news from the above individuals. The criminal methods main involve individuals who are aware of material information and use the accounts of relatives, friends, or employees for transactions of the stocks of the subject companies within the period in which transaction are prohibited (after the information is precise, before the announcement is made or within 18 hours after the message is released). After the information becomes public, they would obtain illicit profits or avoid losses.

⁴The main criminal actors in the manipulation of stock prices are persons with significant financial powers. However, they mostly borrow money from investors to increase operating leverage. Stock

Insider trading and manipulation of stock prices are often based on the transaction of stocks. Suspects usually use the securities accounts of relatives, friends or employees instead of their own accounts for criminal activities. They also obtain funding from investors. To evade investigations, they usually use cash to move funds and deliberately evade regulations on large currency transaction reports. There are almost no cross-border ML activities involved in these two types of offences because related securities and depository accounts are all within domestic area. The securities transactions are also completed within Taiwan and there are few instances of laundering money overseas after obtaining illegal proceeds. The ML channels of these two types of cases involve the securities industry and the banking industry. Most suspects use anonymous securities and bank accounts for ML.

The actors in securities fraud are mostly white-collar criminals who form criminal organizations and adopt professional division of labor. They mostly have knowledge of laws and market experience and they would also solicit help from professionals such as accountants, bookkeepers and bookkeeping and tax-return filing agents. They are familiar with all kinds of ML methods and are able to perform complex cross-border money laundering. Approximately 30% of ML activities involve cross-border transactions. ML channels included the securities industry, bookkeepers, accountants, underground remittance services and methods included the use of anonymous securities and bank accounts as well as offshore paper companies and shell companies.

Asset embezzlement cases are generally conducted through transaction

price manipulators use methods such as continuous buying during gains and selling during losses, or even spread false information to generate imbalance in the supply and demand of the stocks of the subject company. This leads to upheavals in stock prices and the manipulators would seek to profit from the high price gaps.

⁵The main criminal actors in securities fraud cases are directors, general managers, finance supervisors, and other senior executives of companies who conspire with external investors, intermediaries, and professionals who are familiar with company registration and stock issuance. They use false capital increase and capital verification to facilitate the issuance of stocks in order to produce a false sense of outstanding business performance and high profitability. They sell stocks with no actual value at high prices to defraud investors. In addition, certain persons in charge or financial supervisors of companies seek to improve the appearances of financial statements and use false transactions to increase revenue or conceal bad debts and other false financial conditions to issue fraudulent securities and raise funds.

⁶The main criminal actors in asset embezzlement cases are directors, general managers, finance supervisors, and executives of companies. Common methods include embezzlement of company funds or the use of transaction conditions that are false or significantly worse than general transaction conditions to facilitate transactions with related parties (companies) of the executives for the purpose of embezzlement company assets.

conditions that are false or significantly worse than general transaction conditions to move company assets to related parties (companies), thereby imputing the company's losses or costs to general investors. Among aforementioned offences, even though they are all conducted through financial accounts, criminal suspects often use cash withdrawals to create breakpoints after the assets are removed and then use it to purchase high-value precious metal or real estate. Alternatively, they instruct providers of illegal kickbacks to wire illegal kickbacks from offshore bank accounts to the recipients' offshore bank accounts. Asset Embezzlement cases mostly involve the embezzlement of domestic (cash) assets of victimized companies or the use of transaction conditions that are significantly worse than general transaction conditions to generate proceeds for other domestic companies or individuals. They may move proceeds overseas but the main ML activities are performed in domestic area. The ML channel is the banking industry and methods include: Cash payment/acceptance, remittances from domestic area to offshore anonymous accounts and signing false contracts.

In addition to the aforementioned ML methods, perpetrators of such cases may also use personnel to carry NTD, foreign currencies, other securities, or precious metals (including jewelry) out of the country or use other methods for money laundering.

Based on the average of the proceeds recovered in the past 4 years (2014-2017), proceeds from insider trading and market manipulation are estimated at NT\$1.75 billion. Based on the average of the proceeds recovered in the past 4 years, proceeds from securities fraud are estimated at NT\$5.18 billion; the outflow/inflow countries and ratio for criminal proceeds are Mainland China and Hong Kong and Macao. Based on the average of the proceeds recovered in the past 4 years, proceeds from asset embezzlement are estimated at NT\$9.69 billion; the outflow/inflow countries and ratio for criminal proceeds are Hong Kong, Mainland China, Singapore and Switzerland.

Very High Threat: Third-Party Money Laundering

Third-party money launderers may not be involved in predicate offences that are listed in the FATF glossary. In Taiwan, the Banking Act stipulates criminal penalties for underground remittances and the Money Laundering Control Act also stipulates criminal penalties for third-party money laundering. In addition,

the threat of third-party money laundering in Taiwan has been identified as high and it is assessed independently. The third-party money launderer may not necessarily participate in predicate offences but they are involved in the transfer, alteration, cover up, concealment and acceptance of others' illicit proceeds. The main actors may include underground remittance groups, professionals and individuals.

With regard to underground remittances, Article 29 of the Banking Act specifies that no organization other than a bank can operate banking or correspondent banking services. However, the financial controls between Mainland China and Taiwan and the increase in foreign laborers have popularized underground remittance services that involve transnational groups and domestic operators. Transnational groups in particular have considerable levels of knowledge and capacity for money laundering. They have established operations in related countries or have long-term collaboration partners and supporting networks for currencies settlements periodically. Domestic underground remittance services are run by jewelry businesses, resource recycling operators, travel agencies, spouses from Mainland China and foreign spouses. Underground remittance groups make use of sectors and highly elaborate channels including trade businesses between Taiwan, Hong Kong, Mainland China and Southeast Asian countries such as operators in the textile industry, textile merchants, travel agencies, foreign labor intermediaries and other legal companies or businesses as fronts for illegal remittance services. Operators collect cash from customers or criminal organizations or use bank accounts of companies or individuals (or dummy accounts) to collect funds. They then notify the corresponding offshore office to wire funds directly into bank accounts designated by the recipient or pay cash in equivalent foreign currencies. They also use individuals who conceal cash (including NTD and foreign currencies) in suitcases that are brought overseas. Foreign labor intermediaries collect funds for remittance to OBU accounts of foreign companies and transfer funds in lump-sums to Southeast Asian countries. Foreign labor stores use the names of multiple false foreign laborers (e.g. those that have returned to the country or escaped) to transfer cash to offshore bank accounts. Travel agencies also assist fraud rings in wiring funds to from foreign travel agencies to domestic travel agencies in return for profits in exchange rates or commissions. However, such transactions are often comingled with legal revenue in related bank

accounts and it is difficult to identify illegal proceeds.

Professionals such as accountants, attorneys and land administration agent have high levels of professional knowledge and capabilities and they understand financial, taxation, real estate business practices and related laws. They create complex company structures, arrange operations, use false financial certificates or trusts, or serve as intermediaries to help criminals conceal or transfer proceeds. Land administration agents have been found to assist the criminals to purchase real estates with criminal proceeds.

Individuals' assistance in money laundering may involve actors that do not have professional knowledge or capabilities. They consist mostly of the provision of bank accounts for relatives and friends, or provide criminals with their bank accounts due to financial difficulties for purchasing real estate or jewelry or taking custody of proceeds. They include money mules who help fraud rings withdraw funds and intermediaries.

Channels used by third-party money launderers include domestic and foreign banks, OBUs, accountants, attorneys, jewelry store businesses and real estate. They also exploit domestic and foreign companies (including those in tax havens) including travel agencies and resource recycling operators. The methods employed include cash and Mainland China Union Pay cards, etc.

Regions involved in outflows and inflows of criminal proceeds include: China, Hong Kong, Macao, Southeast Asian (e.g. Singapore and Indonesia) and the United States. The targets of outflow and inflow include companies established in tax havens such as Virgin Islands, Samoa Islands and Cayman Islands. The scope of global money laundering activities is broad and the complexity is very high. Based on the average of the proceeds recovered of underground remittance services in the past 3 years, the proceeds amount to approximately NT\$15 billion each year.

Very High Threat: Tax Crime

Taxation offences include the issuance or acquisition of false uniform invoices to assist the entity itself or others to evade business tax, profit-seeking enterprise income tax, and individual income tax. The methods of tax evasion are as follows:

1. Issuing (Obtaining) invoices, receipts, or funds to (from) others. Actors sell false uniform invoices or receipts. Businesses acquire false unified invoices

to be filed as costs and expenditures. Individuals forge or obtain false donation receipts for donation expenses. Businesses fabricate false transactions to manipulate funds transfer. Businesses create false transactions with related enterprises (individuals) or via unreasonable transfer pricing funding to other countries.

2. Sheer tax evasion for their own interests: Including businesses that avoid issuing required uniform invoices, in full or partial amount, to conceal revenue, individuals omitting business revenue reports, and businesses dispersing revenue.
3. Fraudulent collection of VAT (Value-Added-Business Tax) rebate: Business operators use the export-oriented rebate system, which is vulnerable to be used for low-priced goods or scrapped goods (newspaper) to be falsely reported as high-priced products.

After the main actors evade taxes, they make deposits or purchases of assets via others' accounts or names. Individuals establish or purchase shell companies to conduct false transactions and use multiple transfer of funding to quickly distance themselves from funding sources and evade money-laundering investigations. Individuals use overseas holding companies, OBU accounts, and flaws in current taxation systems to conduct false transactions. Individuals abuse professionals such as accountants to improve the accountability of financial statements or coordinate the aforementioned methods to fabricate complicated transactions for the purposes of increasing the credibility of transactions and complexity of funding, and evade investigations. Common actors are organized criminal rings or professionals who may involve in high-value taxation criminal activities.

Complicated tax evasion often accompanies global ML activities and thus becomes easier to evade investigations. International taxation criminal cases usually do not involve the physical movement of money than account arrangements. Most occur in tax havens and money is often funneled to Hong Kong. Financial institutions, accountants, bookkeepers, bookkeeping and tax return filing agents, OBU, underground financial operators, land administration agents, real estate broking, and non-profit organizations may be involved and the structure can be highly complex.

Based on the information from 2014 to 2016, proceeds from tax evasion amounted to approximately NT\$75 billion and approximately NT\$5.7 billion

taxes evaded in estimation.

High Threat: Intellectual Property Crime

Intellectual property crimes mainly involve counterfeiting of registered trademarks, pirated audio-visual contents, counterfeit medicines, production of small brand cigarettes and alcohol, and trade secrets. They are described as follows:

1. In offences involving the counterfeiting of registered trademarks and pirated audio-visual contents, actors do not need to have high-level Internet techniques. Besides, the existing social networking software, such as LINE and Facebook has High levels of protection for personal information. Because it exists limited way to obtain the foreign IP address and the suspects may use VPNs to pretend their IP address as foreign IP address to conduct their crimes. Therefore the illicit proceeds are not easily to be captured due to the operation outside of the country. Cases involving counterfeiting of registered trademarks are mostly organized crimes that require the support and cooperation of upstream, midstream, and downstream operators. The suspects conduct large-scale criminal activities perpetrating mainly through cross-strait or third jurisdiction trade or the countries that pay less concern to intellectual property rights. Through the aforementioned countries or jurisdictions for manufacturing, production, packaging, shipping other counterfeit goods to run their business and then by making trade or building the Internet shopping website as using the legal channel to cover illegal one to import counterfeit products and the proceeds are often collected by oblivious third parties or in offshore payments. A few may be hiding money inside the country or underground, such as money laundering so the threat of money laundering is high. Counterfeiting and piracy have made a substantial transition to Internet platforms such as Facebook. Pirated audio-visual contents are uploaded to platforms on the Internet and most involved individual small-scale operators whose proceeds are only sufficient for their own use. As proceeds mainly come from advertising fees provided by sponsoring advertisers, the industries involved are mostly located overseas and only a small number of them perform transactions in domestic banks.
2. Crimes involving counterfeited medicines and small brand cigarettes and

alcohol mostly occur inside the country. Actors may possess a certain level of ML knowledge and conduct money laundering by inter-bank remittance via dummy accounts, trading in gold, silver, and jewelry, or purchasing real estate and etc. As offences such as dealing in counterfeited medicines and small brand cigarettes and alcohol are large-scale crimes, industries more likely to be implicated include banks, jewelers, and real estate dealers.

3. Crimes involving trade secrets are mainly perpetrated through obtaining internal business and R&D secrets of companies through illegal means for sale to others to obtain illicit profits. Actors have certain levels of expertise or management capabilities in the field and they may obtain assistance from professionals for concealing proceeds and money laundering. Theft of trade secrets may involve individual or group crimes and most involve transnational or inter-regional activities that may lead to transnational issues. The proceeds are directly wired to designated offshore accounts or third-party accounts to be laundered and wired back to Taiwan.

Based on actual financial losses and the retail price of counterfeit products, proceeds from 2014 to 2016 amounted to NT\$2.1 billion.

Medium Threat: Illicit Arms Trafficking

Taiwan is a country with strict gun controls. Most people cannot legally own guns and domestic criminals mostly use rudimentary methods for production or conversion of toy guns into lethal firearms. If criminals wish to obtain standard-issue firearms with superior firepower and better quality, they must obtain them from foreign sources. Taiwan is surrounded by sea, and channels for smuggling guns consist mostly of concealment in containers, fishing boats, or human bodies. Smuggling through fishing boats generally involves imports from Southeast Asian countries or the United States. Products enter Taiwan along the coast. Most originate from the Philippines. It is easy to obtain all kinds of standard-issue and converted firearms in the Philippines because guns are produced in household workshops. The prices are low and very competitive on the market. Gun smugglers face high risks in Taiwan. To reduce the number of smuggling runs, each smuggling case involves a very large quantity of guns which cannot be operated by regular criminals. Therefore, smuggling is mostly conducted by gangsters or local mafia bosses.

Illegal proceeds from gun smuggling may enter businesses run by gangsters or local mafia bosses such as nightclubs, video game stores, construction companies, resource recycling operators, and pawnshops to launder illegal proceeds. They also use underground banking, trading companies, and casinos in Macao and the Philippines to launder money.

Countries involved in the inflow or outflow of criminal proceeds include the Philippines, United States, and Taiwan. Criminal proceeds are calculated based on the number of standard-issue firearms uncovered by law enforcement authorities (all standard-issue firearms are imported through smuggling) and they amount to approximately NT\$20 million each year.

Medium Threat: Illicit trafficking in stolen and other goods

Common stolen property in Taiwan includes mobile phones, cars, motorcycles, jewelry, and gold accessories because such products are valuable and can be easily transferred. Criminals have different levels of intelligence for money laundering based on the different methods they adopt for committing crimes. For instance, car ownership may be identified based on the license plate number or engine number, and criminals adopt measures such as wiping the engine number, using license plates of other vehicles of the same make, or disassembling the car to sell parts. Such criminals' intelligence of money laundering consists mainly of industrial know-how. If they intend to sell stolen goods overseas, they may require basic knowledge in international trade and international finance because it involves exports.

If the aforementioned stolen goods are sold on the domestic market in their original forms, the criminals involved are likely to be individuals or single business entities. If stolen cars are disassembled and sold as parts, if license plates of other cars of the same make are used, or if the stolen goods are sold abroad, they are usually conducted by criminal organizations due to the complicated procedures in criminal activities.

The industries that are commonly involved in processing stolen goods in Taiwan include telecommunications outlets that sell second-hand mobile phones, second-hand car dealers, underground car repair shops, jewelry stores, and pawnshops. If stolen goods are shipped to foreign countries, banks, container shippers, and customs brokers may also be involved in money laundering activities.

If criminals decide to sell stolen goods overseas, they often choose Mainland China and countries of Southeast Asia as their markets. The estimated criminal proceeds from 2014 to 2016 amounted to more than NT\$920,000 in average.

Medium Threat: Theft

Thefts accounted for 57.09% of all criminal offenses in 2006 and the proportion declined to 20.49% by 2016. Criminal actors include individuals and criminal organizations, and proceeds from thefts originate from a wide range of properties. Theft of cars and motorcycles accounted for approximately 35.2% of all thefts. Due to diverse channels for sales of stolen goods, criminals are able to sell entire cars or dismantle parts for sales very quickly.

Among the criminal suspects, more than 90% had only received high school education or below while only 5.87% had college degrees or above. With regard to professions, approximately 66% were unemployed, students, non-technical workers, or manual laborers. Professionals, corporate executives, management personnel, administrators, and legislators accounted for less than 1.4%. Therefore, most theft offenders have limited money-laundering knowledge and skills. Cash proceeds can be deposited into banks or processed through underground banking channels or direct consumption. Other non-cash property can be processed through the second-hand car market, pawnshops, jewelry stores, resource recycling operators, second-hand machinery dealers, or the flea market. However, criminal organizations that specialize in theft (particularly international car theft rings) may use dummy accounts, front companies, underground banking, and other more complicated methods for money laundering.

The countries/regions involved in the inflow and outflow of criminal proceeds from illegal proceeds include Mainland China, Hong Kong, Macao, and Southeast Asian countries. These countries have close and extensive relationships with Taiwan in trade, investment, immigration, and tourism.

Based on the information from 2015 to 2016, proceeds from theft amounted to approximately NT\$8.22 million each year. The total value of recovered property was NT\$5.16 million. The recovery rate was 62.8%.

Medium Threat: Kidnapping, illegal restrain

Abduction in Taiwan constitutes an offence of kidnapping for ransom under Article 347 of the Criminal Code and is a major criminal offence. Offences against freedom refer to various offences specified in Articles 296 to 308 of the Criminal Code. They include enslaving of others (Article 296), human trafficking (Article 296-1), fraudulently causing another to leave the territory of Taiwan (Article 297), forcible abduction of a female person for marriage, obscene acts, or sexual intercourse (Article 298), forcible transportation of a forcibly abducted person beyond the territory of Taiwan (Article 299), acceptance, concealment or cause of concealment of a forcibly abducted person for purpose of obscene acts or sexual intercourse (Article 300), deprivation of freedom of movement (Article 302), deprivation of freedom of movement of lineal blood ascendant (Article 303), extortion (Article 304), threat against security (Article 305), breaking and entering into a residence (Article 306), and illegal searches (Article 307).

The number of kidnapping for ransom cases in Taiwan in the most recent three years has been extremely low with 7 cases in 2015, 4 cases in 2016, and 3 cases in 2017. All cases have been busted. The purpose of kidnapping for ransom is mainly to obtain property or compensation. Some offences were committed without prior planning or due to criminal intentions born out of greed for the wealth of victims. The motives for such crimes mostly originate from economic pressure. Other reasons include debt disputes and crimes between different criminal organisations derived from conflicts of interests. In addition to financial factors, kidnapping for ransom also involves more diverse factors such as revenge and demonstration of power. The offence of kidnapping for ransom involves multiple offences and is time-consuming and costly. It involves direct contact with victims and the use of force to achieve desired goals. It also includes the selection of targets and vehicles, onsite observation, execution of the kidnapping, contacting family members, guarding the hostage, and obtaining funds. It therefore requires a certain degree of organised division of labour to achieve the desired goals (e.g. domestic debt collection companies). Therefore, the main actors are more organised than other violent criminals. The geographic scope involved in the offence of kidnapping for ransom is generally larger than other violent crimes but they mostly occur within the territory of Taiwan. The ransom requested by individual criminals or criminal organisations are mostly paid in cash (cash drop-offs). However, suspects may use Taiwan's

special international political conditions and weaknesses in international mutual legal assistance to request fund transfers to Hong Kong, China, or the United States. To evade investigations, criminals use technology to conceal their identities and conceal hostages by employing methods such as using unknown individuals to conduct negotiations, use of various high-tech products, and request for fund transfers to domestic (foreign) dummy accounts. Certain members of the organisation may accept cash delivered by family members of victims in foreign countries and operate across borders to increase the difficulties of investigations.

The number of offences against freedom in Taiwan in the past three years included 6,361 cases in 2015, 7,136 cases in 2016, and 7,391 cases in 2017. The motives for offences against freedom are mostly relationship quarrels and debt disputes. The main actors in offences against freedom due to relationship quarrels are mostly individuals who carry out the actions by themselves. The main actors in such offences for debt disputes often involve multiple individuals and organised criminal activities. Cases of offences against freedom mostly occur within Taiwan and the suspects and victims are mainly citizens. Citizens of other countries are rarely involved.

The inflow and outflow of criminal proceeds from kidnapping for ransom and offences against freedom in Taiwan occur within the borders. The money laundering activities derived from such predicate offences can nevertheless be expanded to foreign countries where the risks and complexity are higher. Banks (domestic banks and domestic and foreign banks capable of conducting international remittances) are the industries most susceptible to abuse. The ransom amounts are between tens of millions or hundreds of thousands of NTD. Kidnapping for ransom and offences against freedom are likely to be busted. The criminals are desperate in their criminal actions and they are demanding increasingly higher amounts of ransom that exceed the victims' financial capacity.

Medium Threat: Environmental crime

The "environmental crimes" in Taiwan include disposal of hazardous waste (Waste Disposal Act), air pollution, water pollution, illegal logging (Forestry Act), and illegal trading in endangered species of wild fauna and flora (CITES) (Wildlife Conservation Act). Violations of the Waste Disposal Act accounted for the

majority of offenses and they are followed by violations of the Forestry Act. There are fewer violations of the Water Pollution Control Act, Air Pollution Control Act, and Wildlife Conservation Act.

Generally speaking, operators that dispose of hazardous waste illegally and contaminate the soil and water may be individuals or groups. Proceeds mainly remain within the country and they are rarely transferred across borders. Criminals may falsify permits and there have been discoveries of individual criminals with significant local influence and connections who have violated laws for multiple years. Illegal loggers cooperate with handicraft shops, furniture stores, biotechnology companies, and other downstream channels for selling stolen goods. They divide labor between members of the group from illegal logging to sales. With regard to smuggling of wild animals, common smuggled animals include pangolins, Chinese box turtles, yellow pond turtles, ivory, and parrots which are usually concealed for smuggling in fishing boats or carried by individuals for imports or exports. Overall, the offenders of environmental crimes have medium levels of expertise and skills in money laundering.

Proceeds from the disposal of hazardous waste and contamination of soil and water are mainly deposited and withdrawn from regular financial institutions (banks) and local financial institutions (credit cooperatives and farmers associations). Most regions involved in these activities are in Taiwan and most properties from illegal logging are processed domestically with few cases of exports to other countries. As for smuggled wild animals, crimes may involve foreign activities but they account for a lower proportion of environmental crimes. Overall, the scope of money laundering activities in environmental crimes is rated as medium.

Estimated criminal proceeds vary greatly between individual cases, and generally speaking, the amount is mostly between tens of millions to NT\$100 million each year.

Medium Threat: Forgery

Such crimes include forgery and alteration of identity documents, seal certifications, land transcripts, credit cards, debit cards, stored-value cards, other documents or plastic currencies. They are difficult to identify due to the sophisticated forgery and alteration technologies, and criminals easily succeed in criminal activities. Such crimes are often accompanied by other offenses such

as fraud, breach of trust, and infringement of property rights and they may involve both individuals and criminal organizations.

Criminal proceeds from forgery and alteration of identity documents or securities are generally rounded off through dummy accounts, divide and conquer, etc., and laundered through transactions with financial institutions, jewelry stores, antique stores, and real estate brokers.

In addition, forgery and alteration offenses may involve international operations as well as domestic and foreign documents and securities. Public and private sectors may both be involved in money laundering and they include banks, securities firms, jewelry stores, and antique stores; financial institutions are involved mostly.

A total of 26,528 cases were investigated by law enforcement authorities and 7,786 prosecutions were filed. A total of NT\$21.67 million was confiscated by the court.

Criminal proceeds may be concealed in domestic and foreign regions and they may also be channeled to countries or regions in Southeast Asia and Central and South America as well as countries that have extensive trade, investment, and tourism relationships with Taiwan. The estimated criminal proceeds in 2016 amounted to approximately NT\$225 million.

Low Threat: Sexual exploitation

Sexual exploitation cases discovered in Taiwan usually involve human trafficking and are caused by organized crime mostly. Most victims are from China, Indonesia, Philippines, Thailand, Vietnam and Cambodia. They enter the country as foreign laborers or through false marriages with citizens of Taiwan arranged by human traffickers or criminal organizations. Victims are lured to Taiwan and criminals impose restrictions with inappropriate debts, seizure of important documents, extortion, or medication to force victims into prostitution.

As certain criminal organizations involve underground financing and remittances, they may also cooperate with other industries such as foreign labor intermediaries and jewelry stores to transfer criminal proceeds out of the country. They may also use victims as puppets for deposits, and they retain a certain level of skills and knowledge in money laundering.

The number of prosecutions and criminal proceeds involving sexual

exploitation in Taiwan is lower than other criminal offenses. According to 2014 statistics, there were 153 cases and seized assets amounted to over NT\$470,000.

Low Threat: Counterfeiting currency

Current counterfeit bill offenses mostly involve photocopying or printing. As the paper quality differs from regular bills, they can be identified more easily. A small number of forgers use offset printing technologies and suspects are mostly professional criminals with related backgrounds in printing and offsetting. Regardless of whether photocopying, printing, or offset printing technologies are used for forgery, suspects are mostly individuals or small-scale counterfeit rings and not organized criminal rings. Their goal is to obtain criminal proceeds. Counterfeiting currencies include NTD as well as foreign currencies such as USD and RMB.

Taiwan is a small and open economy with high levels of economic development and advanced financial services. If counterfeit currencies enter the financial system, financial institutions can easily identify and intercept such currencies with automated equipment. Therefore, the use of counterfeit currency to launder money through the financial system is unlikely. Counterfeit currencies are mainly dispersed through specific channels and laundered for real bills through traditional markets, bars, stands, and gas stations. Forged foreign currencies are exported overseas through smuggling or manual transportation. Criminal proceeds obtained from counterfeit currency are generally concealed in domestic and foreign networks such as deposits in dummy accounts or purchase of jewelry.

Criminal proceeds are concealed within Taiwan while certain part is channeled to nearby Mainland China, Hong Kong, Macao, and countries in Southeast Asia. In addition, criminal proceeds from these areas are also channeled into Taiwan. An average of NT\$4.54 million in criminal proceeds has been seized each year from 2014 to 2016.

Low Threat: Murder, grievous bodily injury

The main actors in homicides and serious physical injuries in Taiwan consist mainly of individuals and criminal organizations. Individual homicides occur mostly from arguments, financial disputes, or retaliation. Criminal organizations'

involvement in such crimes are mostly related to gangs, financial disputes, or the division of spheres of influence. Homicides and serious physical injuries committed by individuals are mostly subjectively motivated by impulsive actions. Criminal organizations commit crimes with long-term planning in response to the balance of power between gangs. Law enforcement authorities of Taiwan impose strong law enforcement measures and such crimes are often quickly solved by law enforcement authorities and suspects are also quickly apprehended.

Most individuals and organizations that commit homicides and serious physical injuries usually have no skills or knowledge of money laundering and they lack intelligence regarding money-laundering. As previously described, individuals and organizations that commit homicide and serious physical injuries are likely to have committed such crimes due to impulsive actions or a lack of foresight. They rarely commit homicide or serious physical injuries to obtain illegal proceeds.

Homicides and serious physical injury cases constitute serious offenses in Taiwan. The number of homicides and serious physical injury cases in recent years (based on the number of cases investigated by law enforcement authorities) were 5,489 cases in 2014, 5,499 cases in 2015, and 5,738 cases in 2016. According to Article 271 of the Criminal Code of the Republic of China, a person who takes the life of another shall be sentenced to death or life imprisonment or imprisonment for not less than ten years. Attempts and preparation to commit such offenses shall also be punished. Article 278 of the same law specifies that a person who causes serious physical injury to another shall be sentenced to imprisonment for not less than five years but not more than twelve years. If death results from the commission of an offense specified in the preceding paragraph, the offender shall be sentenced to life imprisonment or imprisonment for not less than seven years. The penalties for homicide are the most severe among all criminal offenses. The penalties for such crimes are the most severe and strongly dissuasive, and they greatly reduce the intentions and motives for individuals or organizations to commit these crimes. In addition, suspects who committed homicides or serious physical injury offenses generally do not have sufficient time to process property and interest in property from illegal proceeds before they are apprehended.

Homicides or serious physical injury offenses are closely connected to local regions and they rarely involve foreign jurisdictions or other countries. They are simpler in nature and therefore the risks of global money laundering operations are extremely low. In addition, most offenses are committed by individuals and no other industries are involved.

Low Threat: Robbery

The number of robbery and abrupt taking cases in Taiwan from 2010 to 2016 accounted for less than 1% of all criminal cases. Actors in robbery and abrupt taking cases mostly consist in individuals at random. Even if there are accomplices, they number only 1 to 2. Common criminal patterns involve the use of stolen motorcycles or those with concealed license plate numbers to abruptly take properties from pedestrians.

Most offenders need to commit crimes due to their desperate need for money. Except for money, other items among stolen properties that cannot be sold are thrown away. They mostly do not have professional money laundering knowledge and the proceeds are used for direct consumption or deposited into banks.

Robbery and abrupt taking offenses mostly occur within Taiwan. The proceeds are used directly in domestic consumption and there is no movement of funds across borders.

Based on the information from 2015 to 2016, losses in robbery and abrupt taking cases amounted to approximately NT\$33.69 million each year. The total value of recovered property was NT\$9.99 million. The recovery rate was approximately 30%.

Low Threat: Extortion

According to statistics of the National Police Agency, Ministry of the Interior on the number of cases of extortion processed by police authorities in the past decades, the 4,952 cases in 1996 were the highest and the 735 cases in 2014 were the lowest; 792 cases occurred in 2015. The number of occurrences and solved cases of serious extortion from 2013 to 2015 were 0; there was one case in 2016. The main actors were individuals. Certain violent criminal organizations were also involved in the offenses.

According to statistics of the Department of Statistics, Ministry of the

Interior, police authorities have achieved an extremely high rate of resolution of extortion cases in recent years (90.59% in 2015; 85.63% in 2014; and 91.39% in 2013). In addition, the analysis of property lost in extortion cases in 2015 revealed that 36.94% of cases involved no losses, 2.22% involved losses of more than NT\$500,000, and 60.84% involved losses of less than NT\$500,000. This demonstrates the high rate of resolution of extortion cases and that there are few victims who suffered more than NT\$500,000 in loss of property. Criminals mostly spend proceeds directly, and most have no money-laundering knowledge. Generally speaking, criminal proceeds from extortion offenses may be laundered through banks or through purchases of high-value goods. Proceeds are generally used in Taiwan. The overall money laundering threat level is low.

Low Threat: Piracy

According to Article 333 of the Criminal Code of the Republic of China, “piracy” in Taiwan refers to cases where “a person who without the permission of a belligerent state or who does not belong to the naval force of such a state navigates a vessel for purpose to use violence or employ threats against another vessel or against a person or thing on board that vessel”.

There are no related pirate organizations in Taiwan. According to the sea areas frequented by pirates reported by the Piracy Reporting Centre (PRC) of the International Maritime Bureau (IMB), pirates operate in the Strait of Malacca, the South China Sea, the Indian Ocean, the East African Sea, the West African Sea, and the Caribbean. Pirates operate in groups and rarely operate individually. Pirates rob properties from vessels and crews on the sea and sell them or abduct the crew and vessels and request ship-owners to pay ransom in cash. They also accept appointments from “financiers”. Ransoms obtained by pirates and proceeds from properties sold are shared between pirate organizations and “financiers”. Pirates usually use cash to purchase necessary goods, real estate, weapons, etc. They are not knowledgeable or skilled in money laundering crimes.

With regard to criminal proceeds, the contents of financial intelligence analysis reports delivered by the FIU from 2015 to 2017 did not involve piracy and there were no prosecution or judgments in Taiwan for piracy from 2015 to 2017. Criminal proceeds amounted to NT\$0.

Chapter 6 Risk Assessment Results: Terrorist Financing Threats

To date, Taiwan intelligence and law enforcement agencies have not discovered cases of terrorist financing (they have received no STRs involving terrorist financing in the past 3 years, received or discovered TF intelligence, or investigated or prosecuted cases involving terrorism or terrorist financing). The rapid development of network community platforms, encrypted communication software, and new payment platforms not only may be used to facilitate TF activities but also make it difficult for the relevant agencies to gather evidence. Therefore, Taiwan analyzed 7 indicators including: "the degree of direct and indirect exposure of terrorism financiers to terrorist organizations;" "the knowledge, skill, and professionalism of terrorism financiers to engage in terrorist financing;" "the network, resource, and terrorist financing execution capabilities of terrorism financiers;" "the scope and region of terrorist financing operations;" "the estimated annual terrorist financing amounts from Taiwan;" "the diversified methods with which terrorism financiers collect and handle funds;" and "the degree in which the funds collected is used to harm Taiwan or its international interests" to assess its potential TF threats.

- I. "The degree of direct and indirect exposure of terrorism financiers to terrorist organizations": A handful of individuals in Taiwan may have supported or identified with terrorist organizations and potentially contacted external terrorists via social networking software. There have also been a few cases where foreign migrant workers in Taiwan had been suspected of being recruited by the Islamic State of Iraq and Syria (ISIS) or attempting to engage in terrorist activities after returning to their home countries.
- II. "The knowledge, skill, and professionalism of terrorism financiers to engage in terrorist financing": Based on analysis of international trends, terrorist financing methods include using legal or illegal means of financing, self-financing, using shell companies to raise funds, fraud, or using other criminal proceeds. Methods for transferring funds include money services businesses (MSB, services that are currently not permitted in Taiwan), bringing cash to foreign countries for delivery etc. The most common terrorist financing method observed internationally is the use of non-profit

organizations. Analyses reveal that a large part of donation remittances and receptions in Taiwan are conducted with the U.S. and have never involved any high-risk countries. At present, no case of using non-profit organizations for terrorist financing has been discovered in Taiwan.

- III. "The network, resource, and terrorist financing execution capabilities of terrorism financiers": There has been no discovery in Taiwan of individuals or groups who use social media or fundraising platforms for terrorist financing. Although Taiwan has discovered approximately 10 cases of migrant workers collecting small amounts of funds to assist orphans in the conflict areas of the Middle East, investigations did not reveal any illegal conduct. High-risk terrorist financiers in Taiwan have not formed substantial terrorist financing networks and the resources available to them are their monthly salary. The resources available to potential terrorist financiers and their capacity for using them are limited.
- IV. "The scope and region of terrorist financing operations": No transnational fundraising and terrorist financing organizations have been discovered in Taiwan. High-risk terrorist financiers in Taiwan use their salary in daily activities and remit the rest back to their home countries. The countries involved in the remittance of salaries in Taiwan consist mostly of Indonesia and Vietnam. The top five countries for salary remittances are not high-risk countries. We determine that they have extremely limited means for terrorist financing and the scope of terrorist financing and regions are limited (Indonesia, Vietnam, the Philippines, Thailand, and Malaysia). There has been a case of nationals of Taiwan abducted by terrorist organizations in which the delivery of ransom may be used to finance terrorists. The position of the government of Taiwan is to use all available methods and channels to ensure the safety of citizens. However, to prevent terrorist organizations from believing that kidnapping nationals of Taiwan would allow them to obtain funding from the government of Taiwan for ransom and to prevent the delivery of ransom that may finance the development of terrorist organizations, the government does not provide ransom nor interfere with the negotiations, fundraising, and delivery of the ransom so as to avoid financing terrorist organizations.
- V. "The estimated annual terrorist financing amounts from Taiwan": There has not been terrorist attacks or terrorist financing cases in Taiwan. Based on

international standards for determining terrorist attacks, the HSR bombing, TSR car bombing, and Presidential Office Building truck attack (deemed as severe safety cases involving individuals instead of terrorist attacks by all competent authorities of Taiwan) led law enforcement agencies to trace the money flow of the suspects. They found no provision of funding from others and these cases were mostly independently-financed. The production of explosives or vehicle leases used for the attacks require limited funding. As there have not been any terrorist attack or terrorism financing cases in Taiwan, the terrorist financing amount is difficult to estimate.

- VI. "The diversified methods with which terrorism financiers collect and handle funds": No non-profit organization, charity, or criminal fundraising activities have been found and no suspicious fundraising platforms have been discovered. Potential high-risk terrorism financiers can only give their work salaries, lump-sum cash, direct payments, or cross-border wire-transfers to provide financing. The methods for collecting and processing funds are unsophisticated.
- VII. "The degree in which the funds collected is used to harm Taiwan or its international interests": There have been no cases of terrorist financing in Taiwan, therefore it is impossible to measure the immediate dangers, impact, and damage that potential criminal and terrorist financing acts may cause to Taiwan's financial system and institutions and its economy or society.

Channels used for financing terrorists and money-laundering are essentially the same. By reviewing the industries in Taiwan and their characteristics, products and services, customer relations, geographical scope, service channels, and other factors, we have determined that high-risk potential terrorist financiers in Taiwan may wire the salary or income back to their home countries. The TF channels they use consist of offshore banking units (OBUs) and domestic banking units (DBUs). Please refer to the money laundering risk assessment for the analysis of these 2 Vulnerabilities.

Chapter 7 Risk Assessment Results: ML and TF Vulnerabilities

I. Results of the National Money Laundering and Terrorist Financing Vulnerability Assessment

Governance/Legal Framework

Taiwan is a democratic and constitutional country. The structure of its government can be divided into the central/special municipality, county (city)/township (town and city) levels and each level of government has clear divisions of power. The central government consists of the Office of the President and the five branches of government including the Executive Yuan, Legislative Yuan, Judicial Yuan, Examination Yuan, and Control Yuan.

The Constitution is the founding act of Taiwan and it has the highest legal authority. No other law or ordinance shall violate the Constitution. The Constitution specifies the governance organization of the country and the basic rights and obligations of the people. The concept of popular sovereignty is enshrined in the Constitution which provides protection for the freedom and rights of the people. It also outlines a central government system with the separation of five powers and local self-governing systems. The Constitution divides power between the central and local governments based on an equal rights system and it also specifies Fundamental National Policies. According to the Constitution, the President and Vice President are elected directly by the people. They serve 4-year terms and can be reelected once. The President is the head of state and commander-in-chief of the Armed Forces. The President promulgates laws, issues orders, declares martial law, and appoints civilian and military officials.

The Executive Yuan is the highest administrative organ of the state and it oversees 12 Ministries and 20 other agencies of equal levels. The Legislative Yuan is the highest legislative organ of the state. It is formed by legislators elected by the people. They serve 4-year terms and may be repeatedly reelected. The Judicial Yuan is the highest judicial organ of the state. It is responsible for the interpretation of the Constitution, judgment of civil, criminal, and administrative litigation cases, cases concerning disciplinary measures or review of public functionaries, and judgment of

the dissolution of political parties in violation of the Constitution. Taiwan has adopted a unique system with the separation of five powers which is different from systems with the separation of three powers adopted by most countries. The Examination Yuan is the highest examination organ of the state. It is responsible for the matters relating to examinations, employment and dismissal of public functionaries, etc. The Control Yuan is the highest investigatory authority of the state and it exercises the right of impeachment, censure, and audit.

Taiwan has adopted a Civil Law legal system in which codified laws are of primary importance rather than judicial opinions. When processing trials, the court searches for related provisions in the Constitution, codified laws, laws, and regulations. The judicial system in Taiwan consists of three levels: Local courts and branch courts are responsible for first-instance judgments of civil and criminal cases. High courts and branch courts are responsible for appeals against first-instance judgments. The Supreme Court is the court of final appeal and it is responsible for reviewing whether judgments rendered by lower courts comply with regulations. Trials of facts are determined in the courts of first and second instance. Therefore, only issues involving the citation of laws are processed by the Supreme Court. Prosecutorial agencies are also divided into three levels based on the level of the court with the District Prosecutors' Offices on the first level, the High Prosecutors' Office and Branch Offices on the second level, and Supreme Prosecutors' Office on the third level. In accordance with the principle of prosecutorial integration, the Prosecutor-General of the Supreme Prosecutors Office commands and supervises prosecutors of all levels in crime investigation, filing public suits, implementing public suits, assisting private prosecution, implementing private suits, directing the implementation of criminal judgments, and executing other tasks specified by regulations.

Since the government's relocation from Mainland China in 1949 and the lifting of martial law in 1987, Taiwan has continued to develop under a stable and democratic system in which the five powers are separated to perform their respective tasks. Taiwan has successfully completed multiple peaceful rotations of the governing party and retains a mature democratic environment with capable and incorrupt government agencies. The Freedom in the World report published by U.S.-based NGO Freedom House is often used as the benchmark for reviewing democratic rule, freedom, and human rights in all countries. In the 2017 report,

Taiwan was awarded an aggregate score of 91 points based on a total possible score of 100 and its freedom status was "Most Free". Taiwan ranked 29th among 180 rated countries in the Corruption Perceptions Index (CPI) published by Transparency International (TI). It was its best performance in the past ten years.

Although these laws and institutions have played key roles in the fight against crimes, the freedom and protection provided to the citizens of Taiwan may be abused by criminals that include money launderers and terrorist financiers.

Geographical location

Taiwan is located in between the southeastern coast of the Asian continent and the East Asian islands distributed among the western Pacific Rim. It borders Japan and Ryukyu Islands to the north, the Philippines to the south, Mainland China to the west. It is a long narrow island that stretches north to south. The Island of Taiwan is approximately 395 kilometers in length from north to south and the maximum width from east to west is approximately 144 kilometers. The area is approximately 36,000 square kilometers (approximately 14,400 square miles). Taiwan's geographically advantageous location makes Taiwan a transportation hub in East Asia.

Due to its geographical location, Taiwan is susceptible to transnational criminal activities involving infiltration from air or sea transport. The detection of criminal activities is severely challenging. In terms of geographical location, countries around Taiwan also include North Korea, a high-risk country designated by FATF, China, an important international economic power, and the Hong Kong, an important financial center in Asia Pacific. In recent years, its geographical location has caused more ML and TF risks to Taiwan than before.

Economy and Financial System

Since the 1960s, Taiwan has undergone economic and industrial reforms and social development has undergone rapid advancement. It had received recognition as one of the Four Asian Tigers for economic accomplishments in the 1970s and 1980s and it has become a developed country in the 1990s. The economic structure of Taiwan has gradually shifted from the previous labor-intensive industries to high-tech industries since the 1980s. The electronics industry also made great contributions to the global economy and the country has had outstanding performance in the semiconductor, optoelectronics, information technology,

communications, electronics and precision manufacturing sectors. Its current economy is also shifting toward nanotechnology, biotechnology, optoelectronics, and the tourism service sector.

Taiwan has a small domestic market and lacks natural resources. Its economic growth relies upon international trade which became the bloodline of its economy. Taiwan's dependence on trade has remained higher than 100% for most of the past 20 years and it once reached 140%. It is currently at 102%. With regard to trading partners, the United States and Japan have always been the top two trading partners until Mainland China became Taiwan's top trading partner and the U.S. and Japan became second and third in 2004. Taiwan has also fostered closer trading relationships with ASEAN countries. In recent years, the government has advanced the New Southbound Policy to encourage the shift of economic and financial institutions to southern countries. Since the inception of the policy, we have gradually fostered closer cooperation in trade, tourism, education, culture, agriculture, and talent exchanges with ASEAN, South Asian countries, New Zealand, and Australia. The New Southbound Policy has achieved preliminary results with the active advancement of government agencies. For instance, between September 2016 and February 2017, the number of visitors from these countries has grown significantly by 25.69% which far exceeded the growth rate of international visitors to Taiwan. During the same period, trade between Taiwan and new southbound countries also grew by 15.71% which far exceeded the growth rate in trade volume between Taiwan and the rest of the world. In addition, the FSC has authorized domestic banks to establish 8 branches in new southbound countries since May 20, 2016 and there are a total of 202 branches⁷.

The legal persons in Taiwan mainly include corporations and foundations. As of December 31, 2017, there are a total of 690,082 for-profit corporations, also known as companies. Limited companies (524,983 companies) account for the largest share, followed by companies limited by shares (165,099 companies). There are 2,156 public companies and 162,943 non-public companies (including 926 close companies)⁸.

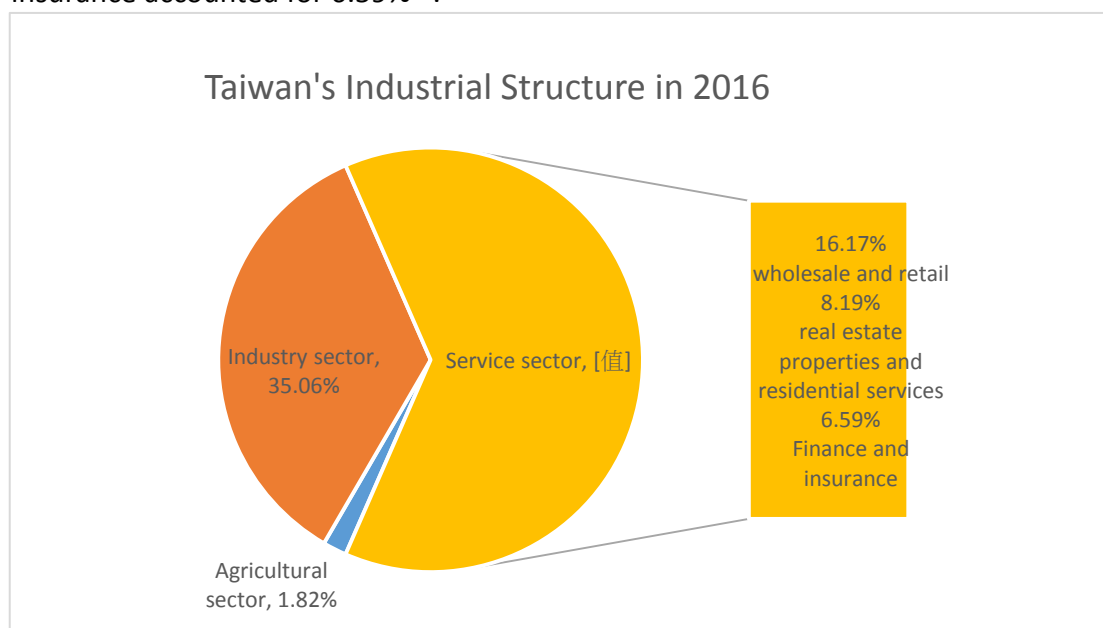
Non-profit organizations can be divided into civil associations and foundations based on the nature of their activities. The main competent authorities are the Ministry of the Interior, Ministry of Health and Welfare, Ministry of Education,

⁷ Financial Supervisory Commission

⁸ Please refer to the analysis in Chapter 8 for the company risks.

Ministry of Culture, and municipal governments. They can also be divided into various categories including cultural, religious, social/fraternity/charity, healthcare, and educational organizations. As of December 31, 2017, there are a total of 57,733 non-profit organizations. Among all NPOs, the social/fraternity/charity organizations account for approximately 80%⁹.

The economic growth rate of Taiwan in 2016 was 1.41%. The gross domestic product (GDP) was US\$530,532 million and the GDP per capita was US\$22,561. The gross national income (GNI) was US\$546,936 million and the GNI per capita was US\$23,258. In terms of price levels, the Consumer Price Index in 2016 increased by 1.39% from the previous year. With regard to employment, the average employment rate in 2016 was 11.267 million and the unemployment rate was 3.92%. The industrial structure of the economy showed that agricultural sector accounted for 1.82%, industrial sector accounted for 35.06% (manufacturing sector accounted for 30.18%), and the service sector accounted for 63.13% in 2016. The service sector consists mainly of wholesale and retail which accounted for 16.17% of the GDP. Real estate properties and residential services accounted for 8.19% and finance and insurance accounted for 6.59%¹⁰.

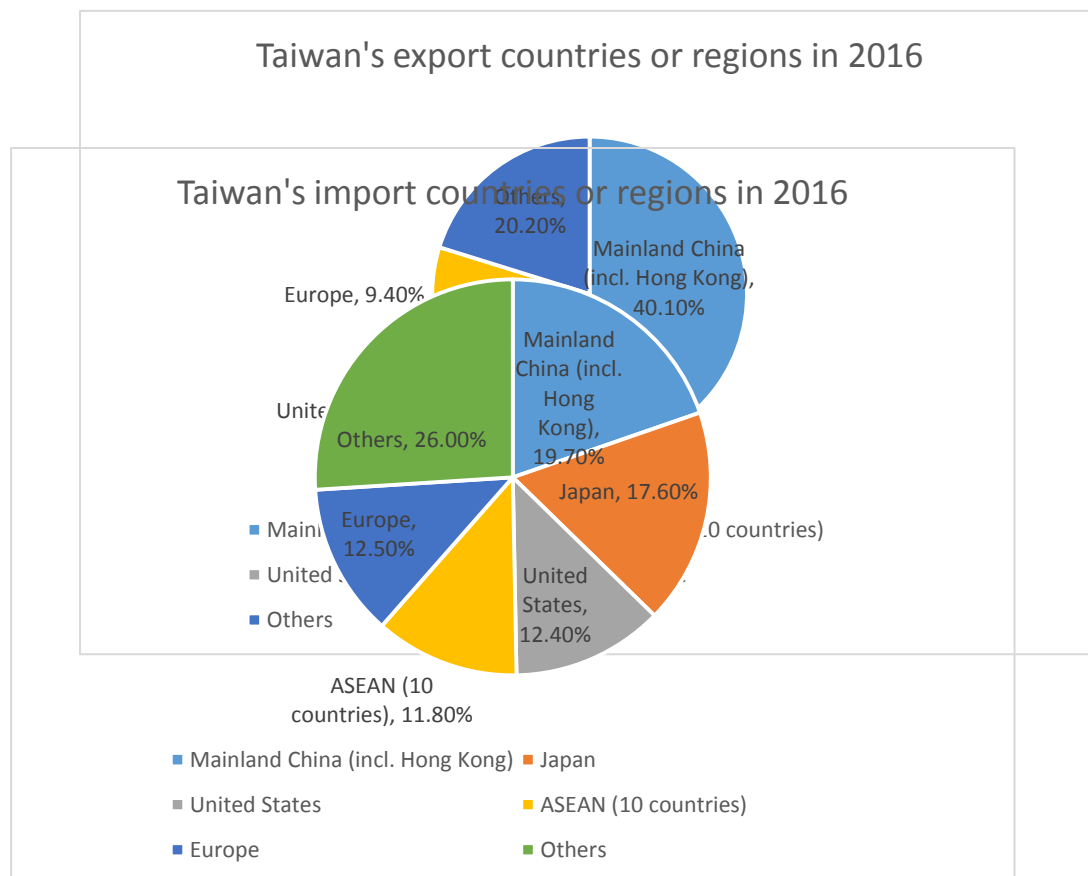


Taiwan's biggest export market in 2016 was Mainland China (including Hong Kong) which accounted for 40.1% of total exports; the second export market was ASEAN (10 countries) which accounted for 18.3% of total exports. Exports to the

⁹ Please refer to the analysis in Chapter 10 for risks in non-profit organizations.

¹⁰ Directorate General of Budget, Accounting and Statistics, Executive Yuan.

United States accounted for 12.0% of total exports while exports to Europe accounted for 9.4% of total exports. The biggest source of Taiwan's imports in 2016 was Mainland China (including Hong Kong) which accounted for 19.7% of total imports. The second biggest source of Taiwan's imports was Japan which accounted for 17.6% of total imports. Imports from the United States accounted for 12.4% of total imports; imports from the ASEAN (10 countries) accounted for 11.8% of total imports; imports from Europe accounted for 12.5% of total imports¹¹.



¹¹ Ministry of Economic Affairs.

The "underground economy" refers to economic activities that are not included in the GDP and they include both legal and illegal industries and transactions. According to the research of National Taiwan University and National Cheng Kung University¹², the scale of the underground economy in 2012 was equivalent to 28.1% of the GDP. There are numerous factors that affect the scale of the underground economy. The increase of service sector as a percentage of the GDP and the increase in income tax rates both facilitate the growth of the underground economy. However, the scale of the underground economy decreases when the GDP, number of banks, monthly working hours, or labor force participation rate increases.

Taiwan has a mature and diverse financial system which plays an important role in its economy. The total assets of the financial system accounts for 495% of GDP and related output also account for 6.69% of GDP. There are a total of 1,362 financial institutions in the financial sector that provide all kinds of financial products and services. They also use the highly developed financial system to manage and serve as intermediary to large amounts of funding from different sources.

Financial institutions in Taiwan mainly include the bank industry, securities and futures industries, insurance industry, and agricultural financial institutions. The banking industry refers to banks, cooperatives, bills finance companies, credit card companies, trusts, postal service institutions that carry out depository operations, and other businesses and institutions in the banking and service sector. Domestic banks are the most important part of the entire finance industry and their assets account for 54.4% of the total assets of the finance industry. Other finance industries are detailed in the table below.

Table: Overview of the financial sector in Taiwan

Unit: Million

As of the end of September 2017

¹² Chih-Chin Ho, Hui-Ling Lin, Yi-Ting Li, Hsien-Feng Li, Chun-Li Tsai, Ru-Yin Tang, 2014, Report on Results of Research on Origins of Taiwan's Underground Economy, Visa International Structure Report.

Type of financial institutions (FIs)	Total number of FIs	Number of branches (Including headquarters)	Total assets - NTD	Total Assets - USD	% of total assets of the financial sector	Total assets to 2016 GDP
Domestic banks	38	3,459	46,262,100	1,542,070	54.34%	269.72 %
Foreign bank branches in Taiwan	29	38	2,855,700	95,190	3.29%	16.65%
The Postal service institution	1	1,310	6,295,162	209,839	7.26%	36.70%
Credit cooperatives	23	266	720,719	24,024	0.83%	4.20%
Bills finance companies	8	38	1,001,139	3,337	1.15%	5.84%
Credit card companies	5	7	37,079	1,236	0.04%	0.22%
Electronic payment institutions	5	6	2,745	92	0.00%	0.02%
Issuers of Electronic stored-value cards	4	11	14,040	468	0.02%	0.08%
Financial leasing companies	34	75	431,253	14,375	0.50%	2.51%
Securities firms	73	797	1,532,836	51,095	1.77%	8.94%
Securities investment trust enterprises	39	91	49,383	1,646	0.06%	0.29%
Securities investment consulting enterprises	86	95	10,796	360	0.01%	0.06%
Securities finance enterprises	2	2	37,569	1,252	0.04%	0.22%
Centralized securities depository enterprises	1	1	24,581	819	0.03%	0.14%
Futures commission merchants	16	34	215,101	7,170	0.25%	1.25%
Futures trust enterprises	-	-	-	-	-	0.00%

Managed futures enterprises	1	1	295	10	0.00%	0.00%
Reinsurance companies	3	4	38,993	1,300	0.04%	0.23%
Life insurance companies	28	125	23,994,893	799,830	27.67%	139.89%
Non-life insurance companies	23	169	347,365	11,579	0.40%	2.03%
Insurance brokers	336	336	6,825	228	0.01%	0.04%
Insurance agencies	296	296	9,894	330	0.01%	0.06%
Agricultural Bank of Taiwan	1	4	795,600	26,520	0.92%	4.64%
Credit departments of farmers' & fishermen's associations	311	864	2,047,200	68,240	2.36%	11.94%
Grand total	1,363	8,029	86,731,268	2,891,044	100.00%	505.67%

Source: Financial Supervisory Commission and the Council of Agriculture of the Executive Yuan

To improve the AML system, Taiwan announced regulations that included designated nonfinancial businesses and professions that meet FATF definitions into the Money Laundering Control Act in December 2016. The legislation officially entered into force on June 28, 2017 and competent authorities of each industry are responsible for regulating and supervising operators' compliance with AML/CFT obligations. The current designated nonfinancial businesses and professions in Taiwan are summarized in the table below.

Table: Overview of designated non-financial businesses and professions in Taiwan

As of the end of year 2017

Industry	Number of Issued/Regulated/Registration Licenses
Jewelry businesses	5,243 (3,889 sole proprietorship/partnership and 1,354 companies)
Land administration agents	Registered land administration agents: 11,108
Real estate agencies	Total registered real estate brokerages: 6,324 Brokerages: 4,257 Real estate sales agencies: 575 Dual status: 1,492
Attorneys	16,886 licensed attorneys /10,272 registered attorneys ¹³
Notaries	A total of 224 private and court notaries
Accountants	Individuals with CPA certificates: 7,432 /Number of registered practitioners: 3,396 /Number of CPA firms: 1,972
Certified Public Bookkeepers and Bookkeeping/Tax Return Filing Agents	8,903 individuals (Certified public bookkeepers: 3,840; Bookkeeping/tax return filing agents: 5,063)

Source: Department of Commerce of the Ministry of Economic Affairs, Department of Land Administration of the Ministry of the Interior, Criminal Department of the Judicial Yuan, Securities and Futures Bureau of the Financial Supervisory Commission, and Taxation Administration of the Ministry of Finance

Taiwan's economy and financial institutions are well-developed and mature. Its openness, stable economic performance, widely available financial institutions, and developed global trade are factors that can be used by active domestic and foreign criminals, money launderers, and terrorist financiers. Due to its high dependence on trade and influence of the world's two major economic powers, its economic

¹³ Statistics as of end of February 2018

environment also contributes to the development of an underground economy.

Financial inclusion and use of cash

According to the research paper "Finance and Inclusive Growth" published by the Organization for Economic Co-operation and Development (OECD) in 2015, appropriate levels of financial development contribute to economic development, fair and reasonable distribution of income, and the stable growth of the overall economy and advancement of social welfare. The financial supervisory authorities in Taiwan have always been dedicated to advancing financial infrastructure and services to provide the people with fair access to financial services. In terms of the prevalence rate of bank accounts, the results of investigations conducted by the Global Partnership for Financial Inclusion (GPII) showed that the average ratio of formally banked adults in major countries in 2014 was 56% while the ratio in Taiwan was 91%, which was much higher than the average.

In addition, Taiwan has a high number of banks and ATMs and people enjoy convenient access to financial services. As of the end of 2015, there are 3,444 bank branches and 1,324 Chunghwa Post branches and there is a financial institution in every 7.55 square kilometers. There are 27,363 ATMs in the country and an ATM in every 1.32 square kilometers. The transaction amount reached NT\$10.14 trillion and the number of transactions achieved a record of 824 million. The service charge for inter-bank withdrawal and remittance from ATMs in Taiwan are NT\$5 and NT\$15 respectively which are relatively cheaper than other countries. Taiwan has diverse financial payment tools such as credit cards, electronic stored value cards, and mobile payment tools that have gained popularity. As of the end of August 2016, there are a total of approximately 39.64 million credit cards in circulation and approximately 76.53 million electronic stored value cards. Most people have more than one credit card or electronic stored value card¹⁴.

As Taiwan has a high level of financial inclusion and diverse payment tools, most of the payment transactions in Taiwan have become electronic transactions. Overall, the large-sum and retail payments processed by domestic payment settlement system mainly use "bank accounts" for electronic transfer of funds as well as credit cards, bank cards, and stored value cards for multiple-purpose "card payment". The total electronic payment in Taiwan in 2016 reached NT\$615 trillion which was 36

¹⁴Financial Supervisory Commission

times the GDP of the same year. The amount was immense and it included: (1) NT\$612 trillion transferred electronically through "bank accounts" including NT\$477 trillion on the CBC Interbank Funds Transfer System and NT\$135 trillion on the Financial Information System. They accounted for 99.5% of all electronic payments and included all large payments and certain retail payment transactions. (2) The sum of multiple-purpose "card payments" was only around NT\$3 trillion and they were mostly consumption payments. Compared to the total private consumption of approximately NT\$9 trillion in Taiwan in 2016, it shows that non-electronic payment tools (mostly cash) were used in NT\$6 trillion (approximately 66.6%) of consumption payment¹⁵.

In conclusion, Taiwan currently has comprehensive financial infrastructure and nearly all large-sum payments are now processed electronically. Diverse and convenient electronic payment tools have also been adopted for retail payment. However, although payment for retail consumption still account for a small percentage of overall payments, people still prefer to pay in cash and that constitutes a vulnerability in Taiwan's AML/CFT operations.

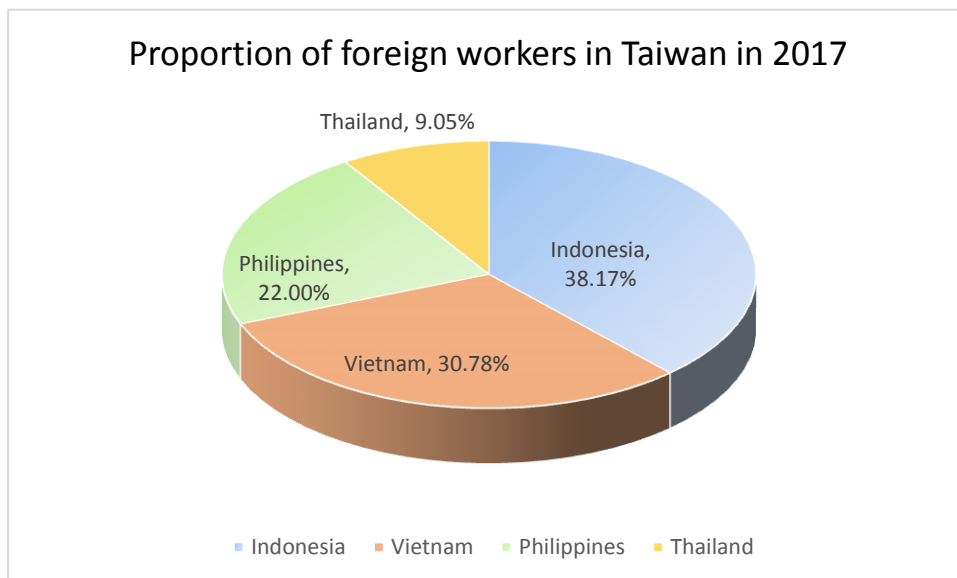
Population structure

Taiwan has a total population of approximately 23 million which include indigenous peoples that have lived in Taiwan throughout the ages. They account for approximately 2.36% of the total population and others are Han Chinese who immigrated after the 17th century. The integration of different ethnicities has given birth to diverse cultures in Taiwan and its harmony and diversity are exemplified in religious beliefs, architecture, languages, habits of life, and cuisine. Approximately 70% of the population live in the 5 major metropolitan areas on the west of the island (Taipei, Taoyuan, Taichung, Tainan, and Kaohsiung). The largest is the Taipei Metropolitan Area which includes the capital Taipei City and the largest city —New Taipei City.

As of the end of December 2017, there were a total of approximately 718,000 foreign nationals with resident certificates living in Taiwan and they include public officials, businesspeople, doctors, foreign workers such as engineers, teachers, missionaries, construction and manufacturing workers, caregivers, and domestic help as well as students, and family members. The top foreign nationalities consist of

¹⁵Financial Supervisory Commission and the Central Bank.

entirely Southeast Asian countries which accounted for 93.3%. They include Indonesia (33.18%), Vietnam (28.3%), the Philippines (19.86%), Thailand (9.05%), and Malaysia (2.9%). In addition, Taiwan has approximately 676,000 foreign workers most of which came from Southeast Asian countries including Indonesia (38.17%), Vietnam (30.78%), the Philippines (22.00%), and Thailand (9.05%)¹⁶.



Money laundering / Terrorist Financing consequences

The international experience with money laundering points out that major offenders often use money laundering channels to launder their money, in order to legally use their illegally acquired money, and to prevent law enforcement (judicial) agencies from tracking down investigations, or even to use criminal proceeds for crimes.

Money laundering will have a major impact on the economy and society. For example, if a major offender obtains huge profits and wealth, criminal groups will be able to infiltrate, pollute and erode all levels of government agencies, legitimate companies and financial systems, and all sectors of society.

In addition, money laundering activities can help criminals to maintain and increase the proceeds of criminal activities. If a country or region becomes a hotbed of money laundering activities, it will attract more criminals and promote criminal activities such as organized crime, corruption, drugs, and fraud. Apart from the

¹⁶National Immigration Agency, Ministry of the Interior.

enormous social costs associated with cracking down on crimes, it will also cause distortions of national policies and economy, affect the taxation, foreign investment, and overseas operation of legitimate enterprises, and cause serious damage to the reputation and stability of financial institutions, and even cause the society to lose fairness and justice. Failing to comply with international standards for money laundering and control may also cause the country to be subject to international sanctions.

For example, the Taiwanese people have been the victims of the fraud and Ponzi schemes in recent years. The criminals have not only defrauded the people domestically, but have even expanded activities overseas, seriously affecting the country's reputation. These illicit money are remitted back to the head account, and then the mules withdraw money by UnionPay cards and then launder the money to the other countries. It resulted that the financial flow is difficult to trace and recover. If the country has a loophole in the defense of money laundering, the entire order of financial flow will be damaged, and it will be used in large numbers by criminal groups. This will not only result in the harm of the country's people, damage to the international reputation, but also cause other countries to adopt sanctions or prevent blockages. The country's ordinary financial flow and transactions will also be affected.

II. Results of the Industry/Sector Money Laundering and Terrorist Financing Vulnerability Assessment

A review of the industries in Taiwan resulted in ratings on the money-laundering operations of 31 professions and sectors. Each industry is assessed in accordance with sector's characteristics, nature of products and services, nature of business relationship with the clientele, geographic reach, nature of delivery channels, as well as other factors. The ratings are provided below:

No.	List of Vulnerability profiles' overall ratings			
	LOW	MEDIUM	HIGH	VERY HIGH
1	Futures management enterprises	Credit cooperatives	Offshore Securities Units	Offshore Banking Units
2	Credit card companies	Securities investment consulting enterprises	Branches of foreign banks	Domestic banks
3	Non- life insurance companies	Land administration agents	The postal service institution	
4	Foreign currency exchange counters	Securities finance enterprises	Securities firms	
5	Centralized securities depository enterprises	Financial Leasing enterprises	Offshore Insurance Units	
6		Futures merchants	Jewelry businesses	
7		Insurance agents and brokers	Accountants	
8		Certified public bookkeepers, bookkeeping and tax return filing agents	Lawyers	
9		Electronic payment service providers	Real estate brokerage	
10		Third-party payment services	Agricultural financial institutions	
11		Bills finance companies	Life insurance companies	
12		Notaries	Securities investment trust enterprises	

The sector of issuers of stored-value cards had been designated in the AML/CFT regime under the Anti-money laundering Control Act, though it was not rated in the process of national risk assessment due to time constraint.

Very High Vulnerability: Domestic Banks

As of December 31, 2016, the total assets of 39 domestic banks amounted to NT\$45 trillion, accounting for 269.72% of the GDP. Total loans amounted to

NT\$23 trillion and total saving deposits amounted to NT\$31 trillion. They are the most important actors in Taiwan's financial system. Large domestic banks are mostly members of financial holding groups with domestic and international operations. Almost all industries have access to domestic banks and their services and they are well-integrated with other sectors.

In terms of business operations, domestic banks provide cash collection and payment (e.g. deposits and foreign exchange) businesses as well as loans, foreign currency exchange, private banking, trade financing, deposit boxes, and other services that support moving funds rapidly and are vulnerable services for money laundering and terrorist financing. In addition, they are allowed to concurrently operate other businesses such as securities, trusts, bills, electronic payment, and credit cards, thus they provide diverse products and services. The automatic service equipment of the banking industry (e.g. ATMs) facilitate cross-border cash withdrawals. Those transactions could be found in cases involving cross-border money laundering.

Financial services of domestic banks are mainly provided for domestic customers with ongoing and direct customer relationships. Some occasional transactional relationships exist. Also, some intermediary operations such as correspondent banking transactions involve customers with indirect relationships and these transactions are vulnerable to ML/TF risks. In addition, banks are widely accessible to all types of customers, including PEPs, high-net-worth individuals, and various types of legal persons whose beneficial owners cannot be easily identified.

Domestic banks greatly participate in international activities. In addition to large amounts of international foreign exchange and trade finance each year, they also establish overseas branches and/or subsidiaries to expand international businesses. The top 5 countries as sources of inward wire transfers of domestic banks in 2017 were United States, Hong Kong, United Kingdom, Mainland China and Singapore (they account for 71.2% of all inward remittances). The top 5 countries as sources of outward wire transfers of domestic banks in 2017 were United States, Hong Kong, United Kingdom, Mainland China and Singapore (they account for 77.4%). The amount of inward remittance and outward remittance involving countries or regions with severe AML/CFT deficiencies announced by the FATF were 0.0717% and 0.0122%, respectively.

The delivery channels of the banking industry are diverse and complex. Technological advancements in the banking industry in recent years have enabled banks to develop non-physical channels to lower cost. However, such channels e.g. Internet or ATM operations involve a high level of anonymity. There were a total of 844.87 million ATM transactions in 2016. There were 448.4 million non-face-to-face outward wire transfer transactions which accounted for 56.01% of total outward wire transfer transactions.

Domestic banks have a significant position in the domestic economy. They can be used by a diversified base of customers and have capabilities of quick transfer of funds. Their activities also involve countries/regions of concerns and high risk countries/regions. Delivery channels include non-face-to-face transactions that are easily abused by money launderers. In practice, most money-laundering cases involve the use of transactions or services provided by banks. Therefore, the overall rating is "very high."

Very High Vulnerability: Offshore Banking Units (OBUs)

Since the promulgation of the Offshore Banking Act in 1983, the OBUs has been developed in Taiwan for more than 30 years. As of the end of December 2016, 62 banks have established OBUs. The assets of all OBUs totals NT\$5.7 trillion, accounting for 12% of the total assets of all banks. OBUs provide international syndicated loans, foreign exchange transactions, and global fund management with diverse products and services and complex businesses. Taiwanese import/export businesses which set up offshore companies may facilitate cross-border fund transfers through OBUs, thus they could be easily used for money laundering and tax evasion. OBUs are established by domestic banks and branches of foreign banks in Taiwan. Each bank may only establish one OBU. Domestic DBU branches of the same bank that is designated by the Central Bank to process foreign exchange businesses may process OBU businesses on their behalf. Therefore, OBU service outlets are widely available.

OBUs may accept foreign currency deposits, extend credit in foreign currency, sell foreign currency financial debentures, conduct commission agency, brokerage, and agency activities of foreign currency denominated securities, or other foreign currency denominated financial products , conduct the issuance, advising and negotiation of letters of credit in foreign currency, and

import/export collection , underwrite offshore securities, conduct consulting relating to asset allocation or financial planning, and provide foreign currency trust services etc. OBUs provide numerous services and products that are vulnerable to be abused such as private banking, trade finance, and cross-border fund transfers including electronic fund transfers exhibit high levels of ML/TF vulnerabilities.

OBUs customers include offshore companies and offshore natural persons. Offshore legal persons account for 97.3% of total accounts while offshore natural persons account for approximately 1.9%. Approximately 70% of offshore legal entity customers are Taiwanese businesses. It is difficult to identify the beneficial owner of the customers and the nature of actual businesses can also be difficult to verify and determine.

The customers of OBUs are mostly Taiwanese companies registered offshore. According to statistics, the top five places of registration, British Virgin Islands, Samoa, Hong Kong, Belize, and Seychelles, are mostly of jurisdictions or locations considered to implement bank secrecy or those recognized as a tax haven or fragile countries. In addition, related offshore transactions are also likely to involve countries/regions with severe AML/CFT deficiencies as announced by the FATF or countries/regions that fails to comply or comply fully with recommendations made by international AML organizations. The top 5 countries/ regions as sources of OBU customers' inward wire transfers in 2016 were: United States, Mainland China, Hong Kong, Singapore, and United Kingdom. The top 5 outward wire transfer countries/ regions were: Mainland China, Hong Kong, Japan, United States, and Singapore.

OBUs provide Internet banking and other non-face-to-face transactions or services and such services are one of the main transaction channels for customers.

OBUs have significant fund transfer capabilities and provide numerous ML/TF vulnerable services / products such as private banking, trade finance, and cross-border fund transfers that include electronic fund transfers. OBU customers are mostly offshore companies and offshore natural persons. It is a challenge to identify the beneficial owner of the customers. Business activities often involve countries/ regions considered to implement bank secrecy or those considered to be tax havens or fragile countries. Internet banking and other non-face-to-face transactions or services provided also raise concerns of

anonymity. Therefore, the overall rating is "very high".

High Vulnerability: Offshore Securities Units (OSUs)

The issuance of OSU licenses began in March 2014. It is a relatively young industry compared to others. There are currently 17 securities firms with OSU operations. They have approximately 1,200 customers and business revenue from OSU operations in 2016 amounted to approximately NT\$2.232 billion, accounting for 2.8% of the total revenue of all securities firms of NT\$79.481 billion in 2016. OSU products include various types of foreign-currency financial products which may be issued from any foreign country. They provide offshore non-residents with related securities services. There are few restrictions on product categories and types and therefore they have diverse products. They are also involved in cross-sector financial products and the level of complexity in the industry and level of integration with other industries are higher.

The types of services and range of products OSUs may provide are numerous and diverse. Their services include various securities services (securities brokerage, dealing, underwriting, wealth management, over-the-counter derivatives, foreign exchange transactions etc.). 95.07% of the overall revenue for OSUs derived from securities dealing and the proportion of other securities businesses has remained low.

OSUs provide offshore non-residents with products and related tax exemption advantages. Its nature may attract offshore non-resident customers with different investments purposes. Such customers may be from countries all over the world. Customers who are foreign nationals or legal persons registered offshore may have relations with domestic or foreign PEPs (or their family members and close associates). They may also be from or registered in tax havens. The implementation of customer due diligence would be more difficult and the beneficial owners are also more difficult to identify. Based on statistics updated at the end of September 2017, OSUs' domestic customers account for 45.43% of total accounts while offshore customers account for 54.57% of overall accounts. Customers who opened accounts from United Kingdom, France, United States, Japan, Hong Kong, and Singapore account for 46.13% of offshore customer while customers registered in the Cayman Islands, British Virgin Islands, and other offshore financial centers account for 18.82% of offshore customers. Customers who are Taiwanese businesses account for 14.21% of all

accounts and there are 2 PEPs.

OSUs are permitted to operate a wide range of products including products issued across the world. Their business activities may involve high-risk jurisdictions or countries of concern. OSU brokerage customers' main subjects of trade consist of 84.56% in securities in Hong Kong and 9.35% in securities in the United States. They are among the top 5 jurisdictions with the highest score on the Financial Secrecy Index.

OSU brokerage services accept orders from customers who generally use non-face-to-face transactions by placing orders on the telephone and the Internet.

As OSUs are permitted to operate businesses involving various financial products in foreign currencies and they facilitate rapid transactions or settlements, they are capable of moving customer assets rapidly. Offshore non-resident customers may be from any country in the world and they may have relations with domestic or foreign PEPs. They may also be from or registered in tax havens and the beneficial owners can be difficult to identify. In addition, non-face-to-face orders may be placed through the Internet and telephone and customers may also assign third parties (agents) to place orders for transactions. Those also raise concerns of anonymity. The overall rating is "high".

High Vulnerability: Offshore Insurance Units (OIUs)

The issuance of OIU licenses began in June 2015. It is a relatively young industry compared to others. As the proposer and insured for the purchase of OIU insurance products must be foreign nationals, they have been restricted by the sources of customers and the scale of operations has remained small. Revenue from OIU life insurance premiums in 2017 was approximately US\$168 million (approximately NT\$4.932 billion) which accounted for a very small portion (approximately 0.14%) of overall revenue from life insurance premiums (approximately NT\$3.4 trillion). There are currently 20 insurance companies with OIU operations (15 life insurance companies, 4 non-life insurance companies and 1 reinsurance company).

OIUs mainly provide personal insurance products such as life insurance with fluctuating interest rates, variable life insurance, universal variable life insurance, and other high insured amount of endowment insurance products or

investment insurance products. The investment insurance products can be linked to different investment targets based on the product design. They are different from general insurance products that provide insurance coverage. Income tax is exempted for the insurance payment and interest generated from investment targets linked to investment insurance contracts that is paid to the OIU customer. Its nature may attract offshore customers with different insurance purposes.

The target customers of OIUs are foreign nationals or foreign legal persons. Foreign nationals account for 49.17% of all customers while foreign legal persons account for 50.83% of all customers. Customers may be foreign PEPs or the OIU insurance products may be purchased by high-net-worth individuals. According to statistics, the number of OIU customers who are foreign PEPs account for 0.61% of all customers as of the end of 2017 while 5.40% of customers come from or are registered in tax havens. 3.58% of customers are high-net-worth individuals. OIU transactions involve cross-border products and services and the verification-of customer profession or beneficial owner are more difficult than customers in domestic insurance operations.

The proposers and insured individuals in OIU insurance policies are all foreign nationals. According to statistics as of the end of 2017, OIUs' main sales targets were mainly from Mainland China, Japan, Singapore, Seychelles, etc. and currently do not have customers from high-risk jurisdictions such as North Korea or Iran. However, customers may also originate from high-risk countries or countries of concern.

Compared to domestic insurance businesses, it is more difficult to verify customer profession or the beneficial owner of offshore OIU customers. For life insurance business transactions, customers is required to consult OIUs for the purchase of insurance policies in person. However, customers may appoint agents to sign contracts on their behalf. Also, the services may be processed through the insurance company's sales personnel or they may originate from third-party insurance brokers or agents. According to statistics as of the end of 2017, 67.56% of customers obtained access to services through insurance brokers, insurance agents, or banks.

Businesses open to OIUs include insurance and reinsurance businesses paid in foreign currencies. Their target customers are offshore customers whose beneficial owners are difficult to verify. Current OIUs provide mostly high

insured amount of endowment insurance products with higher money laundering risks and a high proportion of businesses are performed through agents other than their own sales personnel. Therefore, the overall rating is summarized as "high".

High Vulnerability: Securities firms

As of the end of 2017, the total assets of all securities firms amounted to NT\$1.5983 trillion and the overall securities brokerage transaction volume amounted to NT\$25.7989 trillion. There are a total of 73 dedicated securities firms, 31 securities firms that concurrently operate futures businesses, and 48 futures introducing brokers. 16 securities firms are subsidiaries of financial holding companies and 15 are investees of other financial institutions. They are well-integrated with other industries. The industry structure is more complex involving a total of 100 offshore subsidiaries with 46 in Hong Kong, 18 in the British Virgin Islands, 10 in Mainland China, and 10 in the Cayman Islands. There are a total of 883 domestic branch institutions.

The main business operations of securities firms are securities brokerage, dealing, and underwriting. Customers of underwriters have been observed to use others' accounts to submit bids during the bookbuilding stage. The services provided by securities brokerages can be used by investors as channels to quickly transfer funds.

Customers of securities firms consist mainly of domestic customers, and may also include certain foreign nationals as well as foreign or domestic PEPs. Securities firms and most customers maintain ongoing and direct relationships. As of the end of 2017, there were a total of 9,991,215 securities accounts (after merging accounts) including 9,915,097 natural-person accounts and 76,118 legal-person accounts. As of the end of 2017, legal persons accounted for 40.6% of customers on the Taiwan Stock Exchange. Foreign institutional investors accounted for 25.9% and domestic institutional investors accounted for 74.1%.

The scope of securities firms' business activities are mostly within Taiwan but foreign institutional investors may come from countries/ regions of concern (United States, Singapore and British Islands). However, the transaction amount only constitute a small portion of overall businesses (United States: 5.73%; British Islands: 1.09%; Singapore: 0.63%). In addition, legal-person customers of

securities firms may involve tax havens and other countries of concern. In 2017, domestic traders' securities transactions in the United States and Hong Kong, two jurisdictions with high Financial Secrecy Index scores, accounted for 87.10% of overall foreign securities transactions.

Brokerage operations are mostly conducted through the Internet or on the telephone and the number of electronic transactions performed by securities firms as of the end of 2017 accounted for 56.10% of total market transactions. Third parties or dummy accounts may be delegated to perform transactions. In addition, customers of securities firms can also use diverse channels such as ISP operators or FIX platforms (e.g. Bloomberg), API networks, telephone, voice-order, and onsite delegation to place orders.

Securities firms are highly integrated with other financial institutions and the sector already has a sizable scale. Third parties or dummy accounts may be used for transactions and criminals may use insider trading or abuse of book build process to obtain illicit profits and quickly transfer funds. Their foreign capital customers may come from high-risk jurisdictions, tax havens, and other countries of concern. Therefore, the overall rating is "high".

High Vulnerability: Life insurance companies

As of the end of December 2016, there were a total of 23 domestic life insurance companies and a total of 5 branches of foreign life insurance companies in Taiwan. The total assets of the life insurance sector amounted to NT\$22.2504 trillion and the revenue from insurance premiums amounted to NT\$3.1333 trillion (18.3% of GDP). The total assets of the entire life insurance sector accounted for 31.29% of the total assets of all financial institutions. Life insurance companies maintain operations across the country and consumers can purchase life insurance products through financial institutions that cooperate with life insurance companies in marketing and promotion. The sector is well-integrated with other sectors.

Personal insurance products operated by life insurance companies include life insurance, health insurance, injury insurance, and annuities insurance. The revenue of total insurance premiums includes NT\$3.1333 trillion from personal insurance premiums with NT\$2.5253 trillion (80.6%) from life insurance, NT\$205.9 billion (6.5%) from annuities insurance, NT\$338.1 billion (10.8%) from health insurance, and NT\$63.8 billion from injury insurance (2.1%). Assessments

have shown that products easily to money-laundering misuses are insurance products with policy value reserve or cash value such as life insurance, investment insurance, annuities insurance etc. Income from such insurance policies accounts for a significant ratio of the overall life insurance sector. Criminals have also been observed internationally to use single premium life insurance or annuities insurance products and terminate the contract within the contract free looking period (or within a short period of time) or use cash to repay insurance loans as means to launder money.

The target customers of life insurance companies are domestic customers. The products which have been assessed as vulnerable to ML risks mainly involve ongoing relationships. The services of life insurance companies are widely accessible to all kinds of customers, including PEPs and high-net-worth individuals who have been deemed more ML risks.

Life insurance companies rarely operate in foreign countries. Their main market is within the territories of Taiwan. Foreign customers only account for few numbers of total customers.

The sources of businesses of the life insurance sector consist mainly of company sales personnel and insurance brokers and insurance agents. Other delivery channels such as online insurance or telemarketing are indirect methods for communicating with consumers. Compared to other communication methods that facilitate direct communication with consumers, these channels have higher money laundering risks.

The scale of assets of the life insurance sector is immense and the sector is widespread in Taiwan. Products such as life insurance, investment insurance, and annuities insurance that account for high proportions of the sector have been assessed as vulnerable to ML risks. In addition, the insurance products can be purchased through non-face-to-face and intermediaries channels such as insurance brokers, insurance agents, online insurance and telemarketing transactions. The insurance sector has a certain level of money-laundering risks and the overall rating is "high".

High Vulnerability: Branches of foreign banks

As of the end of December 2016, total assets of foreign banks in Taiwan amounted to NT\$2.8552 trillion which is only 6% of the total assets of domestic banks. Their depository businesses accounted for only 3% of those of domestic

banks. Branches of foreign banks in Taiwan account for a small percentage of the overall domestic banking industry. They mainly provide financial services to domestic professional institutional investors or large corporations. They are capable of providing quick fund transfers and diverse financial services through networks of the head offices or groups.

Services provided by branches of foreign banks in Taiwan include general deposits, loans, and foreign exchange as well as trade financing services (e.g. export letters of credit), online foreign exchange transactions, correspondent banking, and private banking. Although such business transactions rarely involve cash transactions, they facilitate quick transfer of funds and are susceptible to ML/TF operations which are often uncovered in criminal investigations. In addition, international correspondent banking and wealth management services constitute an important portion of the banks' overall operations and they can use international networks of their group to provide services. They are, to a certain extent, vulnerable to ML/TF risks.

The service recipients of branches of foreign banks in Taiwan are mostly public companies (high transparency), high-net-worth individuals, and professional institutional investors. Certain companies conduct businesses with counterparties in high-risk countries and regions. Certain branches organize private banking businesses mainly for customers that are companies established in offshore tax havens. Their beneficial owners are difficult to verify. Although they may attract transactions with foreign, domestic, or international politically exposed persons (PEPs), PEPs are not a major part in the customer composition of the branches in Taiwan.

The foreign inward and outward remittances of branches of foreign banks in Taiwan may involve countries considered to implement bank secrecy or those considered to be tax havens or countries of concern.

Foreign banks have very few branches or operations in Taiwan. Besides providing services through sales personnel outside the banks, transaction channels mostly consist of telephone and fax transaction orders and other non-face-to-face service channels. The outward wire transfer transactions conducted through non-face-to-face channels in 2016 accounted for 68.61% of the total 2,673,697 outward wire transfer transactions (including face-to-face and non-face-to-face transactions).

Branches of foreign banks in Taiwan are subordinate to foreign banks or

groups and have the capabilities of providing quick fund transfers and diverse financial services through networks of the head offices or groups. Some branches of foreign banks provide private banking services and their customers' beneficiary owners are difficult to be verified. Service channels mostly consist of telephone and fax orders and other non-face-to-face methods. Therefore, the overall rating is "high".

High Vulnerability: Agricultural financial institutions

The value of total asset of agricultural financial institutions as of September 2017 was NT\$2.8428 trillion (approximately US\$94.76 billion). There are 1,180 head and branch offices and no overseas branches. Credit departments of farmers' and fishermen's associations are regional base-level financial institutions. Although their scope of operations is bound by the region of each organization, they are prevalent in the country. The Agricultural Bank of Taiwan is the superior institution of the credit departments of farmers' and fishermen's associations and it has the obligations such as to receive deposits and provide the guidance for credit departments according to the law. They provide the same services as commercial banks.

The Agricultural Bank of Taiwan is the only professional agricultural bank licensed by the government of Taiwan. Its main businesses include processing agricultural, forestry, fishery, and animal husbandry financing in accordance with agricultural and fishery policies, and accepting deposits from credit departments of farmers' and fishermen's associations. It also provides domestic and cross-border fund transfer services. Credit departments of farmers' and fishermen's associations provide deposit, loan, payment, and domestic transfer services and their products and services are simpler than those provided by commercial banks.

The customers of the Agricultural Bank of Taiwan are mostly farmers, fishermen, agricultural and fishery companies, and credit departments of farmers' and fishermen's associations. 99% of its deposits are funds transferred from credit departments of farmers' and fishermen's associations. Credit departments of farmers' and fishermen's associations are the main base-level financial institutions and the business locations are restricted by regulations. The customers are mostly local farmers, fishermen, and the general public and they may include local councilors or heads of local competent authorities who

exert political influence in the area (including domestic PEPs). Farmers' and fishermen's associations are localized and may be affected by local political rivalry. During elections, they may be used as channels for bribery or fund transfer.

Agricultural financial institutions operate only in the country and they do not have overseas business outlets. Transactions are mainly confined to within the country. The only cross-border transactions involving the Agricultural Bank of Taiwan are cross-border remittance and trade financing. The main countries involved are Luxembourg, Hong Kong, Japan, and South Korea. Such business volume account for a relative low proportion of the overall banking industry.

Services provided by agricultural financial institutions are mostly conducted face-to-face (over the counter) and small amounts of services are provided through Internet banking, telephone voice service, or ATM.

Agricultural financial institutions have a certain scale of assets which account for 3.3% of the financial industry in Taiwan. The Agricultural Bank of Taiwan and credit departments of farmers' and fishermen's associations form agricultural financial service networks across the country and provide convenient channels for transferring funds. Their customers are mostly local farmers, fishermen, and the general public and they may include local legislators or heads of local competent authorities (including domestic PEPs). Farmers' and fishermen's associations may be affected by local political rivalry and may be used as channels for bribery or fund transfer. Therefore, the industry risk rating is assessed as "high".

High Vulnerability: The Postal service Institution

The only entity that performs postal remittances and savings as well as life insurance services in the country is Chunghwa Post. As of November 30, 2017, the Company's total assets amounted to NT\$7.02 trillion with a total of NT\$6.0033 trillion in total savings. Its scale of operations is larger than any other financial institution. Chunghwa Post is not a public company and 100% of its shares are held by the Ministry of Transportation and Communications. It does not belong to any large financial group. Chunghwa Post does not have overseas branches. As of November 30, 2017, Chunghwa Post has a total of 1,307 branches and its operations encompass cities, rural areas, offshore islands, and remote areas. It can be used widely by many customers to rapidly transfer

funds.

The financial products or services provided by Chunghwa Post are mainly derived from postal remittances and savings which account for more than 90% of the Company's overall business activities. Its business operations include saving accounts, international wire transfers, internet banking, depository accounts and related cash payments as well as payment and collection services for actual transactions that involve third-party payment which are products with ML/TF vulnerabilities in nature. In addition, it also provides cash bag mailing services and bearer postal gift coupons.

Its customers consist mainly of domestic natural persons who account for 97.37% and it mostly maintains continuous and direct relationships with customers. The ratio of foreign customers is very low and they account for less than 2%. Its customers may include local councilors, directors of local government agencies, town mayor and representatives, etc. Chunghwa Post only provides NTD accounts (no foreign currency accounts) with low average savings. The average balance of each account in 2017 was just over NT\$70,000. The customers are mostly office workers, students, and housewives and the proportion of high-net-worth individuals relative to the banking industry is low.

Chunghwa Post's cross-border transactions only include international remittance businesses which are few in number. The wire transfers are not directly issued through SWIFT but are performed by a third bank. However, there are certain foreign customers (foreign students and spouses) whose cross-border transactions may involve high-risk jurisdictions or countries of concern. The top three countries/ regions which Chunghwa Post conducts outward and inward fund transfers are Mainland China, United States, and Hong Kong.

Customers of Chunghwa Post's savings services mostly use face-to-face or agent (at the counter) transactions as the main service channels but transactions may also be performed through the Internet, telephone, or ATM.

The total asset of Chunghwa Post is larger than any other financial institution. Although it does not have overseas branches, it has operations in a wide range of locations. More than 90% of its business operations consist of savings and it has significant fund transfer capabilities. Customers may include local legislators, directors of local government agencies, town mayor and representatives, etc. Its cross-border fund transfers performed by a third bank

may also involve high-risk jurisdictions or countries of concern. Non-face-to-face transaction channels such as the Internet, telephone, or ATM also raise concerns of anonymity. Therefore, the overall rating is "high".

High Vulnerability: Securities investment trust enterprises

Total assets of securities investment trust enterprises (hereinafter referred to as investment trusts) as of the end of 2017 amounted to NT\$53.621 billion. There are a total of 39 enterprises and 51 branch offices and the assets under their management (including investment trust funds, offshore funds, discretionary investment, and private funds) totaled approximately NT\$6.68 trillion. As the sales of funds are conducted via financial institutions, they have achieved a certain level of integration with other industries. Many investment trusts are subsidiaries of financial holding companies or investees of other financial institutions. They are highly integrated with other financial institutions in terms of shareholding.

The main businesses of investment trusts are fundraising, sales (public funds, private funds, and offshore funds), and discretionary investment. The targets of investment are securities or related products that can be quickly moved or cashed out. There were cases where the managers of funds or discretionary investment accounts abused assets under their management to purchase and sell stocks for their or others' interest. Those are products that can be easily abused. Compared to public funds, private funds and discretionary investment are more susceptible to ML/TF risks because such products are designed to provide services to a few or specific customers. In addition, after the offshore fund is introduced to the domestic market by a qualified master agent, money of investment is transferred by the investor or through the master agent or fund distributor to accounts designated by the offshore fund management agency. As of the end of 2017, the investment trusts' private funds accounted for approximately 0.51% of all assets under their management while discretionary investment accounted for approximately 25.60% and offshore funds accounted for approximately 39.17%.

Investment trusts and customer mostly maintain continuous transactions. The transaction relationship with customers derives mainly from the sales channels of financial institutions. The number of direct customers and transaction volume as a proportion of overall operations remain low. Customers consist mainly of natural persons. As of December 31, 2016, the proportion of legal persons' accounts and foreign investors' accounts were 2.09% and 3.83%.

Customers may also include foreign nationals, foreign or domestic PEPs, and high-net-worth individuals.

The scope of business activities of investment trusts are in Taiwan and they do not have overseas branch offices. In 2017, 51.19% of the funds were invested to foreign targets. Most of customers and investment targets did not involve high-risk countries or countries of concern. Customers from countries of concern such as Belize, Samoa, and Myanmar accounted for approximately 0.0077% and investment in countries of concern such as Pakistan, China, and Hong Kong accounted for approximately 1.80% of total investment funds.

As of the end of 2016, non-face-to-face transactions accounted for approximately 76.08% of total transactions. The electronic transaction amount (including Internet and voice-order) accounted for 1.44% of total subscription and redemption (calculated by the subscription and redemption amount). As of the end of 2016, funds sold through financial institutions accounted for 76.58% of total fund sales approximately.

In conclusion, the overall scale of assets managed by securities investment trust enterprises is immense and they are well-integrated with other industries. Discretionary investment and private funds have higher risks. Customers include foreign nationals, foreign or domestic PEPs, and high-net-worth individuals. The ratio of non-face-to-face transaction channels are high. Therefore, the overall rating is "high".

High Vulnerability: Lawyers

According to statistics from the end of 2017, there are approximately 10,033 licensed lawyers in Taiwan and a total of 5,561 law firms. The economic scale of the industry, based on the statistics compiled by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, was approximately NT\$13 billion in 2011 which makes it a certain-scale industry. The law firms in Taiwan are mostly small to medium firms and more than 90% of lawyers process litigation cases. Only large-scale firms or a minority of lawyers process asset transfers (including corporate mergers or real estate transactions), company registrations (according to the Ministry of Economic Affairs Statistics, based on the 2017 registration cases, 2,474 registrations handled by lawyers accounted for 0.46% of all registrations) or foreign-related non-litigation cases. In addition, when providing legal consultation or legal contract drafting services, those services usually combines with the other person or institutions such as

banks, security companies, real estate agencies, accountants, etc., which makes the business structure of lawyers is complex.

The services provided by lawyers, such as legal consultation, legal contract drafting, amendments, and witness, asset management and taxation planning, may also include more complicated legal structures and contract services, or may perform large transactions. If abused, they may cause severe negative impacts on the financial order or corporate governance. In practice, it has been found that lawyers participated in the planning of a public listed company's public tender offer default case, causing nearly 20,000 investors suffered severe loss; another listed company illegally conducts deposit business, which involves two lawyers long-term assisting the company in witnessing and reviewing contracts for more than 2,000 copies.

Lawyers' clients encompass all levels of professions and customers may include high-net-worth individuals and domestic and foreign PEPs. In the appointment of asset management, mergers and acquisitions or tax planning, they are mostly continuous business relationships; but real estate transactions are mostly one-time business relationships.

As legal systems of different countries are varied, most lawyers' business activities are restricted to the country and only large-scale firms or a few lawyers provide international or cross-border services. Cross-border legal services provided by large-scale firms generally do not involve high-risk countries or regions.

Due to strict legal requirements on recusal for conflicts of interest and in order to understand the case and verify information, lawyers rarely accept anonymous clients.

Lawyers may provide more complicated legal structures or contract services or involve in cross-border or large transactions. Their customers may include high-net-worth individuals and domestic and foreign PEPs. Therefore, the overall risk rating is assessed as "high".

High Vulnerability: Accountants

According to statistics in the end of 2017, there were a total of 3,396 licensed certified public accountants (CPAs) and 1,972 CPA firms in Taiwan, and the firms in Taipei City, New Taipei City, and Taoyuan City account for 60% of all firms. Business operations of accountants in Taiwan that may be regulated by

the Money Laundering Control Act include "taxation planning", "management consulting", and "business registration". The accumulated income from the three business operations amounted to NT\$3.22billion which accounted for 11.16% of all business revenue (NT\$28.92billion) and 0.18% of GDP. Statistics on the case numbers of transactions included: 6,329 cases (9%) of "taxation planning", 10,206 cases (15%) of "management consulting", and 50,733 cases (76%) of "business registration", totaling 67,268 cases. Although precise data for client's transaction amounts are not available, the scale of transactions performed by CPAs relevant to transactions listed in the Money Laundering Control Act may presumably be high. For instance, according to the Taiwan Mergers & Acquisitions White Paper of 2017, services for corporate mergers and acquisitions provided by CPAs in Taiwan in 2016 included 73 mergers and acquisitions and a total transaction amount of approximately NT\$420 billion.

The structure of the business operations of accountants is wide and complex. The related transactions they prepare or execute for customers often involve other industries such as the banking, financial leasing, securities, real estate, and legal industries. They are highly integrated with other sectors.

Services such as taxation planning, corporate mergers and acquisitions, and establishment of customers' offshore companies provided by accountants in Taiwan may involve multiple layers in structure and the nature and scope of the services for such services are prone to be complicated and are useful for concealing the identity of criminals. The professional knowledge of CPAs in fund management and business transactions and the services they provide for company establishment, corporate operations and management, corporate mergers and acquisitions, finance and taxation consulting may be used for illegal purposes.

In terms of customer relations, the taxation planning, management consulting, and business registration provided by accountants to customers are mostly one-time business transactions. Among them, with the exception of the establishment or change in the registration of domestic companies which may be indirect business operations (referred by bookkeepers, bookkeeping and tax return filing agents), most are direct business relationships. Their customers encompass all levels of society classes, including PEPs as well as high-net-worth individuals. Industries with ML/TF risks such as banks, securities firms, attorneys, real estate brokerages, life insurance companies, and securities investment

trusts enterprises may all be the customers of CPAs and their influence is spread across multiple industries.

CPAs can accept customer requests from other countries and perform transactions specified in the Money Laundering Control Act. Customers or transactions may involve high-risk countries or countries of concerns. As shown in the investigation report of the CPA firm service industry in 2016, a total of 22 CPA firms had performed business operations in Mainland China and the services that may involve money-laundering activities comprised approximately 7.1% of the total (business revenue was approximately NT\$38million), which accounted for a smaller proportion of overall business activities. As for cross-border corporate mergers and acquisitions, local CPA firms, in principle, provide related services. Accountants may also be involved in mergers of local companies in Taiwan by companies from other countries.

In terms of service channels, the Code of Ethics of Professional Accountants implements strict restrictions on the advertisement and solicitation of services. Therefore, accountants rarely meet customers through intermediaries and only certain accountants, who act as agents for foreign investors in processing securities and banking accounts, may be involved in non-face-to-face service channels. They may accept business registration introduced by bookkeepers, bookkeeping and tax return filing agents.

The scale of transactions performed by CPAs when they perform transactions listed in the Money Laundering Control Act are very high. The professional knowledge of CPAs in fund management and business transactions and the services they provide for company establishment, corporate operations and management, corporate mergers and acquisitions, finance and taxation consulting may be used for illegal purposes. CPAs are familiar with related financial and taxation regulations and they can provide customers with customized and sophisticated business arrangements. Cross-border cases may involve high-risk countries. The overall rating is "high".

High Vulnerability: Jewelry businesses

According to the company and business registration items and definitions of the Ministry of Economic Affairs, the business scope of jewelry businesses include the production, wholesale, and retail (including import and export trade) of jewelry, precious metals, and decorations. As jewelry businesses do not

require special permits, there are numerous operators amounted to 5,243 in number. There are approximately 4 types: (1) Traditional jewelry that purchase gold jewelry in bulk for sales; (2) Jewelry businesses like type 1 but equipped with gold accessories factories; (3) Wholesalers that operate jewelry businesses; (4) New types of jewelry businesses that offer more high-end jewelry from foreign sources. 74% of jewelry businesses are sole proprietorship or partnership and 26% are organized as companies. Their average capital is approximately NT\$1.46 million and most are small-scale businesses that tend to be family-run. Their annual sales revenue from production, wholesale, and retail in 2017 was approximately NT\$50 billion. They accounted for approximately 0.29% of Taiwan's GDP in 2017. Calculations based on 25 business days concluded that each jewelry business had an average of approximately NT\$25,000 in sales revenue each day in 2017. For retailers that constitute the majority of jewelry business, the amount is approximately NT\$14,000 in 2017.

Table: Number of jewelry businesses and (Paid-in) Capital

Types	Company	Sole proprietorship or partnership
Number (Ratio)	1,354 (26%)	3,889 (74%)
	5,243	
Average (Paid-in) Capital (NT\$)	4,813,745	294,532
	1,461,614	

The products have high unit prices and high value and they are also small in size and easy to transport without drawing attention and thus considered high-risk products. It is more difficult to supervise jewelry transactions, particularly for diamonds which are sold at unique prices. Gold (platinum) ingots and uncut diamonds have high liquidity on the market and are very likely to be resold. Law enforcement agencies also found frauds involving illegal fundraising in which suspects often use proceeds to purchase gold or high-price jewelry.

According to domestic customs, clients mostly purchase gold and silver accessories, jewelry, and gold or silver ingots for festivities, celebrations and gifts. As a result, operators are usually familiar with the customers. However, operators often do not have a deep understanding of the identity of unfamiliar customers who perform one-time transactions. In addition, there are no

restrictions on the buyers and therefore the customer base is diverse. Jewelry is not controlled goods and there are no mechanisms for registration of ownership. It is difficult to determine customers' true identities and the purpose of transactions.

As Taiwan does not produce gold, silver, and precious stones, operators rely on imports. According to import/export statistics, the top five import countries or regions in 2017 were Hong Kong, Japan, Singapore, United States and Switzerland.

Jewelry transactions are mostly conducted face-to-face. Customers are mostly regular customers instead of intermediaries.

Jewelry products can be converted into cash easily and the customer identity or purpose of transaction are not easily identified. In addition, the geographical scope of business activities involve countries or regions of concern. Therefore, the overall rating is "high".

High Vulnerability: Real estate brokerage

The real estate brokerage agencies in Taiwan include real estate brokers and real estate agencies. As of December 2017, there were a total of 6,324 brokerage agencies (4,257 brokers; 575 agencies; and 1,492 businesses with both brokerage and agency operations). Approximately 65% of real estate transactions in Taiwan are processed through brokerage agencies who process approximately NT\$1.6051 trillion with a total sales amount of NT\$40.759 billion (approximately NT\$37.668 billion from brokerage businesses and NT\$3.076 billion from agency businesses). Real estate brokerage agencies mainly accept commissions from real estate developers or real estate obligees to process real estate transactions. Once the parties agree on the transaction, the transaction is assigned to the commissioned or appointed land administration agent to process the subsequent real estate transaction and registration affairs. The process generally does not involve professionals such as attorneys or accountants. Certain operators of foreign real estate also cooperate with foreign developers or brokers to sell or introduce overseas real estate to local people. Their businesses are commonly located in all domestic cities and that include foreign real estate brokerages' branch offices in Taiwan. In addition, certain domestic operators run offshore real estate brokerage businesses overseas. The scale, level of complexity of the sector, level of integration with other sectors,

and sites of operations exhibit high levels of vulnerability.

Real estate properties have high value and possess value-retention and value-appreciation nature. They are preferred investment channels for criminals who use dummy accounts (natural or legal persons) to purchase real estate or purchase multiple real estate properties at the same time and use them for loans which are paid by illicit proceeds. Alternatively, they would purchase real estate by cash and then take out loans from banks. Although the money involved in real estate transactions is substantial, it is mostly processed through third-party contract performance guarantee accounts (escrow accounts). A few real estate brokerage agencies operate foreign real estate transaction services (approximately 0.89%) to help citizens purchase real estates overseas. Funds may be funneled out of the country through this method and cause the risks of being used as a money-laundering channel increased.

Once the real estate brokerage agents complete the sales of real estate properties consigned by the seller, the business relationship is deemed as terminated. The one-time transaction with the buyer is also finished upon the completion of the real estate transaction. The clientele may include natural persons, legal persons, trusts, high-net-worth individuals, politically exposed person (PEPs) and foreign nationals (including citizens of Mainland China)¹⁷. However, customers who are citizens from Mainland China or foreigners are extremely low in number, approximately 0.0419% and 0.42% respectively.

Most real estate brokerage agencies operate in the country and do not operate in high-risk regions. A few real estate brokerage agencies operate real estate sales overseas in mainly developed countries (United States, United Kingdom, Japan, etc.) or emerging markets in Southeast Asia such as Malaysia, Thailand, Indonesia, and the Philippines. Certain countries rank high in the Financial Secrecy Index and they are countries with higher risks of tax evasion and illegal funding.

With regard to delivery channels, brokers and sales representatives of real estate brokerage agencies would face the buyer and seller in their operations.

¹⁷ Foreign nationals' purchase of real estate in Taiwan depends on the principle of reciprocity between the countries. Acquisition of real estate by Mainland Chinese in Taiwan is processed in accordance with the "Regulations on Permit for the Citizens of Mainland China to Acquire, Create or Transfer Real Property Rights in Taiwan". Limitations and total amount controls are imposed on the underlying real estate, special impact, subject of right, usage, etc. They require application to and approval from the municipal and county (city) governments.

However, when the buyer and seller appoint different real estate brokerage agencies, the brokers of both parties negotiate directly. They also permit the buyer and seller to conduct transactions through agents. The sales of domestic real estate by citizens or foreign nationals residing overseas are rare¹⁸ and they account for less than 0.42%.

As real estate brokerage agencies have multiple outlets and products are characterized by their value-retention and value-appreciation nature, and they permit agent transactions and anonymous transactions and operate foreign real estate, they are a preferred investment channel for criminals. Therefore, the overall rating is "high".

Medium-Risk Vulnerability: Credit cooperatives

As of year-end 2016, there were 23 credit cooperatives in Taiwan with total assets of NT\$709.5 billion (approx. US\$23.7 billion), total deposits of NT\$646.5 billion (approx. US\$21.6 billion), and total loans of NT\$440.6 billion (approx. US\$14.7 billion). These credit cooperatives have a total of 260 domestic branch units. Each credit cooperative's places of business are limited to the county or city where it is headquartered and the neighboring two counties or cities. Credit cooperatives have no overseas branch units.

The primary businesses of credit cooperatives are domestic deposits, loans, and wire transfers; they do not operate offshore business units (OBUs), nor do they handle foreign currency deposits and loans, trade finance, or cross-border wire transfers. Their deposit and loan businesses account for a relatively low 1.6% and 1.7%, respectively, of total banking business.

Credit cooperatives mainly serve their own members. Most customers are domestic natural persons. A minority of their customers are small and medium businesses, and an extremely small percentage are foreign nationals. Almost all domestic customers are local residents. Most business between a credit cooperative and its customers is ongoing and involves direct interaction. Due to the limitation of business locations, products and services, customers of credit cooperatives are the general public and small and medium-sized businesses,

¹⁸They may follow the Civil Code and related regulations in land registration laws and submit a power of attorney verified by a foreign mission of Taiwan to process real estate transaction and registration. Such conditions are exceptions and foreign nationals may also use the above method to entrust transactions to a citizen for processing by submitting a power of attorney verified by a foreign mission of Taiwan.

and could possibly be local council members, local government officials, mayor representatives, etc. (including domestic PEPs); they do not offer wealth management services to high net worth individuals as commercial banks do. More than 95% of credit cooperatives' deposit customers are natural persons and less than 5% are legal persons. Among those legal persons, small and medium-sized enterprises account for more than 98% and their business cash intensity is high.

Businesses handled by credit cooperatives are domestic transactions. This sector rarely has foreign customers or foreign transactions and does not offer cross-border wire transfer services. Their customers and transactions rarely involve the countries of concerns.

Customers of credit cooperatives carry out their transactions mostly face to face (i.e. at the service counter). Although there are electronic channels such as Internet banking, phone banking, and ATM, they account for only 5% of total electronic transaction amounts, which are not the main service channels.

The total assets of credit cooperatives account for 1.2% of the total banking sector in Taiwan and their business volume accounts for a relatively small proportion. Credit cooperatives do not offer trade finance and cross-border wire transfer services. However, the deposits and wire transfers are their primary businesses, which are high vulnerable products for money laundering. There could possibly be local elected representatives or heads of local competent authorities (including domestic PEPs) among their customers. Most of their corporate customers are small and medium enterprises with high cash intensity business. Therefore, the industry risk rating is assessed as "medium".

Medium-Risk Vulnerability: Securities investment consulting

Total assets of securities investment consulting enterprises as of the end of 2016 amounted to NT\$10.796 billion, and the scale of managed assets including offshore funds and discretionary investment accounted for 2.44% and 97.56% of revenue. The total managed assets totaled approximately NT\$751.96 billion for a total of 45 enterprises. As of the end of 2016, offshore funds sold by investment consulting enterprises through financial institutions accounted for 96.76% of total sales of offshore funds (amount held by citizens) and others were proprietary sales. Discretionary investments involve the establishment of

direct contracts with customers and face-to-face transactions. The business structure of investment consulting enterprises is simple, with low levels of complexity. However, as financial institutions are required for the sales of funds, securities investment trust enterprises have attained a certain level of integration with other industries.

The sales of funds by securities investment consulting enterprises is processed by operators or through financial institutions while securities investment consulting enterprises sign contracts with customers directly for assets under management (AUM), for which customers are required to transfer the investment assets to the custodian institution (authorized financial institution) for custody. Therefore, there are no cash payments between investment consulting enterprises and customers. Discretionary investment businesses may have higher ML/TF risks than fund businesses. However, as of the end of 2016, the total AUM in discretionary investment businesses of investment consulting enterprises accounted for only 2% of its total AUM, and only 73 contracts were added in the entire year. The proportion is low when compared to regular financial products.

Investment consulting enterprises mostly maintain continuous transactions with customers, which consist mostly of domestic customers as well as low numbers of foreign nationals and foreign and domestic PEPs. Legal-person customers account for approximately 1.80%; high-net-worth customers account for approximately 0.40%; foreign capital customers account for approximately 0.12%, and foreign and domestic PEPs account for approximately 0.019%.

With regard to offshore funds, investment consulting enterprises introduce funds managed by offshore fund management agencies for domestic sales. They serve as master agents for offshore funds which invest in foreign assets. Discretionary investment is mainly concentrated on domestic assets.

When a customer opens an account at an investment consulting enterprise, with the exception of legal persons who may open accounts through an agent and minors who may open accounts through legal representatives, natural persons may not open accounts through agents. The proportion offshore funds sold by investment consulting enterprises through financial institutions accounted for approximately 96.76% of total sales in 2016. Approximately 34.63% of customers use electronic transactions (Internet and telephone) to issue orders. The number of transactions for the purchase and sales of funds

through non-face-to-face transactions (including Internet, telephone, and fax) accounted for approximately 91.81% of total transactions in 2016.

The overall scale of assets managed by securities investment consulting enterprises as of the end of 2016 was NT\$751.96 billion. The transaction volume was smaller than the main financial institutions such as domestic banks, securities firms, and investment trusts. The structure of the industry is simple and it has limited levels of integration with other industries. The sales of funds are processed by operators or financial institutions, and they conduct continuous transactions in business relationships with most customers. Their customers are mainly domestic customers and therefore the overall rating is “medium”.

Medium-Risk Vulnerability: Land administration agents

According to statistics from the Ministry of the Interior, as of December 31, 2017, there are approximately 11,103 licensed land administration agents in Taiwan, including independent offices and joint operations. Approximately 80% of domestic real estate transactions are registered through land administration agents. Based on the Standards for Income of Professional Practitioners promulgated by the Ministry of Finance and the income tax reported to taxation agencies, the income of land administration agents from professional practices (not actual income) was approximately NT\$31.7 billion to NT\$36.1 billion between the years 2012 and 2016. Their business locations are confined to domestic cities.

Real estate properties have high value and they also retain and add value. They are preferred investment channels for criminals who use dummy accounts (natural or legal persons) to purchase real estate, or purchase multiple real estate properties at the same time and use them for loans which are paid by illicit proceeds. Alternatively, they would use high amounts of cash to purchase real estate for loans from banks. Land administration agents' businesses are simple, and those that operate their own offices accept customers' requests for real estate transaction, gifts, inheritance, and related registration affairs. They may also work with real estate brokers or be employed by them to process real estate transactions, deed transfers and registration affairs commissioned by customers. Although they may involve monetary payment, they are not involved in foreign or cross-border real estate transactions. They may encounter

individuals from Mainland China or foreign nationals who purchase real estate in Taiwan when they accept commissions, but the ratio remains quite low, accounting for 0.0419% and 0.42% of cases in an entire year.

Land administration agents conduct one-time transactions with customers, and the business relationship is concluded upon the conclusion of the transaction or application for real estate registration. Customers include citizens or foreign nationals who may be natural persons, legal persons, and trusts as well as politically exposed persons (PEPs) and high-net-worth individuals who exhibit high levels of weakness.

Land administration agents only operate in Taiwan and they do not operate in high-risk countries or regions or those of concern. In addition, they are required to face customers directly when performing business operations regardless of whether they operate independent offices, or cooperate or are employed by real estate brokers. They are also required to verify customer identity. In practice, service channels exhibit medium levels of weakness due to transactions conducted under others' names, through trusts, or other non-face-to-face transactions.

Approximately 80% of real estate transactions in Taiwan are conducted through land administration agents. Although monetary payment may be involved, land administration agents only operate within Taiwan and they do not operate cross-border real estate transactions. They perform one-time business relationships with customers, but they permit transactions under others' names or through trusts. In conclusion, the overall rating is "medium-risk".

Medium-Risk Vulnerability: Securities finance enterprises

There are only two domestic securities finance enterprises including Yuanta Securities Finance and Global Securities Finance Corporation. Their total credit balance is NT\$26.572 billion which consisted mainly of margin purchase and short sales businesses (NT\$10.775 billion) and secured loan businesses (NT\$15.297 billion). The secured loans of securities finance enterprises are conducted independently by the banks, who also conduct margin purchase and short sales businesses through agent securities firms. They neither operate other concurrent businesses nor are they run concurrently by other businesses. They have limited integration with other industries.

Securities finance enterprises provide financing for funds and securities

bills related to securities to customers. Their margin purchase and short sales businesses are conducted through agent securities firms and they process secured loans independently. Customers consist mainly of those in the securities trading market. The payment of funds in the aforementioned transactions is processed through transfers to investors' accounts and there are no cash payments. Based on the number of transactions for each customer, the frequency of margin purchase and short sales businesses in 2017 was 45.6 transactions/person. The frequency of transactions in secured loans was 7.07 transactions/person.

Securities finance enterprises mostly maintain continuous transactions with domestic customers as well as low numbers of foreign nationals and foreign and domestic PEPs. Foreign and domestic PEPs account for approximately 0.002% of customers; high-net-worth customers account for approximately 0.68%; and foreign capital customers account for approximately 0.12%.

The scope of business activities is within the borders of Taiwan and customers are mostly citizens. They do not involve high-risk jurisdictions or countries of concern.

In terms of service channels, as margin purchase and short sales businesses can only be provided through securities firms and secured loans are processed independently by securities finance enterprises, there are no cases of multiple intermediaries. With regard to margin purchase and short sales businesses, customers can conduct transactions by issuing orders through securities firms' networks. As margin purchase and short sales businesses are provided through securities firms, the proportion of electronic transactions through Internet and voice-call orders can be referenced from the number of electronic transactions conducted by the securities firms (as of the end of November 2017, the number of electronic transactions conducted by securities firms accounted for approximately 55.68% of market transactions). There are no Internet purchase options for secured loan businesses.

There are only two securities finance enterprises in Taiwan and they have few outlets. They mainly conduct margin purchase and short sales businesses and secured loan businesses. The transaction volume and assets are small in scale, and the structure of the industry is not complicated. The nature of business is simple and the flow of loans is clear and easy to investigate. They

conduct continuous transactions with most customers. The scope of business activities is within the borders of Taiwan and customers are mostly citizens. In addition, secured loans are processed independently by securities finance enterprises and there are no cases of multiple intermediaries. Therefore, the overall rating is “medium-risk”.

Medium-Risk Vulnerability: Financial leasing enterprises:

Financial leasing enterprises do not require licensing and they include lease companies that are investees of banks (15 companies), vehicle leasing companies established by automobile companies (8 companies), foreign leasing companies (5 companies), and leasing companies that are investees of group corporations (8 companies). According to statistics, the total of leasing business transactions in 2016 amounted to approximately NT\$36.7 billion (excluding consumer financial leasing - passenger vehicle financial leasing), and total assets were approximately NT\$20 billion. The scale is not high when compared to other financial industries.

Business activities of financial leasing companies must integrate equipment providers and customers. The sites of operations are mainly within the country and number of business outlets are limited. However, large-scale service providers often expand overseas through investee companies or the establishment of subsidiary companies to provide Taiwanese companies with related services overseas. The inherent nature of the industry contains medium-level Vulnerability.

In terms of the nature of product services, when a company needs certain machinery or equipment, it signs a lease contract with the leasing company for the lease company to make the purchase and for the company to lease the required machinery or equipment from the leasing company. The company pays rent for each period and it may purchase or continue the lease of the leased object at favorable prices or conditions after the expiry of the lease period. The lease company recovers the advanced funds and interest from the rent. However, there may be high levels of weakness when customers and suppliers use false price appraisals or conspire against certain leasing companies by using false leases for actual financing to obtain funds.

Most customers of financial leases are companies and there are no individual customers or high-net-worth individuals. These companies mostly

maintain continuous business relationships with customers, who consist mainly of small and medium domestic companies. Manufacturing industry accounts for 20.5% of the business volume while the transportation and warehouse industry accounts for 18.5% and the wholesale and retail industry accounts for 11.8%. The business volume from the three industries accounts for 50.8% of all businesses. Where customers are wholesale or retail industries, they may have certain cash-intensive operations and only exhibit medium levels of weakness.

With regard to the geographical scope of industry operations, foreign procurement only accounts for approximately 0.26%. However, transactions with Taiwanese companies involve Mainland China, Thailand, and Vietnam, thus exhibiting medium level of weakness.

Financial leasing businesses involve signing of contracts. In principle, face-to-face transactions are required for both customers and suppliers, or certain amount of identity verification procedures are required. However, when the supplier and customers are both legal persons, they may use proxies or agents to conduct transactions anonymously. Therefore, anonymous transactions are not excluded. The service channels are simple and operators generally provide services directly. The service channels also exhibit medium levels of weakness.

The total assets of financial leasing businesses are not high in scale and business activities must integrate equipment providers and customers. The sites of operations are limited and companies conduct continuous business relationships with customers who are all legal persons. The proportion of foreign procurement is extremely low, and although transactions through proxies and agents are permitted, services are mostly provided by operators and service channels are simple. (Please add conclusion) In conclusion, the overall rating is “medium-risk”.

Medium-Risk Vulnerability: Futures merchants

As of the end of 2016, the total assets of all futures merchants in Taiwan amounted to NT\$263.811 billion and the total revenue was NT\$13.957 billion. It is smaller in scale than other financial industries. The business locations of futures merchants are within Taiwan and the number of business outlets are limited.

The products and services provided by futures firms are simple. Most

business transactions consist of standardized futures transactions on TWSE and they do not provide cash payment and trade financing. The transaction information is transparent. The payment accounts for futures guarantees are the customers' own accounts and payments must be conducted through fund transfers. The level of cash involvement is low. Futures merchants maintain continuous and direct relations with most customers.

As of the end of 2016, there was a total of 1,623,399 natural-person accounts and 9,867 legal-person accounts for futures transactions. Current customers of futures merchants consist mainly of domestic customers and may also include certain foreign nationals as well as foreign or domestic PEPs and high-net-worth individuals. There exists certain level of ML/TF vulnerability. However, the proportion of high-net-worth individuals in futures is relatively low when compared to the banking industry. In addition, futures merchants may not conduct transactions with customers in cash directly, and it is therefore not a cash-intensive industry.

The foreign capital corporate customers of futures merchants may be from high-risk jurisdictions or they may be involved in tax havens and other countries of concern. However, their activities account for low proportions of overall business activities. In practice, futures brokerage customers may appoint agents or use dummy accounts for transactions.

Customers may conduct futures transactions over-the-counter, via telephone, or through online channels but the service channels are not complicated.

The futures merchants' scope of business activities is mostly within the country and even if they are entrusted to carry out foreign futures transactions, the categories and transactions are restricted to those permitted by the FSC, and they do not involve countries or regions with severe AML/CFT discrepancies announced by the Anti-Money Laundering Division, MJIB. The futures trading conducted by traders from Taiwan in the United States, United Kingdom, Japan, Hong Kong, Singapore, and Germany accounted for 98% of foreign futures transactions in 2016. Therefore, the industry and sector weakness level is assessed as medium.

Medium-Risk Vulnerability: Insurance agents and brokers

As of the end of December 2016, there was a total of 300 insurance agent

companies (including 31 banks that operate concurrent insurance agency businesses and investees of banks, and 269 traditional insurance agent companies, including 94 that specialize in personal insurances, 174 that specialize in property insurances, and 1 that offers both life insurances and property insurances). The revenue from agency fees amounted to NT\$63.9 billion (banks that operate concurrent insurance agency businesses accounted for 65%). There was a total of 341 insurance brokers (including 14 banks that operate concurrent insurance agency businesses and investees of banks, and 327 traditional insurance brokers, including 95 that specialize in personal insurances, 40 that specialize in property insurances, 169 that offer both personal insurances and property insurances, 25 that offer personal and property insurances as well as reinsurances, 10 that offer property reinsurances, and 2 that offer personal reinsurances). The revenue from commissions was NT\$31.7 billion. Revenue from personal insurances amounted to NT\$1.1 trillion (45% of total revenue from insurance premiums). Insurance agencies/brokers in Taiwan require approval for establishment. With the exception of banks that operate concurrent insurance agency businesses, most operators are companies with low levels of capital (76% of insurance agent companies and 57% of insurance brokers have capital below NT\$5 million). Their transaction parties include life insurance and property insurance businesses, and their structure is not complicated. They are also not permitted to sell financial products other than insurance policies, and the level of integration with other industries is limited.

As insurance premiums are paid by the proposer directly to the insurance company and the insurance claims are paid by the insurance company to the insured, insurance brokers/agent companies are not the main payment entities in the execution of insurance policies. Even if insurance companies authorize insurance agents to collect insurance premiums on their behalf, the insurance premiums collected may not exceed NT\$50,000 for each insurance policy. Therefore, insurance purchasers mostly pay directly to insurance companies amid actual operations and the industry is therefore not cash-intensive. Insurance brokers/agents solicit businesses mainly through direct interactions. In addition to developing new customers, solicitors often target old customers to sell new insurance policies, and they also provide other services (e.g., assisting in filing claims or changing contracts); they maintain continuous

business relationships with customers. Insurance agents/brokers generally target the general public for sales and PEPs account for a very low proportion of sales. (The proportion of personal insurance products purchased by PEPs through all channels account for 0.07% of the total number of customers.)

The business activities of insurance agents/brokers are confined to domestic activities and customers are rarely from high-risk jurisdictions or countries. Income from insurance premiums in 2016 was approximately NT\$3.332 billion and it accounted for approximately 0.04% of total life insurance premiums.

Solicitors of insurance agents/brokers mostly face customers directly. The service channels are not complicated, and although insurance policies may be purchased through the Internet (3 insurance brokers, 4 banks that operate concurrent insurance agency businesses, and 1 property insurance agent have initiated pilot programs for online insurance purchases) or through telemarketing, they account for a low proportion of businesses (approximately 6.34% of revenue from life insurance businesses).

The scale of insurance brokers/agent companies is small and they are widespread across the country. The business scope is mostly regional and the nature of insurance policies offered consists mostly of personal life insurances, injury insurances, and health insurance policies that incur lower risks. Most businesses are directly developed or referred by solicitors through continuous business relationships. In addition, the qualifications and cases conducted through online marketing and telemarketing are limited. The overall rating is "medium".

Medium-Risk Vulnerability: Certified public bookkeepers, bookkeeping and tax return filing agents

As of December 31, 2016, there were 3,666 certified public bookkeepers registered in associations and 5,058 bookkeeping and tax return filing agents registered in associations. An individual with a diploma of a senior high school or senior vocation school or above is eligible for registering for the certified public bookkeeper test and may practice as a certified public bookkeeper after obtaining a public bookkeeper certificate. Bookkeeping and tax return filing agents with registered licenses (note: no qualification test is required) shall complete at least 24 hours of professional training each year and join an

association in order to continue professional practice. The revenue from professional practices was approximately NT\$5.9 billion in 2017. Certified public bookkeepers and bookkeeping and tax return filing agents are required to set up relevant firm offices in their respective areas. Joint firms operated by 2 or more individuals are not common. The structure of their operations is simple, and the business operations scope is restricted to domestic operations.

Certified public bookkeepers and bookkeeping and tax return filing agents mainly provide business accounting services, taxation registration, tax filing and application, taxation consultancy, and bookkeeping and related taxation services to sole proprietary businesses, partnerships, and small and medium profit-seeking enterprises. The nature and scope of services provided are relatively complex.

The recipients of services consist mainly of domestic sole proprietary businesses, partnerships, and small and medium profit-seeking enterprises which may involve domestic PEPs and high-net-worth individuals. However, the proportion is not high. They maintain continuous and direct business relationships with most customers.

Certified public bookkeepers and bookkeeping and tax return filing agents operate within Taiwan and they generally have no involvement in high-risk regions or countries of concerns.

Most certified public bookkeepers and bookkeeping and tax return filing agents provide services to customers face-to-face. The anonymity and complexity of delivery channels are low.

Customers of certified public bookkeepers and bookkeeping and tax return filing agents may include PEPs and high-net-worth individuals, and the nature and scope of services provided are relatively complex. The overall vulnerability risk is therefore medium.

Medium-Risk Vulnerability: Electronic payment service providers

As of the end of December 2017, there was a total of 5 electronic payment service providers in Taiwan, whose total assets amounted to NT\$2.6 billion with 2,567,366 transactions. The average transaction amount was NT\$838 and the number of accounts totaled 771,054. (626,367 type 1 accounts, 134,919 type 2 accounts, and 9,768 type 3 accounts). Compared to the total asset scale of NT\$47,821,100,000 of all banks, electronic payment service providers operate

at micro levels. The minimum paid-up capital for dedicated electronic payment service providers is NT\$500 million. However, the minimum paid-up capital for operators that process actual payments is NT\$100 million and they are not large companies. Electronic payment service providers are mostly independent non-public companies that are not part of financial groups, and they do not use agent institutions or establish branches. Electronic payment service providers are allowed to integrate with other industries but they require licensing if they involve cooperation with offshore institutions or assist offshore institutions in electronic payment services in Taiwan. Currently, one head office of an electronic payment service provider is established in Taiwan and the operation outlets are very limited.

Businesses operated by electronic payment service providers are restricted to payment of actual transactions, collection of stored value funds, transactions between electronic payment accounts, and other businesses approved by competent authorities. Although main businesses involve transaction payment and fund transfer, the transaction volume and frequency are limited due to regulatory restrictions on transactions, and the average transaction amount is low (just over NT\$800).

Users of electronic payment accounts must be registered to conduct transactions and most users establish continuous relationships with electronic payment service providers. There are occasional transactions. The fund transfer services provided by the industry are mainly offered to payers and payees in electronic commercial transactions (including e-commerce shops and consumers). The identities of users who are foreign or domestic PEPs are exceedingly low (approximately 63 accounts in 2017). The industry may include cash-intensive customers (e.g., retailers) but it includes limited numbers of high-net-worth customers or legal-person customers with complicated structures.

The areas where the industry conducts business activities do not involve high-risk jurisdictions or countries of concern announced by the FATF or other regional AML organizations.

The business model of electronic payment service providers consists mainly of online payments. Consumers can register with the electronic payment institution, open electronic payment accounts, and conduct electronic payment transactions through the Internet without face-to-face transactions.

Transactions with electronic payment accounts are conducted directly through the Internet and most transactions involve simple fund transfers in e-commerce activities. Service providers are able directly identify the sources of transactions and complicated service channels are rarely seen.

The scale of electronic payment service providers in Taiwan remains micro. Although integration with other industries is permitted, they require licensing from competent authorities if they cooperate with offshore institutions, and appropriate oversight is provided to control risks. In addition, the industry is confined to operations in online transactions and payments. The nature and scope of products and services mostly involve fund transfers in e-commerce activities and there are restrictions on transaction amounts. ML risks are therefore controlled. The areas where the industry conducts business activities do not involve high-risk jurisdictions and countries of concern. Therefore, the industry and sector weakness level is assessed as medium.

Medium-Risk Vulnerability: Third-party payment services

Third-party payment services comprise e-commerce businesses or independent institutions with credit guarantees. They cooperate with banks and establish a neutral payment platform to provide banks a payment and settlement system interface. They provide online shoppers with fund transfer channels and network payment services. Third-party payment operators collect payment for the online transaction from the customer and allocate the funds to the recipient after the accomplishment of certain conditions (e.g., after products or services are obtained) for online transactions based on instructions from consumers to complete services for the transfer of funds.

Based on company statistics from the Ministry of Economic Affairs, as of the end of April 2018, 5,939 companies in Taiwan applied for third-party payment services (excluding companies that have been abolished, dissolved, merged and dissolved, or revoked of licenses). Based on statistics on businesses from the Ministry of Finance, as third-party payment services are not listed individually but listed among other industries instead, an estimated 10 to 20 registered third-party payment operators have obtained credit card merchant status and are in actual operations. The locations of business operations are mostly within Taiwan and their structure permits a certain level of integration with other industries. The average daily amount transferred by third-party

payment services is less than NT\$1 billion.

The business relationship between third-party payment services and customers is similar to one between a payer and recipient. As agents, third-party payment services simply provide services for managing and taking custody of funds for transactions of small amounts. Although customers temporarily store transaction amounts in third-party payment accounts, third-party payment service providers never retain the ownership of the funds. In addition, their relationship with customers involves the provision of one-time payment services, which is relatively simple.

Third-party payment services also establish relationships with multiple financial institutions. However, financial institutions are unable to discern who the true transaction counterparty is when processing transactions, which makes it difficult for them to obtain all information on customer relationships and data. Transactions in the industry consist only of online transactions instead of face-to-face transactions. Although users have registered as members and verified their identity before transactions, and third-party payment service providers can also access user identity data, the anonymity implied by the inability to verify who the actual user is (using others' registration information for payment services or using false identities for registration) as well as the possibility of false transactions for the purpose of illegal transfers of funds or cash extraction pose risks for money laundering.

The nature of the third-party payment sector is relatively simple. Commercial activities mostly occur within the country and there are extremely low amounts of foreign transactions. They also do not involve high-risk jurisdictions or countries of concern. However, there remains the possibility of being unable to fully verify the true identity of customers who perform transactions, and the average amount in daily payment collection services is not low either. The third-party payment services sector has been assessed as an industry with medium levels of vulnerability.

Medium-Risk Vulnerability: Bills finance companies

Bills finance companies provide a source of financing capital other than banks to businesses and individuals. The basic function of bills finance companies is to collect and use short-term capital on the monetary market to serve as an intermediary between depositors and investors so that lenders with

short-term excess capital and borrowers who lack short-term capital can conduct transactions through the bill (monetary) market to achieve business objectives of both parties. As of the end of December 2016, there were a total of 8 bills finance companies. The minimum paid-up capital of bills finance companies was NT\$2 billion. Their main businesses are guarantees for purchases of bills and bonds as well as short-term bills. They provide services to customers who supply or demand funds to obtain reasonable compensation or funding requirements. The total assets of all bills finance companies amounted to NTD (same hereunder) 986.5 billion; total liabilities amounted to \$869.3 billion; the balance of guarantees for short-term bills was \$506.6 billion; and proceeds totaled \$13.6 billion. The total assets of bills finance companies is much lower than the scale of total assets of domestic banks (\$45 trillion). As of the end of December 2016, there were 8 bills finance companies and all 30 branches were within Taiwan. The sites of operations remain simple.

Transactions in bills and bonds are mostly continuous and non-cash transactions. All funds in the bills and bonds sector are transferred through bank accounts and no transactions are conducted in cash. The flow of funds is clear and businesses remain simple with clear transaction counterparties.

Bills finance customers include legal persons and natural persons and they consist mostly of domestic legal persons with very little transactions with foreign customers. The proportion of foreign or domestic PEPs is extremely low and the sources of customers and their backgrounds are relatively simple. The source of customers consists mostly of domestic customers with very few foreign customers, who additionally are not from countries or regions with severe AML/CFT discrepancies as announced by the FATF.

Bills finance companies provide guarantee services for bonds and bills transactions and short-term bills. The transactions can be used to directly identify the sources of transactions and the customer identity data are clear and comprehensive (natural persons: personal identification documents; legal-person customers: company registration information). There are no anonymous transactions and service channels are simple.

The bills finance industry is characterized by its small scale of operations and high transaction volumes. It also involves natural-person customers with high net worth. Although its geographical scope and service channels for operations are relatively simple and no anonymous transactions are permitted,

the bills finance industry was assessed as having medium ML risks.

Low-Risk Vulnerability: Notaries

Notaries in Chinese Taipei include “court notaries” and “civil notaries”. Apart from different qualifications (court notaries are civil servants and civil notaries are professional personnel), both types of notaries are subject to regulations in the Notary Act. As of June 30, 2018, there are only 224 notaries in Chinese Taipei. Notaries conduct notarization work (such as leases, loans, appointments/authorizations) and attestation (such as that for official documents, translated copies and statutory declaration of marital status etc.). As notarization is an exercise of public powers and it retains presumption of true evidentiary power and enforcement power in the courts of Chinese Taipei, notarization affairs are closely related to public interests. In addition, although the buying and selling of real estate and sale of business entities are included in the overall businesses of notaries, notarization is not mandatory for people who carry out buying and selling or registration of real estate or conduct business operations, based on the laws of Chinese Taipei. Furthermore, among the notarization and attestation cases performed by notaries in 2017 (340,197 cases), as activities involving sales and purchase transactions and contracts accounted for only 2%, the overall scale of the notary industry is small and it also has limited interactions with other sectors.

Notaries are neutral third parties when they conduct notarization or attestation. They do not enter into appointment contracts with clients and they differ from attorneys and accountants who establish appointment relationships with clients. However, as customers may be natural persons (including citizens or foreign nationals) or legal persons and notaries have no restrictions on the professions of customers, customers may include PEPs or foreign nationals.

The locations of notarization are within the country and the no high-risk judicial countries or countries of concern are involved in the geographical scope of professional activities. With regard to the nature of service channels, notaries are required to verify the identity of the clients for notarization and attestation activities. When processing agencies, they also verify whether the trustor has truly authorized the agency. Therefore, they do not accept non-face-to-face notarization or attestation applications. In addition, as notaries may not represent customers in transactions when processing notarization or attestation,

there are no anonymous service channels.

In conclusion, the notary industry is characterized by its small scale of operations and high transaction volumes but transactions involve real estate sales and purchase transactions and contracts and involve high-net-worth customers, PEPs, or foreign nationals. Although its geographical scope and service channels for operations are relatively simple and no anonymous transactions are permitted, the notary industry was assessed as having medium ML risks.

Low-Risk Vulnerability: Futures management enterprises

As of the end of 2017, there were a total of 9 futures management enterprises in Taiwan. With the exception of one dedicated enterprise, others were all concurrent businesses. The net value of all companies amounted to NT\$1,044,708,000 and only 6 futures management enterprises retained effective appointment contracts. The total valid amount in consigned contracts was NT\$651,700,000 and the number of valid accounts was 55 (all were domestic natural persons or legal persons). The total valid consignment amount accounted for 62% of total net value of all companies. Compared to other financial industries, the scale is small and the consigned amounts are low.

Futures management enterprises are appointed by designated persons for discretionary futures transactions and the structure of the industry is not complicated. However, as they are mostly established by financial holding companies or through other group investments, they have a certain level of integration with other industries. The service locations of futures management enterprises are all within the country and they have a limited number of operation sites.

Futures management enterprises sign discretionary futures trading contracts with customers directly and no anonymity is permitted. Customers are required to assign investment assets to the custodian institution (approved financial institutions) for custody, transactions, settlements, and account processing. The level of cash involvement is low there are no additional intermediaries. The level of complexity is low.

Futures management enterprises in Taiwan maintain continuous and direct communication with customers. There are only 55 customers which consist mainly of domestic natural persons (92.73%) and domestic legal persons

(7.27%). No PEP has been found among current customers and no high-net-worth individual is involved in business transactions.

With regard to the geographical scope of industry operations, the futures management enterprises currently have no foreign natural-person or legal-person customers. The scope of business activities of futures management enterprises is within the borders of Taiwan. Even if the managed assets include foreign futures products, they do not involve high-risk countries or countries of concern.

The scope of business activities of futures management enterprises is within the borders of Taiwan. The total valid amount in consigned contracts was NT\$493,524,000 and there were only 42 valid customers. They have limited locations of operations, and even if there are investments in products of foreign futures merchants, they do not involve high-risk jurisdictions or countries of concern. The service channels are simple and there are no additional intermediaries. Therefore, the industry and sector vulnerabilities were assessed as low.

Low-Risk Vulnerability: Credit card companies

As of the end of December 2016, there were 5 dedicated credit card companies in Taiwan, with a total of approximately 460,000 cards in circulation and a total of approximately 303,000 active cards. The cash advance amount in 2016 amounted to NTD (same hereunder) 68 million. The credit card payment amount was approximately \$54.1 billion (including \$38 billion in domestic payments and \$16.1 billion in foreign payments). The amount in each payment was approximately NT\$5,713. The scale of assets, total transactions, and number of transactions were very low when compared to those of banks.

The main businesses of dedicated credit card companies include the issuance of cards (issuance of credit cards, revolving credit for credit cards, and cash advances) and payments (establishment of special agencies and processing credit card payments on behalf of merchants). With the exception of the National Credit Card Center of R.O.C., which is funded by the government and donations from domestic companies, the other 4 dedicated credit card companies were all subsidiary (branch) companies of foreign companies in Taiwan. The structure of industries and businesses is simple and they are not integrated with other industries. The level of complexity is low. Dedicated credit

card companies only establish head offices in Taiwan while the National Credit Card Center of R.O.C. has additionally established 2 offices.

Credit card holders are restricted to natural persons. Issuers have a wide range of customers. With the exception of American Express which has more customers with high levels of assets, applications submitted to other credit card companies only require applicants to provide occupation, business, and related proof of financial resources. Applicants generally pass the review procedures of credit card companies. Credit card companies establish long-term and stable business relationships with customers based on the validity period of the issued cards. Dedicated credit card companies mainly issue cards and provide payment services to domestic customers. They are not involved in countries of concern in regard to ML/TF activities and business operations are mostly domestic. They do not involve high-risk jurisdictions.

Credit card operations do not involve anonymous customers and the records on the cash flow in each credit card transaction are available for tracking to directly identify the source of transactions. There are rarely anonymous or complicated transactions. However, there is the possibility of being unable to verify the true identity of credit card users and fraudulent use of credit cards in online transactions. The feature for refunding excess credit card payment may be abused by criminals who defraud victims by making them transfer funds into credit card accounts, and then apply for refunds of the excess credit card payment from banks to obtain the defrauded funds. Therefore, there remains a certain level of risks.

The scale of assets, total transaction amount, and number of transactions of credit card companies are far lower than those of banks and their businesses are simpler than those of other industries. Their business operations are mostly domestic and customers are mostly citizens. No high-risk jurisdictions are involved. Although there are no anonymous customers, it remains possible that the credit card user in the transaction process is not the actual credit card holder. Therefore, credit card companies are assessed as having low levels of risks.

Low-Risk Vulnerability: Non-life insurance companies

As of December 2016, there were a total of 14 property insurance companies, 5 branch companies of foreign property insurance companies, and 3

professional reinsurance companies in Taiwan. The total assets of the overall property insurance industry amounted to NT\$346 billion and revenue from insurance premiums amounted to NT\$146 billion. Property insurance companies maintain operations across the country and consumers can purchase property insurance products through financial institutions that cooperate with property insurance companies in marketing and promotion. The industry is well-integrated with other industries.

Property insurances includes fire insurances, marine insurances, land and air insurances, liability insurances, and any other type of property insurances approved by the competent authority. Products provided by property insurance companies are mostly used to bear the risks of property loss for the proposer and they require insurable interest as preconditions. The scope of compensation is restricted to the value of assets or the insured amount. As they are used for damage compensation and consist mostly of one-year insurance policies with little cash value, they were assessed as low-risk.

The main parties to whom the property insurance industry provides financial services are domestic customers and most customers conduct transactions with insurance companies for coverage of potential losses. There are no restrictions on the identity of customers of the property insurance industry and the proportion of domestic or foreign PEPs in the property insurance industry accounts for a low proportion of the insurance purchases in the industry.

Property insurance companies rarely operate in foreign countries because their main market is within the borders of Taiwan. Foreign customers only account for a fraction of total customers compared to the number of domestic customers.

The sources of businesses of the property insurance industry consist mainly of company sales representatives as well as cases solicited by insurance brokers and insurance agents. Other sales channels such as Internet insurance purchases or telemarketing employ indirect methods for communicating with consumers.

The scale of assets of the property insurance industry is low and no products with high ML risks have been found in assessments. The overall rating is therefore "low-risk".

Low-Risk Vulnerability: Foreign currency exchange counters

Foreign currency exchange counters of Taiwan are a business other than financial institutions (such as department stores, hotels, arts and crafts retailers, and teahouses) concurrently engaged in exchanging customers' foreign currency cash or traveler's checks into TWD. Foreign currency exchange counters do not conduct solely as money changers. There were 437 foreign currency exchange counters as of December 31, 2017. The aggregate amount of foreign currency exchanged through them between 2013 and 2017 amounted to US\$307 million, which represented only 0.7% of the US\$46.455 billion exchanged by the banking industry as a whole. The business volume is low.

The businesses concurrently engaged in foreign currency exchange counters vary in scale and differ in the nature of their industries. They are not financial institutions. The foreign currency exchange counters have simple business structures. Foreign currency exchange counters of Taiwan are a businesses other than financial institutions concurrently engaged in exchanging customers' foreign currency cash or traveler's checks into TWD. They are not permitted to perform other financial services such as deposit or loan services, or domestic/international wire transfers. They can only conduct a one-way service for the exchange of foreign currency cash into TWD and are not permitted to conduct bidirectional exchange in foreign currencies.

The operating locations of foreign currency exchange counters are confined to Taiwan and customers are restricted to foreign travelers with foreign passports, Overseas Chinese visiting Taiwan for tourism, and travelers from Mainland China, Hong Kong, and Macao who hold exit & entry permits. Each customer may only exchange the equivalent of US\$10,000 or RMB 20,000 per transaction which is lower than the occasional transaction threshold (USD/EUR 15,000) that FATF has recommended. In addition, exchanges can only be conducted by customers in person. The channels are simple and the overall risk rating is therefore low.

Low-Risk Vulnerability: Centralized securities depository enterprises

There was 1 centralized securities depository enterprise as of the end of 2017 with assets totaling approximately NT\$26.2 billion. Overall, the assets are considered small-scale. Centralized securities depository enterprises focus

mostly on the custody, transactions, and delivery of pledged securities in account books. In addition, they operate concurrent short-term centralized depository businesses for bills and the industry structure is not complicated. Due to the unique nature of businesses of centralized securities depository enterprises, there exists limited integration with other industries.

Centralized securities depository enterprises provide the custody, delivery, settlement, and registration of securities and almost no payments are involved.

Customers of centralized securities depository enterprises are restricted to those specified in regulations and they include government authorities, exchange houses, financial institutions, public companies, asset management companies, foreign depository account transfer or settlement institutions, government funds, bills settlement banks, and short-term bills issuers. There are no natural-person customers. Centralized securities depository enterprises mainly provide backstage account settlement operations for the securities market and they maintain continuous business relationships with customers. No customers engage in occasional transactions.

Centralized securities depository enterprises mainly operate within the country and businesses that involve foreign countries are restricted to the custody of foreign securities and offshore funds. Foreign securities are mostly kept in the custody of international central securities depositories (ICSD) and offshore fund companies are restricted to those whose master agents have been approved by competent authorities for domestic sales. The aforementioned businesses do not involve high-risk jurisdictions or countries of concern.

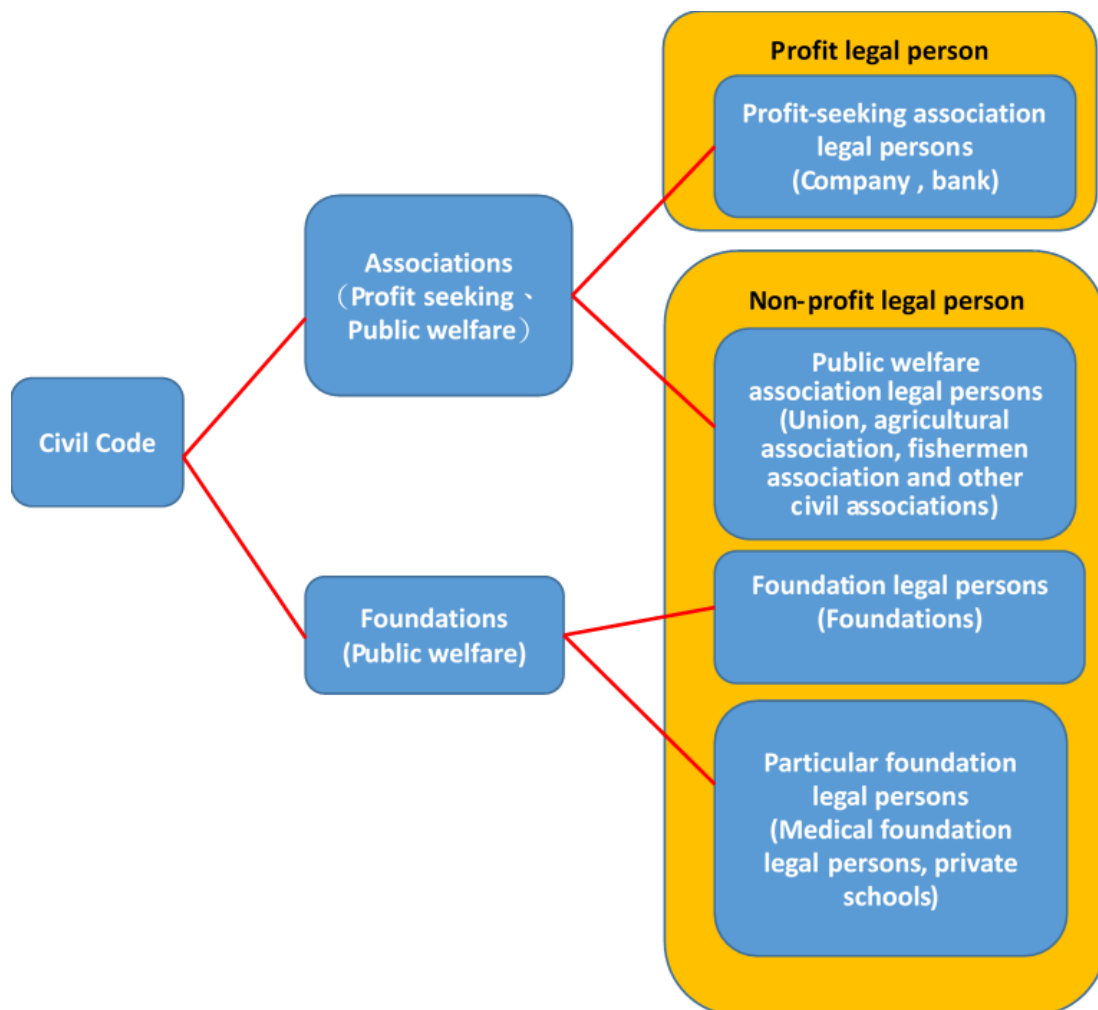
Customers of centralized securities depository enterprises are all institutions that meet legal qualifications and they are required to submit related documents certifying their establishment to open accounts. There are no anonymous transactions. They mostly conduct direct business transactions with customers and they rarely contact customers through intermediaries. Only certain business transactions in short-term bills are outsourced for processing and they all require approval by the competent authorities. The service channels are not complicated.

There is currently only one centralized securities depository enterprise in Taiwan and its total assets amounted to approximately NT\$26.2 billion as of the end of 2017. The assets are small in scale. It is responsible for providing

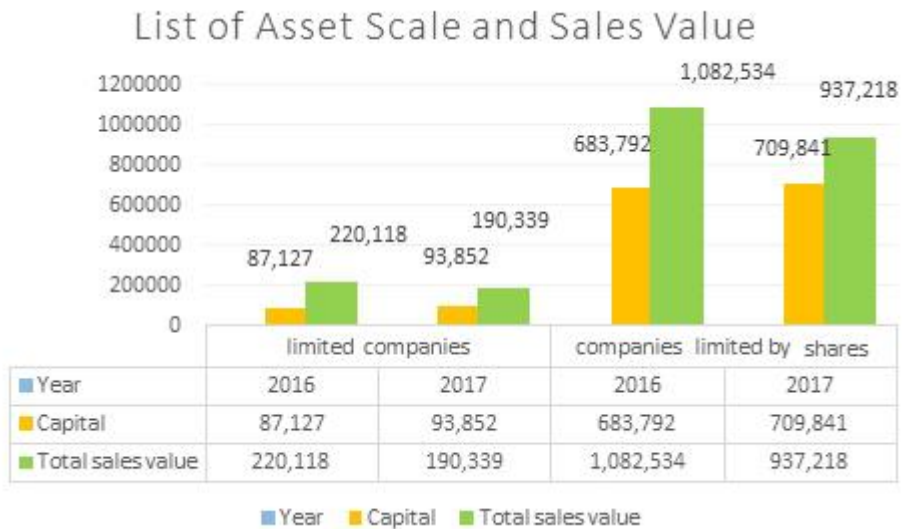
backstage account settlement operations for the securities market and the structure of the industry is not complicated. The service counterparties do not include natural-person customers and its operation locations are within the country. It maintains continuous business relationships with customers and the overall risk rating is therefore “low-risk”.

Chapter 8 Risk Assessment Results: Legal Persons

The legal persons in Taiwan mainly include Associations and Foundations. This chapter is focused on assessments of for-profit corporations, also known as companies. Other types of legal persons will be discussed in Chapter 10 Non-Profit Organizations. The types of legal persons in Taiwan are summarized in the diagram below.



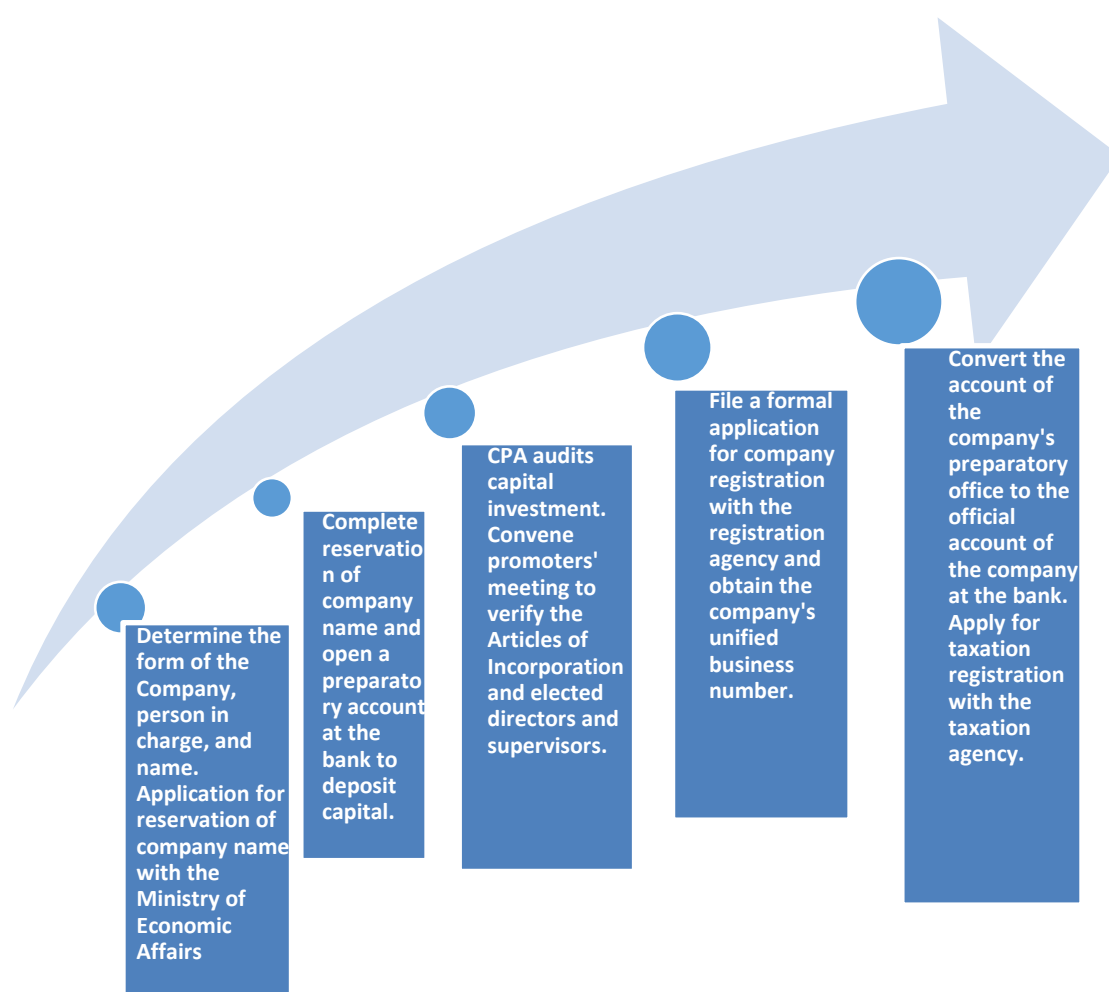
As of December 31, 2017 there were a total of 690,082 registered companies.



Limited companies (524,983 companies) account for the largest share, followed by companies limited by shares (165,099 companies). There are 2,156 public companies and 162,943 non-public companies (including 926 close companies). Their asset scale and total sales value have also increased each year (see table below).

The establishment of companies in Taiwan adopts standardism, and the registration system is used as the management method. The competent authority carries out format review (detailed in table below). An enforced agency or liability system has not been adopted for the establishment of companies or changes in registration. However, where agents are assigned to process the procedures, the trustee must be a CPA or attorney. In practice, due to the complexity of capital registration items, small-scale companies that do not appoint agents would appoint consulting companies, bookkeepers, or certified public bookkeepers and tax-accountancy agents to assist in registration procedures. In addition, company establishment or capital increase require CPAs to verify the capital investment. Companies with capital of more than NT\$30 million also require certification by CPAs. In practice, companies appoint CPAs to perform capital structure planning, verify capital investment, and process registration affairs, or appoint them to perform one of the above.

Application procedures for company establishment and registration



Statistics on company registration cases processed by agents in the most recent 3 years

agent	Legal agent				Non-statutory agents Self-administered or intended agent		Total	
	Accountants		Attorneys		Number of cases	Annual ratio	Number of cases	Annual ratio
Year	Number of cases	Annual ratio	Number of cases	Annual ratio				
2017	65,338	12.02%	2,474	0.46%	475,828	87.53%	543,640	100.00%

2016	87,830	10.73%	2,726	0.33%	728,331	88.94%	818,887	100.00%
2015	60,047	10.88%	2,046	0.37%	489,686	88.75%	551,779	100.00%

In terms of geographical scope of the operations of industries, Taiwan is an economy based on import and export trade and its dependence on foreign trade has reached 102.65%. The top 5 trading (total import and export amount) partners of Taiwan from 2015 to 2017 were Mainland China, the United States, Japan, Hong Kong, and Korea. The trade volume in 2017 was US\$139.04 billion with Mainland China, US\$67.18 billion with the United States, US\$62.73 billion with Japan, US\$42.8 billion with Hong Kong, and US\$31.64 billion with Korea. With regard to trade with high-risk jurisdictions or countries of concern, Taiwan has had trade relations with North Korea, Iran, Syria, Mainland China, British Virgin Islands, American Samoa, Bosnia and Herzegovina, Ethiopia, Iraq, Sri Lanka, Trinidad and Tobago, Tunisia, Vanuatu, Yemen etc. in the past 3 years. The top five trading partners among these countries in 2017 included Iran (US\$1,761,950,227), Syria (US\$33,202,087), American Samoa (US\$6,465,792), North Korea (US\$2,749,720), and British Virgin Islands (US\$1,155,020).

According to the Financial Intelligence Unit, the number of suspicious transactions (companies may be perpetrators or victims) reported by companies from 2015 to 2017 revealed that the number of cases increased by 184.21% from 1,108 cases in 2015 to 3,149 cases in 2017. Financial intelligence reported by institutions mainly involved offences such as insider trading, market manipulation, tunneling, securities fraud, illegal fundraising, violation of the Company Act, underground remittances, corruption and bribery, and taxation crimes. Frauds, securities crimes, and illegal fundraising were the most prevalent crimes.

The cases involving the use of companies to commit crimes that are under investigations by law enforcement agencies can be classified into the following cases: (1) Establishment of offshore companies to conduct false transactions; (2) Use of existing companies for underground remittances; (3) Establishment of shell companies for fraud; (4) Conversion of foreign investment status to perform false transactions. Potential high-risk crimes that may be involved include fraud, smuggling, taxation crime, insider trading, market manipulation, drug trafficking, and corruption and bribery. Certain offshore companies established in tax havens or offshore finance centers may not be registered in Taiwan but we have discovered

multiple such companies established offshore by citizens through management consulting companies or independently. Criminal actors may use these channels to commit crimes.

Based on current statistics, Taiwan has vibrant economic development, a wide range of company and industrial activities, and proportionally high levels of trade with countries of concern. It has numerous companies limited by shares and limited companies and FIU data also showed an increase in the number of STRs involving companies. Based on the experience of law enforcement agencies, non-public companies limited by shares and limited companies are entities most likely to be abused due to the lack of transparency. Actors that may be involved in the establishment process include CPAs, attorneys, and bookkeepers. In addition, although offshore companies registered in tax havens are not registered in Taiwan, we have discovered cases in which foreign companies use management consulting companies to establish companies in Taiwan and using OBU accounts. They are susceptible to abuse. The risk ratings of various types of companies are specified in the table below.

Types Rating	Public company	Non-public company			Limited partnerships
	Company limited by shares	Company limited by shares	Limited company	Unlimited company	Limited partnerships
Transparency & Vulnerability	Lower	Higher	Higher	Lower	Lower

Chapter 9 Risk Assessment Results: Trusts

Trusts in Taiwan include "business trusts" and "civil trusts" based on whether the trustee is a trust enterprise. They are also divided into "charitable trusts" and "private trusts" based on the purpose of the trust.

According to the Trust Enterprise Act, non-trust enterprises may not conduct trust businesses and therefore trusts in Taiwan consist mainly of business trusts. As trustees of business trusts and charitable trusts are in principle financial institutions, they are supervised intensively by the Financial Supervisory Commission and the competent authority of the industry. Therefore, the likelihood of business trusts or charitable trusts being used for ML/TF activities is lower than that of civil trusts.

According to the Trust Law, no trust in respect of a property right that requires trust registration shall be valid against third parties unless trust registration of such rights has been duly completed. It means that signing a trust contract only has the effect of in personam rights. The transfer of ownership requires trust registration shall not be valid against third parties unless trust registration of such rights has been duly completed. Therefore, most trusts in Taiwan register real estate as trust property when registering ownership. Compared to trusts under the Common Law, these trusts are more transparent and have lower risks for ML/TF abuses.

Taiwan is an island country that is dependent on import and export trade and has well-developed financial activities. Overseas trusts can be used to conceal the identity of beneficial owners and increase complexity in money flows. They can also be used to manage assets in multiple countries and have high inherent risks. This is particularly true for cross-border offshore asset management which can be easily combined with services provided by attorneys and accountants. The structural complexity may be increased and the risks of ML/TF abuses may be higher.

The experience of law enforcement agencies in Taiwan shows that overseas trusts have substantially higher risks than domestic trusts. Based on past legal cases in Taiwan, there are currently no convictions for using trusts for money laundering. However, there are multiple offences involving trusts in frauds, breach of trust, and violation of the Securities and Exchange Act. For instance, in a certain case involving the suspect used illicit proceeds to purchase real estate and set up a trust to entrust it to another company. Besides, overseas trusts have higher risks of ML/TF abuses. Take for instance the case for which the verdict was established that the criminal

tunneled approximately NT\$127 billion in company assets and transferred assets into offshore trust funds.

In conclusion, based on the experience of law enforcement agencies, for domestic trusts, business trusts, charitable trusts and trust property which requires trust registration are more transparent while overseas trusts have higher risks of ML/TF abuses.

Chapter 10 Risk Assessment Results: Non-Profit Organizations

Non-profit organizations (NPOs) in Taiwan can be divided into civil associations and foundations based on their characteristics and legal structure. The main competent authorities are the Ministry of the Interior, Ministry of Health and Welfare, Ministry of Education, Ministry of Culture, and municipal governments. With regard to the nature of activities, NPOs are divided into cultural, religious, social/fraternal/charitable, medical and educational types. As of December 31, 2017, there are a total of 57,733 NPOs. Among them, the type of social/fraternal/charitable NPOs accounts for approximately 80%.

NPOs are at risk of being used for TF. Since it is the first time for Taiwan to conduct ML/TF risk assessment on the 6 categories of NPOs that are specified in the FATF's 40 Recommendations, Taiwan adopted a dichotomous method to evaluate the risk ratings of NPOs, namely, "at risk" or "no or low risk." The results shows that civil associations, national religious foundations and social welfare charity foundations are at risk. The ratings and analysis are as follows.

Civil Associations	National Religious Foundations	Social Welfare charity Foundations	Medical Foundations	Educational Foundations	Cultural Foundations
At risk	At risk	At risk	No or low risk	No or low risk	No or low risk

Civil Associations

As the people of Taiwan are fond of forming associations and they have the freedom to do so, there are numerous civil associations including nationwide social groups (associations), professional groups (associations), and cooperatives groups. There were a total of 16,726 registered civil associations in operations as of December 31, 2017. Each civil association is composed of at least 30 members. Civil associations are groups established on the basis of "people". According to the Civil Associations Act, there are approximately 12 types of civil associations and the scope included groups established to promote culture, academic learning, medical care, hygiene, religion, charity, sports, social services, social contact and other public

interests. The majority of associations are types of academic learning, culture, and social services.

Geographically, most of the activities performed by civil associations are in the domestic area. By nature of activities, the majority of civil associations are promoting culture, academic learning, medical care, hygiene, religion, charity, sports, social services, social contact and other public interests. For overseas humanitarian aid, civil associations are required to apply to the competent authority for approval. The competent authority would consult with the Ministry of Foreign Affairs to decide whether to grant approval based on actual conditions. Besides, civil associations are required to report annual work plans and expenditure on activities to the competent authority at the beginning of each year, as well as at the end of each year. The activities to be carried out and the expenditures incurred shall be made into financial reports and submitted to the competent authority for reference so that the competent authorities can understand the general situation of their activities.

Among these civil associations, NPOs with greater extent of involvement in international affairs include "Junior Chamber International Taiwan" and "Lions Club International Taiwan". In practice, the majority of associations that promote cross-strait exchanges focus on communication with Mainland China. There are also sports associations dedicated to specific sports that participate in competitions held by member states of the International Olympic Committee (IOC); none of these activities take place in high-risk regions.

The operations and the use of funds of civil associations require the approval of the assembly of members or the board of directors or supervisors. Their decisions are based on a collective consensus and therefore the threshold for the usage of funds is high. In addition, as the laws and regulations in Taiwan allow donors to use donations for tax exemption, donors usually make donations under their real names.

In summary, the overall number of civil associations is the highest in all types of NPOs and there are also well-known organizations such as Lions Club and Kiwanis. The NPOs are required to report their annual work plans and financial reports to competent authorities each year so the competent authorities can understand and verify the scope of activities of the NPOs. Most NPOs operate in Taiwan or between Taiwan and Mainland China. There has not been any case that involved high-risk jurisdictions. However, with regard to the issues of anonymous donations, there are still gaps in information obtained by the competent authorities since currently there are no laws authorizing the competent authority to request civil associations to

provide the origin countries and other information of foreign donors. The channels for anonymous donations continue to exist as a potential risk, so this type of NPOs is therefore rated as at risk.

National Religious Foundations

These foundations are established for promoting religious beliefs and social and human values. They also perform related activities such as charity and social education, etc. There were a total of 192 national religious foundations in operation as of December 31, 2017. The total registered assets amounted to NT\$127,685,050,680. The foundations included 90 Christian foundations, 39 Catholic foundations, 34 Buddhist foundations, 6 Taoist foundations, and 23 foundations of other religions. In Taiwan, the attribute of religions is mild and the confrontation between religions is also relatively low. Although there are a few Islamic believers, as the scale and finances are not significant and therefore they do not currently exist as legal person (foundation).

With regard to the composition of assets of foundations, most of them are in the form of churches, temples, or other real estate. Therefore, most of their assets consist of real estate properties that cannot be sold. The ratio of cash compared to total assets is low. Of the 192 national religious foundations, only 58 were founded and operating with cash.

Currently, such foundations only operate within Taiwan. Their services include religious sermons, disaster relief, academic assistance for disadvantaged children, study sessions for youths, elderly care and assistance, etc. A small number of activities involve relief tasks for international disasters as well as overseas missionary efforts. In recent years, there are only 3 cases involving humanitarian aid in their foreign affairs: 1. Taiwan Catholic Mission Foundation's participation in the foreign humanitarian aid for the Catholic Church in South Sudan; 2. Taiwan Catholic Dominican Missionary Sisters Foundation's participation in relief missions for Burmese refugees that was organized by the Dominican Order; 3. Dharma Drum Mountain Foundation's participation in disaster relief in Sichuan, Mainland China. Certain foundations may have more participants of foreign nationalities. For instance, Catholic churches have more Filipino followers and mosques have more Malaysian and Indonesian followers.

The sources of funding for religious foundations come from natural persons (followers) and only a few foreign donation which came from the parent legal

persons that provided funding for establishment. As national religious foundations operate as legal persons, they are audited by professional CPAs appointed by the competent authority. Their income and expenses must be registered with invoices and receipts with consecutive numbers. The proportion of anonymous donations is low. They are different from donations in temples which are mostly sporadic, small-scale and anonymous.

Overall, there are few national religious foundations and they seldom operate overseas. However, currently there are no laws that allow the competent authority to request national religious foundations to provide the origin countries and other information with regard to foreign donors. Therefore, channels for anonymous donations continue to exist as a potential risk, so this type of NPOs is therefore classified as at risk.

Social Welfare Charity Foundations

Social Welfare Charity foundations are established to promote related charitable activities including women's welfare, children and youth's welfare, welfare for the disabled, welfare for the elderly, family support, social relief, social work, voluntary services, prevention and treatment of domestic violence, and prevention of sexual assault and sexual harassment. There were a total of 296 Social Welfare Charity foundations in operation as of December 31, 2017. The total registered assets amounted to NT\$145,021,404,459. Among them, only 2 foundations have established offices overseas. One of them has 4 branch offices, and the other has 5 branch offices.

The nature of foundations' activities are mainly welfare activities, such as assistance in worldwide catastrophes, children funding program (adoption of children in poverty), assisting communities in constructing water supply equipment and hygiene facilities. Some part of them are expressive activities, such as international voluntary service, and hosting global conferences concerning women rights, etc. These foundations mainly operate in Taiwan and the areas of frequent activities included Mainland China, Mongolia, Kyrgyzstan, Swaziland, Vietnam, Cambodia, United States, Japan, Sri Lanka, the Philippines, and other countries. Among them, "Buddhist Compassion Relief Tzu Chi Foundation", "Taiwan Fund for Children and Families" and "World Vision" have relatively more involvement in international affairs.

The scope of activities of social welfare charity foundations may be in contact

with overseas institutions or overseas donations. The overseas activities are organized and executed by a single foundation or directly processed by their overseas branches. Donations are channeled to the global head office which supports relief plans across the world.

In conclusion, as activities of charity foundations involve women, children, youth welfare, elderly welfare, family support and other more complex activities. The scope of activities may involve contact with foreign institutions or foreign donations. The risks of such NPOs are relatively high. With regard to anonymous donations, there are still gaps in information obtained by the competent authority and currently there are no laws that allow the competent authority to request Social Welfare Charity foundations to provide the origin countries and other information of their foreign donors. Channels for anonymous donations continue to exist as a potential risk. So this type of NPOs is therefore classified as at risk.

Other NPOs with low or no risks are medical, educational, and cultural foundations and the results of analysis and ratings are described as below:

Medical Foundations

Medical foundations refer to that the founder endows a certain number of assets for the purpose of conducting medical practices or running a medical care institution. These institutions may be affiliated with nursing institutions or mental rehabilitation institutions, medical research institutions as well as relevant welfare agencies stipulated in social welfare regulations such as elderly welfare laws. There were a total of 58 medical foundations as of December 31, 2017. 53 are in operation. The total assets of the 58 medical foundations registered with the court is NT\$191,852,411,066. These foundations mainly operate in Taiwan and they have not been operating in high-risk regions.

Medical foundations are mainly established for the purpose of setting up medical institutions. The purpose of the medical foundations is to use most of the funds for the construction of medical institutions, purchase of medical equipment and facilities, and recruitment of workers. Among them, NPOs with greater scale of financial resources are "Chang Gung Medical Foundation" and "Buddhist Tzu Chi Medical Foundation". These foundations can only establish and operate medical institutions in Taiwan and cannot invest in foreign countries.

According to Article 34, Paragraph 1 of the Medical Care Act, it stipulates that Medical Foundation in medical care shall establish an accounting system that adopts

a fiscal year system and accrual system. The legal certificates of financial income and expenses shall conform to generally accepted accounting principles, and shall be kept on record. Paragraph 2 in the same Article also stipulates that Medical Foundation in medical care should submit the annual financial report approved and adopted by the board of directors and supervisors to the central competent authority within five months after the end of the fiscal year. There are therefore no rare or anonymous donations. Most of the donations come from the form of cash, equities, real estate, etc. More than 90% of their income consist of revenue from the National Health Insurance Program. Donations from high-risk regions are extremely low.

Educational Foundations

Educational foundations include foundations (private schools) of universities, colleges, senior high schools, and vocational schools as well as youth development and sports foundations. Among the NPOs supervised by the Ministry of Education, there were 246 private schools and the total registered assets amounted to NT\$666.79 billion as of December 31, 2017. There were 716 education foundations, 34 youth development foundations, and 29 sports foundations and the total registered assets amounted to NT\$76.91 billion. Most of the NPOs are schools or organizing charitable activities related to education. Both service activities and expressive activities are included.

The top two private schools with the highest amounts of registered assets are "China Medical University" and "Chang Gung University". The top two educational, youth development, and sports foundations were "Chang Yung-Fa Foundation" and "Chiang Ching-kuo Foundation for International Scholarly Exchange".

The geographical scope of their activities is mostly in Taiwan except for certain NPOs which have branch institutions in places such as the United States. Some private schools and foundations have signed a sister school with foreign or Mainland Universities.

The main activities of private schools are to offer school services. As to educational, youth development, and sports organizations whose activities are related to public welfare and find it necessary to make donations to individuals or other NPOs, they shall do so in the organization of legal persons and keep accounts according to related accounting principles.

Cultural Foundations

These foundations' primary missions include the promotion of art and cultural development and support of art and cultural events in Taiwan. As of December 31, 2017, among the 202 foundations (including foundations funded by the government and private sectors), there were a total of 13 foundations who received more than 50% of funding from the government and the total court-registered assets were approximately NTD16,678,917,644. The total assets of the 202 foundations registered at the court were approximately NTD 3,338,483,881. The main activity of the foundations is "expressive activities ", some of them also provide art-related services. The scope of activities are mainly in Taiwan. Some of them involve foreign countries mainly in low-risk countries such as Japan, Europe and the United States. Among them, NPOs with relatively more involvement in international affairs are the "National Culture and Arts Foundation" and "Taiwan Public Television Service Foundation". In addition, the primary missions of such foundations include the promotion of art and cultural development and organization of art and cultural events in Taiwan. Their services are provided through public and transparent channels such as Internet or physical announcements. There are therefore no or little complicated or anonymous service channels.

Chapter 11 Future Plans and National Risk Mitigation Action Plan

The national risk assessment procedures were completed in March 2018. In the four national risk assessment meetings convened by the "Anti-Money Laundering Office of the Executive Yuan", the inherent national risks were assessed and the 40 Recommendations published by FATF were also adopted to review gaps in current implementation, inspect residual risks, and formulate the National Risk Mitigation Action Plan. As this was the first national risk assessment and considering the wide range and magnitude of information that must be collected and the time required for the procedures, ratings and discussions have not been completed for certain industries such as electronic stored value cards issuers or for certain products and services such as Bitcoins. They shall be included in future national risk assessment procedures.

After the agencies review residual risks, they shall immediately study and formulate the National Risk Mitigation Action Plan for gaps with higher risks and propose priority improvement measures. In practice, before the completion of the national risk assessment procedures and during the procedures, the agencies have revised legislation or adopted risk mitigation measures for offshore banking units, foreign currency exchange counters, foundations, Bitcoin, and other issues. Law enforcement agencies have also taken improvement measures to increase their awareness and actions in tracking money flow. After the National Risk Mitigation Action Plan is compiled, the highest-ranking official of the Administration, the Premier, shall officially assign related ministries to implement the Plan. The prioritized risk mitigation measures shall be completed before the national risk assessment procedures in 2021.

Taiwan has an opportunity for a comprehensive review of the threats and vulnerabilities discovered in this round of National ML/TF risk assessment procedures. It shall also use the assessment procedures to ensure all participants assign appropriate priority for the risk mitigation measures with a risk-based approach. For the country's public and private sectors, the national risk assessment procedures proved to be opportunities to learning and growth. They shall continue to advance their work in accordance with risk assessment procedures to make AML/CFT measures more practical and effective.

Annex 1: Taiwan's AML/CFT Legal Framework

Relevant to AML

Laws

1. Money Laundering Control Act (2016.12.28 Amended)

[Relevant to International Cooperation]

2. Law of Extradition (1980.7.4 Amended)
3. Act to Implement United Nations Convention against Corruption (2015.5.20 Announced)
4. The Law in Supporting Foreign Courts on Consigned Cases (1963.4.25 Announced)
5. International Legal Assistance Agreement Against Criminality (2018.5.2 Announced)
6. Act Governing Relations between the People of the Taiwan Area and the Mainland Area (2015.6.17 Amended)
7. Laws and Regulations Regarding Hong Kong & Macao Affairs (2017.12.13 Amended)
8. Tax Collection Act (2017.6.14 Amended)

[Relevant to Law Enforcement]

9. Criminal Code (2016.11.30 Amended)
10. The Code of Criminal Procedure (2017.11.16 Amended)
11. Human Trafficking Prevention Act (2016.5.25 Amended)
12. Trademark Act (2016.11.30 Amended)
13. Waste Disposal Act (2017.6.14 Amended)
14. Anti-Corruption Act (2016.6.22 Amended)
15. Child and Youth Sexual Exploitation Prevention Act (2018.1.3 Amended)
16. Controlling Guns, Ammunition and Knives Act (2017.6.14 Amended)
17. Customs Anti-smuggling Act (2013.6.19 Amended)
18. Narcotics Hazard Prevention Act (2017.6.14 Amended)
19. The Smuggling Penalty Act (2012.6.13 Amended)
20. Administrative Penalty Act (2011.11.23 Amended)

21. Customs Act (2017.1.18 Amended)
22. Police Power Exercise Act (2011.4.27 Amended)
23. Administrative Execution Act (2010.2.3 Amended)
24. Compulsory Execution Act (2014.6.4 Amended)
25. Communication Security and Surveillance Act (2016.4.13 Amended)

[Relevant to Preventive Measures – Financial Institution]

26. The Banking Act of Republic of China (2018.01.31 Amended)
27. Agricultural Finance Act (2017.01.18 Amended)
28. The Act Governing Bills Finance Business (2018.01.31 Amended)
29. The Credit Cooperatives Act (2018.01.31 Amended)
30. Act Governing Issuance of Electronic Stored Value Cards (2018.01.31 Amended)
31. The Act Governing Electronic Payment Institutions (2018.01.31 Amended)
32. Offshore Banking Act (2016.12.28 Amended)
33. Foreign Exchange Regulation Act (2009.04.29 Amended)
34. Financial Technology Development and Innovative Experimentation Act (2018.01.31 Announced)
35. Postal Remittances and Savings Act (2014.01.29 Amended)
36. Securities and Exchange Act (2018.01.31 Amended)
37. Futures Trading Act (2018.01.31 Amended)
38. Securities Investment Trust and Consulting Act (2018.01.31 Amended)
39. Insurance Act (2018.01.31 Amended)
40. The Central Bank of the Republic of China (Taiwan) Act (2014.01.08 Amended)
41. Trust Enterprise Act (2018.01.31 Amended)

[Relevant to Preventive Measures – DNFBP]

42. Attorney Regulation Act (2010.1.27 Amended)
43. Certified Public Accountant Act (2018.1.31 Amended)
44. Notary Act (2009.12.30 Amended)
45. Land Administration Agent Act (2018.1.31 Amended)
46. Real Estate Broking Management Act (2011.12.30 Amended)
47. Certified Public Bookkeepers Act (2016.11.9 Amended)

[Relevant to Transparency- Legal Person, Trust, and Non-Profit

Organizations]

48. Civil Code (2015.6.10 Amended)
49. Company Act (2015.7.1 Amended)
50. Trust Law (2009.12.30 Amended)
51. The Foundation Act (2018.8.1 Announced)
52. Civil Associations Act (2011.6.15 Amended)
53. Limited Partnership Act (2015.6.24 Announced)
54. Medical Care Act (2018.1.24 Amended)
55. Private School Law (2014.6.18 Amended)
56. Charity Donations Destined for Social Welfare Funds Implementation Regulations (2006.5.17 Announced)
57. Act of Supervising Temples (1929.12.7 Announced)

Regulations and Directions

[Relevant to International Cooperation]

58. Cross-strait Joint-Fight against Crime and Mutual Legal Assistance Agreement (2009.4.26 Announced)

[Law Enforcement Aspect]

59. Anti-Money Laundering Regulations for Cross-border Declaration and Reporting (2017.6.22 Announced)
60. Regulations for Distribution and Usage of Confiscated Property for Money-Laundering Offences (2004.07.28 Announced)
61. Direction of Controlling Handover of Narcotics by Customs (2013.6.14 Amended)

[Relevant to Preventive Measures – Financial Institution]

62. Regulations Governing Anti-Money Laundering of Financial Institutions (2017.06.28 Announced)
63. Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Banking Business, Electronic Payment Institutions and Electronic Stored Value Card Issuer (2017.06.28 Amended)
64. Regulations Governing Anti-Money Laundering of Agricultural Financial Institutions (2017.07.26 Announced)
65. Directions Governing Internal Controls of the Credit Departments of Farmers' and

- Fishermen's Associations for Anti-Money Laundering and Countering Terrorism Financing (2017.07.26 Amended)
66. Regulations Governing the Deposit Accounts and Suspicious or Unusual Transactions (2014.08.20 Amended)
 67. Directions Governing Banking Enterprises for Operating Foreign Exchange Business (2018.01.04 Amended)
 68. Regulations Governing Foreign Exchange Business of Banking Enterprises (2018.01.04 Amended)
 69. Regulations Governing Postal Remittances and Savings Operations (2002.12.31 Announced)
 70. Directions Governing the Internal Control System for Anti-Money Laundering and Countering Terrorism Financing of the Securities and Futures Sector (2017.06.28 Amended)
 71. Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Insurance Sector (2017.06.28 Amended)
 72. Regulations Governing the Establishment and Administration of Foreign Currency Exchange Counters (2017.10.31 Amended)
 73. Rules Governing Offshore Banking Branches (2017.05.22 Amended)
 74. Regulations Governing Identity Verification Mechanism and Transaction Limits for Users of Electronic Payment Institutions (2016.09.10 Amended)

[Relevant to Preventive Measures –DNFBP]

75. Regulations Governing Identity Verification, Record Keeping and Reporting of Suspicious Transactions for Anti-money Laundering Purpose by Attorneys (2017.6.27 Announced)
76. Directions Governing Anti-Money Laundering of Money Laundering Control for Attorneys (2017.6.28 Announced)
77. Regulations Governing Anti-Money Laundering for Certified Public Accountants (2017.6.26 Announced)
78. Directions Governing Anti-Money Laundering of Certified Public Accountants (2017.6.26 Announced)
79. Regulations Governing Identity Verification, Record Keeping and Reporting of Suspicious Transactions for Anti-money Laundering Purpose by Notaries (2017.6.16 Announced)
80. Directions Governing Anti-Money Laundering by Notaries (2017.6.16 Announced)

81. Regulations of Money Laundering Control for Land Administration Agents and Real Estate Broking (2017.6.28 Announced)
82. Guidelines of Land Administration Agents and Real Estate Broking for Controlling Money Laundering and Combating Terrorist Financing (2017.6.28 Announced)
83. Regulations Governing Anti-Money Laundering for Certified Public Bookkeepers and Bookkeeping and Tax Return Filing Agents (2018.3.5 Announced)
84. Directions Governing Anti-Money Laundering for Certified Public Bookkeepers and Bookkeeping and Tax Return Filing Agents (2018.3.5 Announced)
85. Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Jewelry Businesses (2017.7.3 Amended)
86. Regulations Governing the Implementation and Report of Anti-Money Laundering and Countering the Financing of Terrorism for Jewelry Retail Businesses (2018.3.23 Amended)
87. Standards for Determining the Scope of Politically Exposed Persons Entrusted with Prominent Public Function, Their Family Members and Close Associates (2017.6.26 Announced)

[Relevant to Transparency Aspect- Legal Person, Trust, and Non-Profit Organizations]

88. Regulations on Disposal of the Financial Affairs of Social Associations (2011.9.23 Amended)
89. Regulations on the Approval for the Establishment of Social Associations (2008.1.23 Amended)
90. The Ministry of the Health and Welfare's Approval and Supervision Guideline on Review of Health and Welfare Administration of Nonprofit Entities Inception (2014.1.15 Announced)
91. The Ministry of the Interior's Approval and Supervision Guideline on Review of Interior Administration of Nonprofit Entities Inception (2017.9.27 Amended)
92. The Ministry of Education's Approval and Supervision Guideline on Review of Youth Development Administration of Nonprofit Entities Inception (2016.3.4 Amended)
93. The Ministry of Education's Approval and Supervision Guideline on Review of Education Administration of Nonprofit Entities Inception (2014.5.2 Amended)
94. The Ministry of Education's Approval and Supervision Guideline on Review of physical education Administration of Nonprofit Entities Inception (2017.11.30)

Amended)

95. Guidelines on Financial Affairs of Educational Foundations (2017.3.10 Amended)

96. The Ministry of Culture's Approval and Supervision Guideline on Review of Culture Administration of Nonprofit Entities Inception (2018.1.9 Amended)

Relevant to Countering the Financing of Terrorism and Proliferation

Law

1. Terrorism Financing Control Act (2016.7.27 Announced)
2. National Intelligence Service Law (2015.6.24 Amended)
3. Immigration Act (2016.11.16 Amended)
4. Civil Aviation Act (2015.2.4 Amended)
5. Regulations Governing the Issuance of Taiwan Visas to Foreign-Passport Holders (2003.1.22 Amended)

Regulations and Directions

6. Regulations Governing the Operation of Terrorism Financing Prevention Review Committee and the Sanction Measures and Restrictions (2017.9.14 Announced)
7. Regulations on Reporting of Sanctioned Party's Property, Property Interest and Location by Financial Institutions (2017.4.11 Announced)
8. Regulations on Reporting of Sanctioned Party's Property, Property Interest and Location by Agricultural Financial Institutions (2017.7.26 Announced)

Annex 2: Taiwan's AML/CFT Competent Authorities

Competent Authorities	Responsibilities	Total Budget (Unit: NT\$1,000)
Anti-Money Laundering Office, Executive Yuan	Overseeing Taiwan's AML/CFT policies and implementation strategies; Conducting risk assessment for Taiwan's AML/CFT policies; Supervising and overseeing the third round of country mutual evaluation reports, onsite investigation, and external coordination for the Asia/Pacific Group on Money Laundering.	2017: 27,107 2018: 27,698
Ministry of Justice	The Ministry of Justice is responsible for the prevention and control of money laundering and terrorist financing prevention policies and decrees and cooperation in international criminal justice cooperation. And is the competent authority of the lawyer. Its related internal units include the Department of Prosecutorial Affairs, the Department of International and Cross-Strait Legal Affairs, and the Legal Affairs Department. The Prosecutor Offices at all levels are the main bodies for criminal investigations in Taiwan and have the power to direct all judicial police agencies to investigate all predicate crimes, money laundering crimes, and terrorism financing crime.	2017: 1,165,077 2018: 1,286,917

Competent Authorities	Responsibilities	Total Budget (Unit: NT\$1,000)
Judicial Yuan	The Judicial Yuan is the highest judicial institution of Taiwan. It is responsible for judicial policies and directly supervises the legal and administrative operations of the Supreme Court, various High Courts, the Intellectual Property Court, etc. It's also the supervisor of the notary public. The relevant internal units are the Civil Department and the Criminal Department. All courts are responsible for the trials for predicate offences and money laundering offences.	2017: 2,887,990 2018: 2,959,362
Investigation Bureau, Ministry of Justice	The Investigation Bureau is responsible for crime investigation and intelligence gathering, and is responsible for the maintenance of national security and crime prevention work. It is also responsible for investigating major crimes, economic crimes, money laundering crimes, and terrorist financing crimes. Responsible internal units include the Economic Crime Prevention Division, the Anti-Corruption Division, the Drug Enforcement Division, and the International Operations Division. In addition, the National Security Operation Division is responsible for the planning, guidance, coordination, investigation, and evaluation of anti-terrorism activities and	2017:5,437,331 2018:5,566,435

Competent Authorities	Responsibilities	Total Budget (Unit: NT\$1,000)
	anti-weapon proliferation work.	
Anti-Money Laundering Division, Investigation Bureau, Ministry of Justice	The Division is the Financial Intelligence Unit of Taiwan, and it is responsible for the strategic research relating to AML/CFT and regulatory negotiations; acceptance, analysis, processing, and implementation of STRs, large currency transaction reports, foreign currencies carried by passengers or transportation service crew entering and leaving the country, AML items delivered through cargo transport, express delivery, or other similar methods and disseminating the results of such analyses; assistance in investigations of money laundering cases under investigation by other domestic agencies as well as coordination and communication on prevention of money-laundering; and international cooperation including participating in international organizations and conferences, intelligence sharing, and cooperating on joint investigations of international money laundering cases.	Integrated budget with the Investigation Bureau, Ministry of Justice
Agency Against Corruption, Ministry of Justice	Implementation of anti-corruption and corruption prevention operations and investigations on corruption crimes and related ML activities.	2017:423,079 2018:420,935
Administrative Enforcement Agency, Ministry	Enforcement of the execution of monetary payment obligations in public law.	2017:1,353,605 2018:1,545,429

Competent Authorities	Responsibilities	Total Budget (Unit: NT\$1,000)
of Justice		
National Police Agency, Ministry of the Interior	<p>The National Police Agency is one of the major law enforcement authorities. Its core mission is to maintain national security, social order, and protect important infrastructure; investigation of all money laundering and terrorist activities. The Criminal Investigation Bureau, National Police Agency is the main contact unit for Interpol in Taiwan. The Criminal Investigation Bureau also has Investigation Division, Organization Crime Prevention Division, Drug Investigation Center, Anti-Fraud Crime Center, Economic Affairs Division and International Affairs Division. The units are responsible for policy formulation and international cooperation related to the maintenance of social security work. In addition, the Security Division and the Protection Division under the jurisdiction of the National Police Agency are responsible for the collection of information on terrorist financing cases.</p>	<p>2017:19,918,379 2018: 21,428,304</p>
National Immigration Agency, Ministry of the Interior	<p>Control of the entry and exit of people; Collection and integration of entry and exit security and immigration information and investigations on evidence; Investigations in human trafficking cases.</p>	<p>2017:4,336,840 2018:4,254,502</p>
The Ocean	The Ocean Affairs Council Coast Guard	2017:14,052,158

Competent Authorities	Responsibilities	Total Budget (Unit: NT\$1,000)
Affairs Council Coast Guard Administration	Administration is responsible for maintaining maritime and coastal security in Taiwan, investigating smuggling cases in sea areas, coasts, estuaries and non-trade ports, investigating money laundering crimes, and investigating other crimes.	2018:16,480,562
Ministry of Finance	The Ministry of Finance is in charge of the national finance, and is responsible for treasury and payment operations, taxation, customs, state-owned property, financial information, the promotion of non-governmental participation in public construction, and the supervision of affiliated financial personnel training institutions. In addition, the head of the International Finance Division signed taxation agreements with the foreign taxation authorities and implemented cross-border tax information exchanges.	2017:28,464,365 2018:24,870,452
Taxation Administration, Ministry of Finance	Formulation, revision, and interpretation of taxation laws; Planning, direction, supervision, and evaluation of national taxation operations; Planning and evaluation of local taxation operations; Direction, supervision, and evaluation of the operations of National Taxation Bureaus in all areas; Auditing of major tax evasion cases; Promotion and	2017 :13,048,578 2018:12,886,498

Competent Authorities	Responsibilities	Total Budget (Unit: NT\$1,000)
	evaluation of taxation administration and information as well as the advancement of education and promotion of taxation affairs. It is also the competent authority for certified public bookkeepers and tax-accountancy agents.	
Customs Administration, Ministry of Finance	The four customs institutions including Keelung, Taipei, Taichung, and Kaohsiung under the Administration are responsible for reporting and notification of large currency transaction, securities, gold, and other items that can be used for money laundering carried by passengers or transportation service crew entering and leaving the country or delivered through cargo transport, express delivery, mail, or other similar methods. International customs cooperation including assistance in drug trafficking and smuggling cases.	2017:5,472,700 2018:6,255,168
Financial Supervisory Commission	The FSC is the supervisory authority for AML/CFT operations in the financial market in Taiwan and the financial service industry. The financial market includes the banking market, securities market, futures and derivatives products market, insurance market, and their settlement systems. The financial service industry include financial holding companies, resolution trust	2017: Banking Bureau: 335,086 Securities and Futures Bureau: 323,832 Financial Examination Bureau: 415,831 Insurance Bureau: 142,590

Competent Authorities	Responsibilities	Total Budget (Unit: NT\$1,000)
	<p>corporations, Central Deposit Insurance Corporation, banks, securities firms, futures firms, insurance companies, electronic finance transaction industry, and other financial services. The FSC is responsible for the development, supervision, management, and inspections of the aforementioned financial markets and financial services. In addition, the Securities and Futures Bureau is responsible for accountant-related business.</p>	<p>2018: Banking Bureau: 332,285 Securities and Futures Bureau: 317,824 Financial Examination Bureau: 425,949 Insurance Bureau: 142,224</p>
<p>Council of Agriculture (Bureau of Agricultural Finance)</p>	<p>The Bureau is the supervisory authority of agricultural financial institutions including the Agricultural Bank of Taiwan and credit departments of farmers and fishermen associations.</p>	<p>2017 : 293,081 2018 : 171,321</p>
<p>Central Bank of the Republic of China (Taiwan)</p>	<p>The Central Bank is the competent authority responsible for monetary policies in Taiwan and it is responsible for issuing currencies, formulating monetary policies, and managing foreign-exchange reserves. In addition, the Central Bank is responsible for the management of foreign exchange business and it is also the competent authority of foreign currency exchange counters.</p>	<p>2017: 1,900,721 (Operating expenses) 2018: 2,063,704 (Operating expenses)</p>
<p>Ministry of the Interior</p>	<p>The Ministry of the Interior is responsible for the internal administrative affairs of the country.</p>	<p>2017 : 23,632,243 2018 : 24,871,451</p>

Competent Authorities	Responsibilities	Total Budget (Unit: NT\$1,000)
	<p>The jurisdiction of the National Police Agency and National Immigration Agency and other agencies under its jurisdiction are responsible for the investigation of pre-criminal crimes, money-laundering crimes, and crimes of terrorism. Establishment, revision, and interpretation of management regulations for land administration agents. The issuance of land administration agent certificates, review of business licenses, and management and assistance affairs. Establishment, revision, and interpretation of management regulations for real estate brokerages. In addition, the Ministry of Civil Affairs and the Preparatory Office of the Cooperation and People's Organization Division are responsible for supervising the establishment, operation, and management of relevant non-profit organizations.</p>	
<p>Ministry of Economic Affairs (Department of Commerce)</p>	<p>Formulation of Taiwan's commercial policies and regulations; Planning, management, assistance, supervision, and integration of commercial affairs; Management and supervision of company and business registration; Regulatory affairs regarding commodities and prices; Establishment (revision) of commercial</p>	<p>2017 : 19,635,325 2018 : 19,039,606</p>

Competent Authorities	Responsibilities	Total Budget (Unit: NT\$1,000)
	classification standards. In addition, the Department of Commerce is also the competent authority for the jewelry businesses.	
Ministry of Foreign Affairs	The Ministry is responsible for managing the diplomatic and related external affairs of Taiwan.	2017: 22,759,602 2018: 24,626,676
Mainland Affairs Council, MAC	The MAC is responsible for the nation's policy and affairs related to Mainland China, Hong Kong and Macao.	2017: 939,101 2018: 878,532
Office of Homeland Security, Executive Yuan (OHS)	The two main assignments of OHS are: 1. to coordinate and integrate related government agencies to prevent and disrupt terrorist attacks as well as man-made hazards; 2. to protect critical infrastructures to ensure the continuity of operations and the continuity of government (COOP/COG).	2017: 4,750 2018: 4,709
National Security Bureau	The Bureau is empowered to take care of security intelligence work, planning and execution of special tasks, overall planning of code control and research. As long as the national security intelligence is concerned, the Bureau is also responsible for providing direction, coordination and support to the other intelligence agencies.	Confidential
Bureau of Foreign Trade, Ministry of	The Bureau is responsible for executing the Foreign Trade Act. We conduct licensing of Strategic Hi-Tech	2017: 1,886,152 2018: 1,508,714

Competent Authorities	Responsibilities	Total Budget (Unit: NT\$1,000)
Economic Affairs	Commodities; deal with potential violation case sent by Custom Administration, prevent the possible proliferative transaction informed by intelligent agency, and co-operate with like-minded countries.	
Ministry of Health and Welfare	The Ministry is the central competent authority for donations for medical foundations, charity foundations and NPOs, that reviews NPOs' applications for donation activities and permits and includes Department of Medical Affairs, Department of Social Assistance and Social Work, Social and Family Affairs Administration.	2017: 193,630,644 2018: 200,735,335
Ministry of Education	The Ministry is responsible for the nation's education policy and is the competent authority of education foundations which include school foundations (private schools) of universities, colleges, senior high schools, and educational, youth development and sports foundations.	2017: 240,601,853 2018: 238,396,753
Ministry of Culture	The Ministry supervises cultural foundations, including foundations established with government or private donations, and its primary missions include the promotion of art and cultural development and the support of those activities.	2017: 18,959,166 2018: 17,834,481

Annex 3: Rating Factors Definitions for Money Laundering Threats

RATING FACTORS DEFINITIONS FOR MONEY LAUNDERING THREATS					
Selected Rating Factors	Definition	Very High	High	Medium	Low
<i>Actors' Capacity</i>	The actors have demonstrated criminal knowledge, skills, expertise, networks and resources and for money laundering (ML) specifically in areas such as finance, trade, law, IT and are aware of anti-ML measures and controls, and therefore can use that knowledge and skills to avoid detection by authorities.	Actors' sophistication is extensive, network is well established and criminals have significant resources to support complex, long- term, sustainable and large scale ML operations.	The actors have many elements of sophistication and important resources to conduct important ML operations, long term or not.	The actors have some elements of sophistication and resources are limited to conduct simple ML operations	Actors' sophistication to conduct ML operations is very limited. Actor's ML activity focuses on immediate placement or integration of PoC for personal use Actors rely mostly on their personal resources and network is inexistent.
<i>Scope of ML activity</i>	This measures the extent to which actors are using financial institutions, designated non-financial businesses or professions and other sectors to launder PoC.	Actors use multiple sectors domestically and abroad thereby ensuring they maintain a high ability to move funds and distance PoC from its source.	Actors use a limited number of major domestic or international sectors thereby ensuring they maintain a certain ability to move funds and distance PoC from its source.	Actors use a limited number of sectors domestically with limited ability to move funds and distance PoC from its source (e.g., sectors of limited size, offering limited products, correspondents etc.).	Actors use one sector domestically.
<i>Estimated of PoC annually</i>	\$ value of PoC generated per predicate offences or professional ML	\$ billions	\$ hundreds of millions	\$ tens of millions	\$ million and less

Annex 4: Rating Factors Definitions for Sectoral Vulnerabilities

RATING FACTORS DEFINITIONS FOR SECTORAL VULNERABILITIES (FIS AND DNFBS)					
Selected Rating Factors	Definition	Very High	High	Medium	Low
<i>Sector's inherent characteristics</i>	<p>This rating factors in the importance of the sector in the domestic economy and whether its structure and locations of operations support moving funds rapidly. The following should be considered overall:</p> <ul style="list-style-type: none"> • <i>Size of the sector</i>: overall volume of transactions and assets • <i>Complexity of sector's business structure</i> • <i>Integration with other reporting sectors</i> • <i>Location of operations of the sector</i>: This criterion refers to the extent of customers' ability to access the sector's products and services. 	<p>The sector is considered large both in terms of volume of transactions and assets.</p> <p>It has a complex structure and is well integrated with other sectors;</p> <p>The location of its operations is widespread both domestically and internationally .</p> <p>Given the above, this sector is widely accessible to many customers and provides significant ability to transfer funds.</p>	<p>The sector is considered of an average size both in terms of volume of transactions and assets.</p> <p>Its structure has some elements of complexity allowing integration with other sectors to a certain extent.</p> <p>The location of its operations is widespread within the country.</p> <p>Given the above, this sector is accessible to an important number of customers and provides a certain ability to transfer funds.</p>	<p>The size of the sector is considered small in terms of volume of transactions and assets.</p> <p>The structure is less complex limiting integration with other sectors.</p> <p>Location of operations is limited.</p> <p>Given the above, this sector is accessible to a small number of customers and provides limited ability to transfer funds.</p>	<p>The sector conducts a low volume of transactions involving infrequent activities.</p> <p>The structure is simple with almost no integration with other sectors.</p> <p>Location of operations is extremely limited.</p> <p>Given the above, this sector is accessible to a customer in definite circumstances with almost no ability to transfer funds within or outside the sector.</p>

RATING FACTORS DEFINITIONS FOR SECTORAL VULNERABILITIES (FIS AND DNFBS)					
Selected Rating Factors	Definition	Very High	High	Medium	Low
<i>Nature of products and services provided by the sector</i>	<p>Products and services by their very nature carry varying levels of inherent vulnerabilities. Therefore, when determining rating for this factor, the following will be considered:</p> <ul style="list-style-type: none"> • Nature and scope of products and services offered: This criterion focusses on products and services which have generally been assessed as vulnerable products for money laundering and terrorist financing, including: <ul style="list-style-type: none"> ➤ Products and services with the possibility of cash payment and monetary instruments ➤ Private banking ➤ Trade finance services for example letters of credit for exports ➤ Products and services using new and developing 	<p>The sector offers a large variety of vulnerable products and services.</p> <p>It constitutes a significant portion of the overall business operations conducted by the sector.</p> <p>The volume and frequency of transactions attached to these specific products are considered high.</p> <p>The transactions could be found in many investigative cases.</p>	<p>The sector offers a limited number of vulnerable products and services.</p> <p>It constitutes an important portion of the overall business operations conducted by the sector.</p> <p>The volume and frequency of transactions attached to these specific products are considered important.</p> <p>The transactions could be found in some investigative cases.</p>	<p>The sector offers a single or very limited number of vulnerable products and services.</p> <p>It constitutes a small portion of the overall business/operations conducted by the sector.</p> <p>The volume and frequency of transactions attached to these specific products are considered moderate.</p> <p>The transactions could be found only in a few investigative cases.</p>	<p>The sector's products and services are limited to non-deposit taking operations with a limited number of cash transactions.</p> <p>The transactions involve smaller \$ amounts.</p> <p>Products and services offered can also come with conditions restricting access to funds.</p> <p>The transactions are found in no investigative case.</p>

RATING FACTORS DEFINITIONS FOR SECTORAL VULNERABILITIES (FIS AND DNFBS)					
Selected Rating Factors	Definition	Very High	High	Medium	Low
	<p>technologies</p> <ul style="list-style-type: none"> ➤ Services or products with possibility of cross-border movements of funds including electronic fund transfers ➤ High \$ value commodities (e.g., gold, precious metal and stones, cars, art etc.) ➤ Other products or services found in investigations 				
<i>Nature of business relationship with the clientele</i>	<p>This rating factor attempts to appreciate the inherent vulnerabilities associated with the sector's clientele profile. The following will be considered:</p> <ul style="list-style-type: none"> • Nature of business relationship: identify if most of the clientele involves ongoing vs. transactional relationships; direct vs. indirect relationships. • Customer status: When appreciating this criterion, the following 	<p>The sector's clientele profile includes a significant portion of the clientele combining multiple vulnerabilities including transactional and/or indirect business relationships; PEPs; clientele with vulnerable occupations/b usinesses.</p>	<p>The sector's clientele profile includes a combination of transactional and/or third party business relationships; PEPs; clientele with vulnerable occupations/ businesses</p>	<p>The sector's clientele profile, includes limited interactions with transactional and/or third party business relationships; PEPs; clientele with vulnerable occupations/b usinesses.</p>	<p>The sector's clientele profile either does not include or to a very limited extent vulnerable clients. When it does involve vulnerable clients, operations are occasional and limited.</p>

RATING FACTORS DEFINITIONS FOR SECTORAL VULNERABILITIES (FIS AND DNFBS)					
Selected Rating Factors	Definition	Very High	High	Medium	Low
	<p>should be examined: the importance of foreign or domestic or international politically exposed persons among the sector's client profile.</p> <ul style="list-style-type: none"> Client's occupation/businesses: Some clients' activities are known to be more vulnerable to ML/TF. <p>When considering the sector's clientele profile, the following will be examined: the proportion of high net worth individuals; cash intensive businesses; the facility to identify the beneficial owner for most the customers (i.e. complex business structure vs. individual)</p>				
<i>Geographic reach of</i>	In considering the level of vulnerabilities attached to this factor,	The sector's activities involve high	The sector's activities involve high	The sector's activities can involve high	Activities of the sector are

RATING FACTORS DEFINITIONS FOR SECTORAL VULNERABILITIES (FIS AND DNFBS)					
Selected Rating Factors	Definition	Very High	High	Medium	Low
<i>sector's activities</i>	<p>one will consider the extent to which a sector's activities involve the following:</p> <ul style="list-style-type: none"> • High risk jurisdictions: Jurisdiction identified by the FATF or a FSRB. • Countries of concerns for ML/TF not identified by the FATF as high risk jurisdictions but where there is evidence of the presence of an important informal banking sector; corruption (ref. World Bank Indicators, Transparency International); high level of social, economic and institutional instability; bank secrecy or which have been recognized as a tax haven or fragile states. • Jurisdictions or locations of concern according to the country's 	<p>risk jurisdictions or countries where there is an important informal banking sector or a jurisdiction of concern. The activities involving these locations constitute an important volume of the business activities for the sector and are conducted on an ongoing and regular basis.</p>	<p>risk jurisdictions or countries where there is an important informal banking sector or a jurisdiction of concern. The activities involving these locations do not constitute an important volume of the business activities for the sector but are conducted on an ongoing and regular basis.</p>	<p>risk jurisdictions or countries where there is an important informal banking sector or a jurisdiction of concern. However, the activities conducted in these locations constitute a relatively small volume of the overall business activities for the sector and are not conducted on an ongoing and regular basis.</p>	<p>conducted exclusively domestically and do not involve locations of concern.</p>

RATING FACTORS DEFINITIONS FOR SECTORAL VULNERABILITIES (FIS AND DNFBS)					
Selected Rating Factors	Definition	Very High	High	Medium	Low
	security interests.				
<i>Nature of Delivery Channels</i>	<p>In appreciating the level of vulnerabilities associated with this factor, one will consider the following:</p> <ul style="list-style-type: none"> Anonymity conferred by the delivery channel used (e.g., face-to-face, face-to-face with agent/third party, non-face-to-face, and non-face-to-face with agent or 3rd party). Their complexity (e.g., multiple intermediaries with few immediate controls, and little or no accountability in identifying the originator of the transaction) 	The majority of the transactions within the sector are performed via delivery channels involving a high degree of anonymity and complexity.	A large part of the transactions within the sector are performed via delivery channels involving a high degree of anonymity and complexity.	Although not constituting the main delivery channels, transactions are performed occasionally through channels involving a high degree of anonymity and complexity.	Complex and anonymous delivery channels are either not used or rarely used.