

2021

# National Money Laundering, Terrorist Financing and Proliferation Financing Risk Assessment Report



行政院洗錢防制辦公室  
Anti-Money Laundering Office, Executive Yuan

## Foreword

Taiwan is one of the founding members of the Asia-Pacific Group on Money Laundering (APG), and it is also the first country in Asia to enact a separate statutory law of Anti-Money Laundering, hereinafter referred to as the AML. Although Taiwan was once placed on the "Enhanced Follow-Up List" due to poor effectiveness of follow-up, the government has thoroughly reviewed the shortcomings in the past, committing to complying with the requirements of Asia-Pacific Group on Money Laundering, setting up a dedicated office for integration and coordination among inter-ministerial cooperation and public-private collaboration, to improve the legal system, strengthen law enforcement and financial supervision, and cultivate national AML concepts. Finally, Taiwan has been awarded the best grade of "Regular Follow-Up List" in the APG announcement in October 2019.

Precisely because Taiwan has gone through the process from failing to become the first in Asia, we are extremely cautious and follow the recommendations of APG and the Financial Action Task Force (FATF). Our efforts on AML, terrorist financing and proliferation financing have not slackened because the conclusion of the evaluation. Instead, we have been more committed to improving our several actions, making a good job of "Cash flow transparency" and being dedicated to demonstrate Taiwan's international responsibilities and government commitments.

This year (2021), after Taiwan submitted a follow-up report in accordance with regulations, it was officially recognized by the APG Mutual Evaluation Committee on December 2 and continued to maintain the best level of "Regular Follow-Up", which shows that Taiwan's public and private sectors are actively promoting the AML efforts, and the results of work are well recognized internationally.

In order to comply with the FATF Recommendations, Taiwan conducted and published the national-level money laundering and terrorist financing risk assessment for the first time in 2018. This time, the assessment is updated for the recent three years and the first national risk assessment on proliferation financing is conducted in response to the changing international norms and regional risk trends.

This National Risk Assessment Report has expanded participating units and personnel. As many as 47 public sector agencies, 29 private sector associations and institutions have jointly participated in the discussion and writing, and combined knowledge in different professional fields to make the most appropriate assessments of national money laundering, terrorist financing and proliferation financing risks. At the same time, in response to the constant-changing criminal threat, new assessments have been added to the illegal gambling, underground banking, virtual asset industry, and online games enterprises, to outline the whole-picture of current risks that Taiwan has facing as completely as possible.

The Taiwanese government hopes that through a more in-depth and broader self-examination, it will lay a solid foundation for our country to face the threat of money laundering crimes in the next few years. I also ask all government agencies to take this report as an important guide to jointly enhance the power of AML, and create a more transparent and orderly financial environment, to establish a stable development environment for the industry, and continue to abide by international norms and fulfill international obligations and responsibilities. It will enable Taiwan to effectively play an indispensable role on combating international money laundering crimes, become a new model in the Asia-Pacific region, and earn the respect of global society.

Premier, Executive Yuan

A handwritten signature in black ink, consisting of three stylized characters: the first character is '蘇' (Su), the second is '貞' (Zhen), and the third is '昌' (Chang). The signature is fluid and expressive.

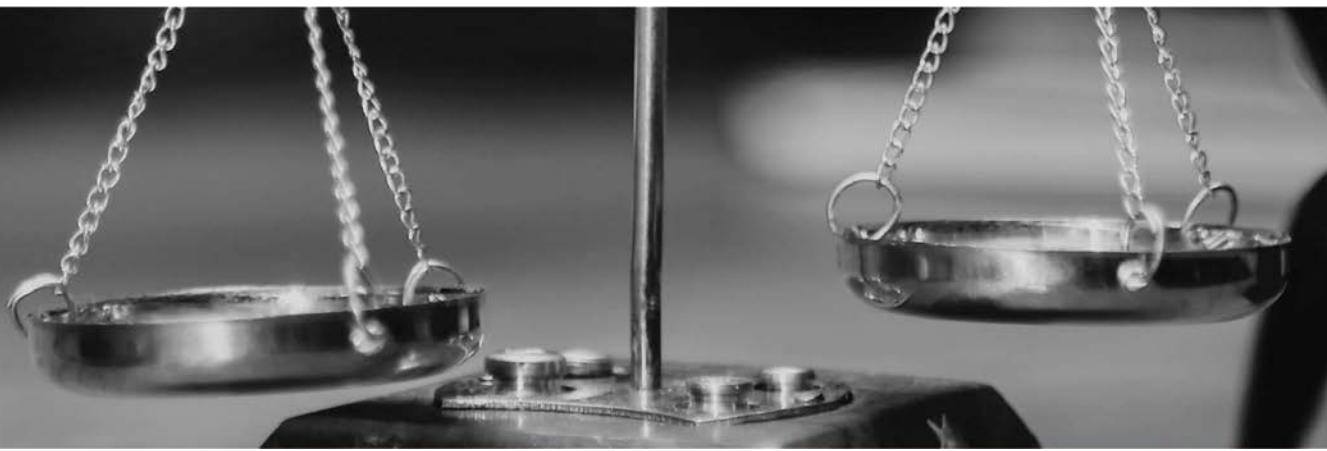
SU, Tseng-chang

on December 16, R.O.C. era 110



# Contents

<b>Chapter 1 Introduction</b>	<b>06</b>
<b>Chapter 2 Legal Policy and Organizational Framework</b>	<b>11</b>
Section 1 Taiwan's AML/CFT/CPF Legal Framework	11
Section 2 Taiwan's AML/CFT/CPF Competent Authorities	13
<b>Chapter 3 Risk Assessment Procedures and Methodology</b>	<b>15</b>
Section 1 Risk Assessment Procedures	15
Section 2 Risk Assessment Methodology	18
<b>Chapter 4 Overview of Risk Assessment Results</b>	<b>22</b>
Section 1 Money Laundering Risks	22
Section 2 Terrorist Financing Risks	23
Section 3 Proliferation Financing Risks	24
<b>Chapter 5 Risk Assessment Results:</b>	
<b>    Money Laundering and Terrorist financing Threats</b>	<b>25</b>
Section 1 Money Laundering Threats	25
Section 2 Terrorist Financing Threats	46
<b>Chapter 6 Risk Assessment Results:</b>	
<b>    Money Laundering and Terrorist financing Vulnerabilities</b>	<b>50</b>
Section 1 Results of the National Money Laundering and Terrorist Financing	
Vulnerability Assessment	50
Section 2 Results of the Industry/Sector Money Laundering and Terrorist Financing	
Vulnerability Assessment	62
<b>Chapter 7 Risk Assessment Results: Legal Persons</b>	<b>109</b>



<b>Chapter 8 Risk Assessment Results: Trusts</b>	114
<b>Chapter 9 Risk Assessment Results: Non-Profit Organizations</b>	116
Section 1 Higher Risk Non-Profit Organizations	116
Section 2 Lower Risk Non-Profit Organizations	120
<b>Chapter 10 Risk Assessment Results: Proliferation Financing</b>	124
Section 1 Introduction	124
Section 2 Threat of Proliferation Financing	124
Section 3 Vulnerabilities of Proliferation Financing	128
Section 4 Risk Assessment Results of Proliferation Financing	141
<b>Chapter 11 Future Planning</b>	144
<b>Annex 1: Taiwan's AML/CFT/CPF Legal Framework</b>	146
<b>Annex 2: Taiwan's AML/CFT/CPF Competent Authorities</b>	149
<b>Annex 3: Factors and Classification Definitions for Money Laundering Threat Analysis</b>	154
<b>Annex 4: Factors and Classification Definitions for Money Laundering and Terrorist Financing Vulnerability Analysis</b>	155
<b>Annex 5: Factors and Classification Definitions for Proliferation Financing Threat Analysis</b>	159
<b>Annex 6: Factors and Classification Definitions of Proliferation Financing vulnerability Analysis</b>	160
<b>Appendix: Highlights of Meeting Minutes</b>	165



## 2021 National ML/TF/PF Risk Assessment Report

### Chapter 1 Introduction

The Asia-Pacific Group on Money Laundering, hereinafter referred to as the APG, launched the third round of mutual evaluation on Taiwan in November 2018, and officially released its preliminary report on June 28, 2019. Taiwan obtained the rating on "Regular Follow-Up List". The results were approved at the APG Annual Conference in Canberra, Australia in August at the same year, and the final report was completed and announced on October 2 at the same year after the completion of the international review process. The report shows getting the best result among member states in the Asia-Pacific region shows that our government and the private sectors joint efforts and achievements on promoting the prevention and control of money laundering have been recognized internationally.

Published on July 23, 2020 by the Basel Institute on Governance, Switzerland "Basel AML Index 2020<sup>1</sup>", Taiwan ranks 111th in money laundering risk among 141 countries and regions in the world, and its performance in the Asia-Pacific region is second only to Cook Islands, New Zealand and Australia. It also ranked 101st in the "Global Terrorism Index 2020<sup>2</sup>" released in 2020 by the

Institute for Economics and Peace, an Australian think tank, with a low risk of money laundering and terrorist financing.

In addition to delivering excellent results in AML and combating terrorism financing, Taiwan also achieved good results in many international competitions in 2020, such as the "IMD World Competitiveness Yearbook<sup>3</sup>" published by the Institute for Management Development (IMD) in Lausanne, Switzerland. Taiwan ranked 3<sup>rd</sup> among countries with a population of more than 20 million, the best ranking in five years; "IMD World Digital Competitiveness Ranking, DCR<sup>4</sup>, Taiwan Ranked 11<sup>th</sup>; ranked 4<sup>th</sup> in the "CG Watch 2020<sup>5</sup>" by Asian Corporate Governance Association (ACGA); American's Business Environment Risk Intelligence, BERI, Taiwan ranked 3<sup>rd</sup> on "Business Investment Environment Risk Rating<sup>6</sup>"; and the report of "Doing Business 2020<sup>7</sup> released by the World Bank, Taiwan is ranked 15<sup>th</sup> on the "Ease of Doing Business, EoDB" in 190 major countries and economies. In the "Corruption Perception Index 2020" conducted by Transparency International, Taiwan's score is 65 points based on eight survey data covering Taiwan, ranking 28<sup>th</sup> in the world. In the past 10 years, the change of the Corruption Perception Index has shown a stable and small growth<sup>8</sup>.

Overall, facing severe challenges such as the 2019 novel coronavirus pneumonia, COVID-19 epidemic and the impact of the U.S.-China trade war, Taiwan has continued to perform excellent in fiscal discipline, effectively promoting the rapid return of the economy to normal, showing that the government governance capacity and results are recognized internationally. With such a good foundation, Taiwan should still stand firm and continue to improve. The implementation on risk assessment of the National Money Laundering, Terrorist Financing and Proliferation Financing, hereinafter referred to as the ML/TF/PF, is based on this spirit. Through a comprehensive review of potential risk factors in Taiwan, it helps the public and private sectors to identify the risks of ML, TF and PF, fully understand the threats these risks pose to the financial system and national security, and then formulate the most appropriate mitigation measures and policy objectives to improve the national and industrial protection network.

Taiwan conducted the first national-level ML and TF risk assessment between 2017 and 2018. Then based on the predicate crimes threats and industry/sector vulnerabilities identified at that time, Taiwan aimed at policies, systems and frameworks on AML and combating TF following international standards to strengthen and amend step by step<sup>9</sup>. Given the changing landscape of

ML and TF, the understanding of the risks faced by Taiwan and the formulation of risk mitigation measures must also evolve over times. Therefore, this national risk assessment report not only describes in detail the latest understanding of current ML and TF risks in Taiwan, but also responds to changes in international norms and regional risk trends in recent years. Updates and adjustments the implementation method and content of this risk assessment are also as follows :

- 1.Expanded of participating units and personnel: This risk assessment was coordinated by the Anti-Money Laundering Office, Executive Yuan. There are 47 public sector agencies<sup>10</sup> and 29 private sector associations and institutions<sup>11</sup>involved. During the assessment period, experts and scholars from domestic and foreign were also consulted. It is hoped that we will be able to enter different perspectives and outline the full picture of the risks that Taiwan is currently facing.
- 2.Strengthening collection of domestic and international data: In order to bring this risk assessment closer to the international trend and the current situation in Taiwan, during the preliminary-work period of this assessment process, colleagues from the Anti-Money Laundering Office, Executive Yuan were specially instructed to form a task force to conduct background analysis to define the scope of the assessment work. During the period, members of the team collected information from international reports issued by relevant international organizations, national risk assessment reports and mutual evaluation reports, annual reports of domestic government agencies, domestic and foreign media reports, and opinions of experts and scholars. Through taking stock of the international and regional risk assessment situations in recent years, reviewing Taiwan's own situation to avoid any omissions in the evaluation results, failure to reflect the real situation or failure to integrate with the world.
- 3.The first assessment of the risk of proliferation financing: The Financial Action Task Force, hereinafter referred to as the FATF, has revised its international standards 40 Recommendations. In October 2020, of which the first Recommendation and Interpretive Note 1requiring the state and the private sector to identify, assess, understand and mitigate the risks of their PF<sup>12</sup>. In response to this change in international norms, this risk assessment is the first time to assess the risk of PF. During this assessment period, relevant competent authorities, law enforcement agencies, financial institutions, and designated non-financial business and professionals' supervision agency were invited to participate in the assessment to comprehensively examine the risk of PF in Taiwan from the legal system, policy, and implementation perspectives.

4. Adopt the most suitable assessment method for Taiwan: This risk assessment adopts the risk assessment framework recommended by FATF, and it took nearly one year to complete the identification, discussion and confirmation of risks. In the part of ML and TF risk assessment, the evaluation method tailored for Taiwan introduced by foreign consultants in 2018 will continue to be used for this evaluation; and in the part of risk assessment of PF, in addition to adopting Taiwan's existing ML and TF risk assessment methods, At the same time, also reference to some of the methodologies developed by the "Royal United Services Institute" (RUSI)<sup>13</sup>, a British think tank, a set of assessment methods suitable for Taiwan was designed.

5. New-added assessment items: In response to the ever-changing criminal threats and the latest domestic and foreign risk trends, this national risk assessment re-conducted a comprehensive inventory and updates the previously identified threats and vulnerabilities of ML and TF. In addition, in the threat section, the assessment of "illegal gambling, including online gaming" has been added, and a more detailed review of "underground banking" has been conducted. This time, "underground banking system" is also carried out independently of the "third-party money laundering" in the assessment; in terms of vulnerabilities, for the first time, the "virtual asset industry", emerging or yet-to-be-understood ML and TF ways such as "online gaming business", "art auction business", "automobile trading business, including used car dealer" and "pawnshop business", which are new or yet to be understood money laundering and financing channels, are included in the risk assessment.

Through this more in-depth and extensive self-assessment, we will set an important foundation for Taiwan to cope with the threats of ML, TF and PF in the next few years, in order to build a better and more stable development environment for our industry, and to continue to comply by international norms, and fulfill international obligations and responsibilities, with an international perspective. After this national risk assessment process, all public agencies should re-examine the rationality of internal policies, norms, and resource allocations, and assist the private sector in implementing the work of AML, combating TF, and the PF. In addition, all government agencies and the private sector should fully use the risks identified in this report as indicators to conduct further risk assessments at the departmental and institutional levels, and work together to build a greater framework of AML, combating against TF and PF for Taiwan.

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1. Source : [https://baselgovernance.org/sites/default/files/2020-07/basel\\_aml\\_index\\_2020\\_web.pdf](https://baselgovernance.org/sites/default/files/2020-07/basel_aml_index_2020_web.pdf)  
(Last visited : November 30, 2021).
  2. Source : [https://reliefweb.int/sites/reliefweb.int/files/resources/GPI\\_2020\\_web.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/GPI_2020_web.pdf)  
(Last visited : November 30, 2021).
  3. Source : <https://www.imd.org/research-knowledge/books/world-competitiveness-yearbook-2020/>  
(Last visited : November 30, 2021).
  4. Source : [https://digitalswitzerland.com/wp-content/uploads/2020/10/digital\\_2020.pdf](https://digitalswitzerland.com/wp-content/uploads/2020/10/digital_2020.pdf)  
(Last visited : November 30, 2021).
  5. Source : <https://www.acga-asia.org/cgwatch-detail.php?id=425>  
(Last visited : November 30, 2021).
  6. Source : <http://business-environment-risk-intelligence5.mybigcommerce.com/>  
(Last visited : November 30, 2021).
  7. Source : <http://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>  
(Last visited : November 30, 2021).
  8. Source : <https://topics.amcham.com.tw/2019/11/%E4%B8%96%E9%8A%80%E7%B6%93%E5%95%86%E7%92%80%E5%A2%83%E8%A9%95%E6%AF%94/>  
(Last visited : November 30, 2021).
  9. Please refer to Chapter 2 "Legal Policy and Organizational Framework" and Annex 1 "Taiwan's AML/CFT/PF Legal Framework" in this report.
  10. Public sector agencies include : National Security Bureau、Civil Department, Judicial Yuan、Criminal Department, Judicial Yuan、Ministry of Foreign Affairs、Ministry of National Defense、Ministry of Justice、Ministry of Education、Ministry of Labor、Ministry of Culture、Financial Supervisory Commission、Environmental Protection Administration, Executive Yuan、Mainland Affairs Council、Coast Guard Administration, Ocean Affairs Council、Central Bank of the Republic of China (Taiwan)、Taiwan High Prosecutors Office、Taiwan Taipei District Prosecutors Office、Taiwan New Taipei District Prosecutors Office、Department of Prosecutorial Affairs, Ministry of Justice、Department of Laws and Regulations, Ministry of Justice、Department of International and Cross-Straight Legal Affairs, Ministry of Justice、National Police Agency, Ministry of the Interior、National Immigration Agency, Ministry of the Interior、Department of Land Administration, Ministry of the Interior、Department of Civil Affairs, Ministry of the Interior、the Cooperative and Civil Associations Preparatory Office, Ministry of the Interior、Taxation Administration, Ministry of Finance、Customs Administration, Ministry of Finance、The Department of International Fiscal Affairs (DIFA), Ministry of Finance、Maritime and Port Bureau, Ministry of Transportation and Communications、Investigation Bureau, Ministry of Justice、Administrative Enforcement Agency, Ministry of Justice、Agency Against Corruption, Ministry of Justice、Bureau of Foreign Trade, Ministry of Economic Affairs、Bureau of Energy, Ministry of Economic Affairs、Industrial Development Bureau, Ministry of Economic Affairs、Department of Commerce, Ministry of Economic Affairs、Social and Family Affairs Administration, Ministry of Health and Welfare、Department of Medical Affairs, Ministry of Health and Welfare、Bureau of Agricultural Finance, Council of Agriculture, Executive Yuan、Fisheries Agency, Council of Agriculture, Executive Yuan、Banking Bureau, Financial Supervisory Commission、Securities and Futures Bureau, Financial Supervisory Commission、Insurance Bureau, Financial Supervisory Commission、Financial Examination Bureau, Financial Supervisory Commission、Office of Homeland Security, Executive Yuan、Anti-Money Laundering Office, Executive Yuan、Department of Cyber Security.
  11. Private sector associations include : The Bankers Association of the Republic of China、Chunghwa Post Co., Ltd.、Agricultural Bank of Taiwan、The National Federation of Credit Co-operatives R.O.C.、R.O.C. Bills Finance Association、The Life Insurance Association of the Republic of China、The Non-Life Insurance Association of the Republic of China、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、The Insurance Agency Association of the Republic of China、The Land Administration Agent Association of R.O.C.、Chinese Association of Real Estate Brokers、Real Estate Marketing Agency Association of the R.O.C.、Taiwan Bar Association、The National Federation of CPA Association of the Republic of China、Taiwan Stock Exchange Corporation、Taipei Exchange、Taiwan Futures Exchange、Jewelry's and Gold Association of the Republic of China、Tax-Accountancy Association Union, R.O.C.、Taiwan Certified Tax Agents Association, R.O.C.、The Tax-Accountancy and Tax-agent Association of Taipei City、The Taipei Leasing Association, R.O.C.、Money Exchanger、Chinese Non-Store Retailer Association.
  12. Source : The FATF Recommendations, P.10, <https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf> (Last visited : December 3, 2021).
  13. Source : [https://rusi.org/sites/default/files/20190513\\_guide\\_to\\_conducting\\_a\\_national\\_proliferation\\_financing\\_risk\\_assessment\\_web.pdf](https://rusi.org/sites/default/files/20190513_guide_to_conducting_a_national_proliferation_financing_risk_assessment_web.pdf) (Last visited : December 3, 2021).

## Chapter 2 Legal Policy and Organizational Framework

Taiwan is one of the founding members of APG. In order to establish a sound AML system, the government actively optimizing the relevant legal system and financial supervision measures. Through the establishment of the legal system, it creates a sound financial environment with transparent cash flow for Taiwan. In addition, with the government's full efforts to promote relevant policies, the scope of agencies involved in AML, combating TF and the PF is very extensive, covering almost all administrative and judicial agencies. The following is a description of the explain the relevant legal policies and the organizational structure of the competent authorities in Taiwan on the prevention of ML, counter TF and PF as follows:

### Section 1 Taiwan's AML/CFT/CPF Legal Framework

The legal framework for preventing ML, combating TF and the PF is mainly based on two laws, the "Money Laundering Control Act" and the "Counter-Terrorism Financing Act". All administrative departments are instructed to formulate regulations and orders related to the AML, combating TF and the PF in accordance with their business duties, in order to comply with international norms. The Money Laundering Control Act is to prevent money laundering, fight against crimes, improve the AML system, stabilize the financial order, promote the transparency of cash flows, and strengthens international cooperation as the goal; the Counter-Terrorism Financing Act is to prevent and curb the financing of terrorist activities, organizations and elements, maintaining national security, safeguarding basic human rights, and strengthen international cooperation. It given that the prevention of AML, the fight against TF and the PF are important policy objectives of the government, relevant laws and regulations should also keep abreast with the times. This report would like to briefly explain the contents of the Money Laundering Control Act and the Counter-Terrorism Financing Act as follows, and other important relevant acts and regulations are listed in Annex 1.

#### 1. Money Laundering Control Act

The Money Laundering Control Act was promulgated in 1996. It is the earliest special anti-money laundering law enacted in Asian countries. Although it has been amended several times since then, it still focuses on the investigation or criminal prosecution of serious crimes. It has been amended numerous times and it has been substantially revised in 2016 in response to the new FATF standards published by FTAF 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. Afterwards, in view of the incompleteness of the laws and regulations, the controversy over the practical application, also the inconsistency of some regulations with international norms, in order to eliminate doubts and to be in line with international norms, the Money Laundering Control Act was slightly amended and promulgated for implementation on November 7, 2018. The focus of this revision is to expand the scope of regulation and sanctions, including the inclusion of virtual asset trading platform operators into the regulation objects of the Money Laundering Control Act, and the application of the Money Laundering Control Act on financial institutions.

## 2. 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 combating FT 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 Subsequently, in order to timely and effectively restrict the transfer of assets to the designated sanctioned objects, avoid the leakage of intelligence and information and effectively implement the sanctions and other practical needs, and unify the terms of the legal provisions, the relevant provisions were slightly amended, and officially announced on November 7, 2018.

## Section 2 Taiwan's AML/CFT/CPF Competent Authorities

The competent authorities of Taiwan involved in AML, TF and PF include almost all relevant units of the administrative department and the judicial department. The legal framework and policies of Taiwan 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 various ministries to formulate policies for preventing money laundering, combating terrorism and PF. 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. For example, financial institutions are supervised by the Financial Supervision Commission, the Bureau of Agricultural Finance, Council of Agriculture, Executive Yuan, and the Central Bank of the Republic of China (Taiwan); The Designated non-Financial Business and Professionals are subject to the supervision of the Department of Prosecutorial Affairs, Ministry of Justice, the Securities and Futures Bureau of Financial Supervisory Commission, the Department of Land Administration, Ministry of the Interior, the Department of Commerce, Ministry of Economic Affairs, the Civil Department, Judicial Yuan, and the Taxation Administration, Ministry of Finance; The central organs include the Ministry of the Interior, the Ministry of Health and Welfare, the Ministry of Education and the Ministry of Culture.

In the law enforcement, it includes the prosecutors' offices at all levels of the Ministry of Justice, the Investigation Bureau, Ministry of Justice , the Agency Against Corruption, Ministry of Justice, the Administrative Enforcement Agency, Ministry of Justice, the Criminal Department, Judicial Yuan and courts at all levels, the National Police Agency, Ministry of the Interior, the National Immigration Agency, Ministry of the Interior, and the Coast Guard Administration, Ocean Affairs Council and other authorities, as well as the Anti-Money Laundering Division of the Investigation Bureau, Ministry of Justice , which plays the role of the Financial Intelligence Unit.

Agencies involved in international cooperation include the Department of Laws and Regulations, Ministry of Justice and Department of International and Cross-Strait Legal Affairs,

Ministry of Justice, the Ministry of Foreign Affairs, the Mainland Affairs Council and the international cooperation departments of various ministries. In addition, relevant ministries and authorities also participated in the issue of TF and PF.

Before the FATF promulgated the new 40 Recommendations, the tasks of AML/CFT/CPF in Taiwan were headed by the Ministry of Justice and the Financial Supervision Commission. However, after 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. In order to examine the adequacy of resources in Taiwan in terms of control measures and policy promotion of inherent risks, the tasks and budgets of relevant ministries are listed in Annex 2.

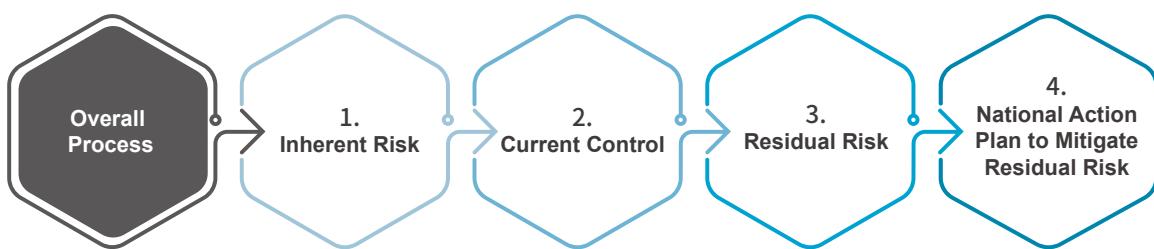
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14. Source : TERRORIST FINANCING FATF REPORT TO G20 LEADERS - ACTIONS BEING TAKEN BY THE FATF, p.3, <https://www.fatf-gafi.org/media/fatf/documents/reports/Terrorist-financing-actions-taken-by-FATF.pdf> (Last visited : December 3, 2021).

## Chapter 3 Risk Assessment Procedures and Methodology

### Section 1 Risk Assessment Procedures

In 2017, with the assistance of consultants, the Anti-Money Laundering Office, Executive Yuan formulated a national ML and TF Risk Assessment Procedures and methodology suitable for Taiwan's national conditions and the needs of various departments, and drawn up follow-up work plans, which was submitted to the Executive Yuan for formal approval and implementation. Its procedures are mainly divided into the following parts : Planning overall assessment process, undertaking inherent risk assessments, understanding current control measures and assessing residual risks, develops national action plan to mitigate residual risks. These are detailed in the diagram below.



The purpose of designing the assessment process is to ensure that the information of risk assessment includes the source, nature and extent of each risk, and that the results are sufficient for relevant competent authorities to formulate appropriate risk mitigating measures. The principles considered for risk assessment process include : assessment purpose, scope, assessment process, assessment stage, participants in the assessment, assessment information users and other relevant groups, available information, assessment final results, promotion methods and strategies, and even future risk update mechanism, and so on. Through the above process, identify and evaluate "threats" and "vulnerabilities", and understand the "inherent risks" of ML, TF and PF in Taiwan. Next, conduct an analysis of the gap between the existing control measures and the FATF Recommendations, evaluate the "residual risk", and determine the precedence of each mitigating measure in the follow-up national action plan based on the assessment results of the "inherent risk" and "residual risk".

This risk assessment of ML, TF and the PF assessment is based on the above-mentioned process. After designing the evaluation process, in order to review and update the inherent risks of ML and TF, and identify and evaluate the inherent and residual risks of PF, from March to November 2021, the Anti-Money Laundering Office, Executive Yuan has successively held a total of 4 large-scale national risk assessment meetings, and numerous small meetings attended by various authorities. During the period, up to 47 government agencies and competent authorities participated, and a total of 29 industry associations and institutions from the private sector participated in the process.

The 4 large-scale national risk assessment meetings are as follows:

- 1.On October 6, 2021, the 1st National ML, TF and PF Risk Assessment Procedures Meeting has been held with the participation of all public sectors. The purpose of this meeting consists of two parts, one is to assist relevant public departments to understand the FATF assessment methodology, assessment procedures and national risk assessment methods; the second is to identify and assess the "threat of ML", in the identification and evaluation of money laundering threats, including qualitative and quantitative research. Before the meeting, each law enforcement department will fill in the threat profile form. The information sources of the profile form include the law enforcement experience, the analysis data reported by the Financial Intelligence Unit, and the statistics of the relevant competent authorities. During the meeting, all participants will rate the threat results in a consensus manner, and submit relevant information for advice from expert consultants.
- 2.On October 12, 2021, the 2nd National ML/TF/PF Risk Assessment Meeting has been held. The purpose of this meeting is to identify and evaluate "threats of TF" and "vulnerabilities of non-profit organizations" were including qualitative and quantitative research on the identification and assessment of threats of TF and vulnerabilities of non-profit organizations. Before the meeting, each competent authority will propose an analysis table. The sources of the profile form information include the supervision and statistical data of the competent authority, and the statistical data of the law enforcement agency. After considering the agility of terrorist threats, relevant competent authorities are invited to hold a private meeting. In this meeting, relevant competent authorities will rate the threat of terrorism and the vulnerabilities of non-profit organizations in a consensus manner, and submit relevant materials for advice from expert consultants.

3.On November 8, 2021, the 3rd National ML/TF/PF Risk Assessment Meeting has been held.

The purpose of this meeting is to identify and evaluate "vulnerabilities of money laundering and terrorist financing", with the participation of various public and private, sectors, and evaluate items such as "Industry/Sector", "Legal Person" and "Trust" respectively. In the identification and evaluation of "vulnerabilities of money laundering and terrorist financing", including qualitative and quantitative research, before the meeting each competent authority and the private sector jointly propose a vulnerability analysis table. The sources of the profile form information include the knowledge and practice experience, and statistical data from the competent authority. In the meeting, all participants will jointly rate the vulnerabilities in a consensus manner, and submit relevant information to seek the opinions of expert consultants.

4.On November 18, 2021, the 4th National ML/TF/PF Risk Assessment Meeting has been held.

The purpose of this meeting is to identify and assess the "risk of Proliferation Financing". Due to this is the first time for Taiwan to carry out the risk assessment on PF, to be prudent, before the NRA Assessment Procedures meeting, the Anti-Money Laundering Office, Executive Yuan conducted a pre-meeting with the competent authorities on August 9, 2021 to discuss the assessment procedures and methods, and relevant international documents such as the "Guidance on Proliferation Financing Risk Assessment and Mitigation<sup>15</sup>" issued by FATF in June 2021 and the "Guidelines to Conducting a National Proliferation Financing<sup>16</sup>" issued by RUSI in May 2019 were given to all participants for research and participation. After that, RUSI was asked to assist my country with education training on the "Guide on Conducting a National PF Risk Assessment" on October 12, 2021, so that all competent authorities fully understand the purpose and method of assessment. The profile form of risk assessment and analysis of PF was filled out by the competent and responsible agencies. After considering their agility, relevant competent authorities were invited to hold a private meeting on November 18, 2021, on which the participants reached a consensus to decide the rating and submit relevant materials to foreign consultants to seek the opinions.

Taiwan's risk assessment process features adaptability, sustainability, repeatability, and evolving to improve over time. Its characteristics are as follows: (1) Total and effective review of key risk factors, including threats, vulnerabilities, and consequences , which enables assessment of inherent and residual risks; (2) 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;

(3) Easy to use and understand; (4) Able to accommodate a nation's current analysis status and limitations due to lack of data and statistics; (V) Transparent and rigorous process; (5) Transparent and rigorous process; (6) Facilitates understanding of inherent risks, establishment of risk-based mitigation strategies, formulate AML, combat TF and the PF policies to and determine the priority of cross-ministerial coordination actions to be consistent with FATF recommendations.

In order to facilitate the public sectors to re-evaluate the reasonableness of internal policies, norms and resource allocation after the risk assessment process, and to assist the private sectors in implementing the work of AML, combating TF and the PF, and enabling various agencies to conduct industry risk assessments and institutional risk assessments with the private sectors fully included the results of national risk assessments, this risk assessment report has been officially confirmed and completed in December 2021, and announced at the end of 2021.

In addition, according to Taiwan's risk assessment process, the Anti-Money Laundering Office, Executive Yuan will continue to plan and conduct residual risk assessments of ML and TF, so as to formulate a national action plan based on the assessment results, and implement risk mitigation measures accordingly. In order to maintain the latest status of risk assessment to meet the needs and in response to the alteration of international standards and changing typologies of foreign and domestic ML/TF/PF, the Anti-Money Laundering Office, Executive Yuan will continue to update the assessment every 3 years, and the next update will be in 2024.

## Section 2. Risk Assessment Methodology

The risk assessment methodology adopted in Taiwan focuses on the assessment of threats and vulnerabilities. Considering the confidentiality and sensitivity of TF/PF risks, the evaluation on the "threats of TF" and "threats and vulnerabilities of the PF" are conducted independently. As for legal persons and trusts that are not classified into specific sectors, and non-profit organizations which are commonly used as channels for TF, due to their unique nature and limitations of relevant information, the assessments on these 3 categories are also conducted independently.

As for the threat of ML, since this is the second time that Taiwan has conducted a national-level risk assessment, it focuses on updating the 23 category predicated crimes set in the previous risk assessment, and adds 1 item "illegal gambling, including online gaming". In addition, in order to better understand the risk of "underground banking system" in Taiwan, the "underground banking

"system" is independently assessed from "third-party ML". Therefore, this risk assessment has a total of 24 items "ML threats" assessment targets. In the evaluation process, three risk factors, including the ability of the offender, the scope of money laundering activities, and the estimation of the proceeds of crime, are used to collect various information of criminal. The main content of analysis includes the number of cases disclosed by the Financial Intelligence Unit, the number of cases handled by law enforcement agencies, and the estimated amount of criminal proceeds of predicated crimes. The identification result rating is divided into 4 grades, and the definition of each grade is detailed in Annex 3.

With regard to TF threats, the threat profiles on terrorism (including TF) 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: (1) Degree of direct/indirect contact with terrorist organizations by terrorist financiers, (2) Knowledge, skills, and professionals of terrorist financiers to engage in terrorist financing, (3) "Network, resource, and terrorist financing execution capabilities of terrorism financiers", (4) "Reachable scope and area of terrorist financing operations", (5) "Annual estimated amount for terrorist financing", (6) "Diversified methods with which terrorism financiers collect and handle funds" and (7) "The extent to which funds raised are used to harm national or international interests of Taiwan".

In the section on industry/sector money laundering and financing terrorism vulnerabilities, we not only updated the 31 vulnerabilities assessed in the previous assessment, but also added five emerging or yet-to-be-understood industries, including "virtual assets industry", "online gaming business", "art auction industry", "automobile trading industry (including used car dealer)" and "pawnshop industry". Therefore, this risk assessment has a total of 36 assessment targets of "Vulnerability of Money Laundering and Terrorist Financing". The risk factors to be assessed include the inherent characteristics of the industry, the nature of products and services provided by the industry, the nature of business relationships with customers, the geographic scope of industry activities and the nature of service channels. Sources of data include the number and scale of relevant industries, information on products and services, geographic locations of customers and industry activities, and case investigations and related data provided by law enforcement authorities. The results are divided into 4 grades, and the definition of each grade is detailed in Annex 4.

In the chapters on legal persons, trusts and non-profit organizations, the main assessment methods are explained from the perspective of information transparency, and some of them use a simpler dichotomous risk result classification, that is, higher risk or lower risk. Regarding legal persons and trusts, considering that the original information has not been integrated, so that the risk is unclear, the supplementary information is provided by the competent authorities and law enforcement agencies, and after discussion at a peripheral meeting, it is identified and confirmed in the national risk assessment meeting. Among them, with regard to legal persons, in order to thoroughly understand the weaknesses of different types of legal persons, the risk rating is specially carried out for different types of legal persons. As for non-profit organizations, we use the "Non-profit Organization Vulnerabilities" profile form to evaluate the essential characteristics, scale, partnership, donor type, nature of activities, geographical scope and service channels of non-profit organizations and other risk factors, and focus on analysis and evaluation on the scope of business and sources of donations of non-profit organizations, such as non-profit organizations that participate in international affairs to a greater extent, the location where the non-profit organization operates, the location of activities in high-risk areas, donors who come from high-risk areas, the ability to donate anonymously and so on.

With regard to the assessment of PF threats, the method adopted is slightly adjusted based on the existing money laundering risk assessment methods in Taiwan. In the threat analysis profile form, we evaluated 3 risk factors including the actor's capability, the scope of PF and the estimation of criminal proceeds, and so on. Then we collected various information of criminal for analysis, the main contents include the number of cases disclosed by the Financial Intelligence Unit, the cases handled by law enforcement authorities, and the estimated amount of criminal proceeds. The result of identification is divided into 4 grades, and the definition of each grade is detailed in Annex 5. As for the assessment of the vulnerabilities of PF, after considering the needs of Taiwan and referring to some of the methodologies developed by RUSI, we tailor-made an assessment methodology suitable for our country. The assessed risk factors include five items: Geographical factors, political and social factors, legal and institutional factors, economic and technical factors, and legal persons and legal agreements. The data analyzed include the contexts of the nation, relevant legal framework, financial institutions, designated non-financial business and professionals, and the current situation and difficulties encountered in the implementation of targeted financial sanctions by related industries, as well as the risk awareness of the public and private sectors. The results are divided into 3 grades, and the definition of each grade is detailed in Annex 6.

## Chapter 3 Risk Assessment Procedures and Methodology

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15. Source : FATF Guidance on Proliferation Financing Risk Assessment and Mitigation, <https://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Proliferation-Financing-Risk-Assessment-Mitigation.pdf> (Last visited : December 5, 2021).

16. Source : RUSI's Guide to Conducting a National Proliferation Financing Risk Assessment [https://static.rusi.org/20190513\\_guide\\_to\\_conducting\\_a\\_national\\_proliferation\\_financing\\_risk\\_assessment\\_web.pdf](https://static.rusi.org/20190513_guide_to_conducting_a_national_proliferation_financing_risk_assessment_web.pdf) (Last visited : December 5, 2021).

## Chapter 4 Overview of Risk Assessment Results

At the national level, the results of the risk assessment of ML, TF, and PF will help Taiwan on reviewing the existing regulations, determining the adequacy of resource deployment and management measures conducted by competent authorities, and recognizing whether appropriate adjustments are needed, so as to meet the limited resources and adhere to the FATF 40 recommendations.

The results of risk assessment at the national level are useful for authorities to review the reasonableness of risk factors and equivalent parameters for sector risk assessments, conducted by competent authorities or for institutional risk assessments conducted by private sectors. Therefore, consistency could be sustained horizontally on policy implementation and resources allocation, through various competent authorities; and different AML/CTF/PF assessments from national level to government agencies and private sector, could be at the same page.

It is important to emphasize that this risk assessment report is only an assessment of the inherent risk of ML and TF and not an assessment of the residual risk. In other words, this report aims to provide users with an understanding of the risk profile of Taiwan before control measures are taken, so that users can follow up and control based on the contents of the report, and authorities can adjust the direction of regulations or policies based on the status of this report. Furthermore, the rating of high-risk crimes or high-risk industries/sectors only indicates the extent of exposure to ML and TF risks, and does not mean that the current regulations or control measures are ineffective that has to be mentioned first. This assessment of the risks of PF is based on the inherent risk and the residual risk. Then based on the results of this assessment, a national action plan will be developed to determine the priority of mitigating measures.

### Section 1 Money Laundering Risks

The money laundering threat identification in this report reveals that Taiwan is severely affected by 10 major types of crimes that are highly threatened by money laundering in Taiwan, including drug trafficking, fraud, smuggling, tax crimes, organized crime, securities crimes, underground banking system, illegal gambling, including online gambling, corruption and bribery, and intellectual property crimes. High threat crimes include third party money laundering. The

top 5 countries or regions in terms of outflow of criminal proceeds were Mainland China, Hong Kong, Macau, the Philippines, and Thailand and Vietnam, which were also ranked as the top five countries or regions.

Due to democratic and liberal environment of Taiwan, active development of financial, economic trade and diversified payment instruments, the identification of money laundering vulnerabilities indicates that some industries are more vulnerable to ML abuse. The three industries/departments with very high vulnerabilities are offshore banking units, virtual asset enterprises, and domestic banks. The 14 highly vulnerable industries/departments include offshore securities branches, online games enterprises, branches of foreign banks in Taiwan, the postal institution, securities firms, offshore insurance units, jewelry retail business, accountants, attorneys, real estate brokers, life insurance companies, third-party payment service, agricultural financial institutions, and securities investment trust enterprises. In the various industry/sector of activity, the top five countries or regions for trading with Taiwan are Hong Kong, the United States, Japan, Mainland China and Korea.

Among the countries or regions involved in the outflow and inflow of criminal proceeds, those that are not the main countries and regions or industry/sector activities of trade and population movements Taiwan engaged but are involved in criminal activities, including accounts opened in the British Virgin Islands, the Samoa Islands and the Cayman Islands.

In the various industry/sector of activity, to understand the risk of abuse, independent risk assessments are conducted for corporations, trusts and non-profit organizations. Due to the lack of information transparency, the risk of corporate entities being abused as a criminal channel has increased in recent years, especially for non-public companies limited and limited companies, for trusts, the risk is higher for civil trusts. As for nonprofit organizations, civil organizations, national religious corporations and social welfare and charity corporations, are of higher risky.

## Section 2 Terrorist Financing Risks

With respect to the identification of TF threats, no information and terrorism cases occurred in Taiwan from 2018 to November 2021, and no cases of terrorist or terrorist organizations operating in Taiwan have been detected. In addition, the population composition of Taiwan is stable and the proportion of immigrants has increased in recent years, but the population movement is mainly

due to work demand, according to the Ministry of Labor, as of April 2021, there are about 709, 123 migrant workers in Taiwan, harmonies in terms of religion, lifestyle habits, languages are found in diversity and no evidence that Taiwan is related to terrorist activities or information terrorism activities. Overall, the risk of terrorism is extremely low.

### Section 3 Proliferation Financing Risks

Although the geographical environment and economic and trade conditions of Taiwan are conducive to the PF activities, it is a threat to regional security and social and economic stability. However, as a responsible member of the international community, Taiwan has been actively cooperating with international actions to implement the relevant UN Security Council resolutions and the FATF recommendations to combat the PF. Not only does Taiwan strive to improve the relevant laws and regulations and systems internally, we also strive to cooperate with the international community to combat the PF.

This risk assessment process has identified that the threat PF of Taiwan is mainly from related activities involving the Democratic People's Republic of Korea, hereinafter referred to as North Korea. And has also identified specific industries other than financial institutions and designated non-financial business and professionals other specific industries that may be involved or potentially exploited, such as ship shipping, ship leasing, customs brokers, commodity suppliers, bunker fuel industry, and virtual asset service industries. In addition, the transparency of legal persons and legal agreements still poses the challenge of identifying the beneficial ownership and the relevant public and private authorities should continue to enhance their awareness of the risks of combating PF. Additionally, some regulations and measures related to the PF are still subject to review and revision. Overall, the risk of PF of Taiwan is rated as "moderate" in North Korea and "low" in Iran.

## Chapter 5 Risk Assessment Results: Money Laundering and Terrorist Financing Threats

### Section 1 Money Laundering Threats

Money laundering threat identification reveals that there are 10 major types of very high threat crimes in Taiwan, including drug trafficking, fraud, smuggling, tax crimes, organized crimes, securities crimes, underground banking, illegal gambling including online gambling, corruption bribery and intellectual property crimes. The high threat crimes are third party money laundering. Due to space considerations, this section contains only the 10 very high threat categories and one high threat category, and does not cover the remaining medium and low threat categories.

**The Summary Table of Identified MI Threats**

List of MI Threat Profles' Overall Ratings			
Low	Medium	Hight	Very High
1.Sexual Exploitation	1.Illicit Arms Trafficking	1.Third-Party ML	1.Drug Trafficking
2.Trafficking in Human Beings (Migrant Smuggling)	2.Illicit Trafficking in Stolen and other Goods		2.Fraud
3.Abrupt Taking, Robbery	3.Theft		3.Smuggling
4.Extortion (including Ransomware)	4.Environmental Crime		4.Tax Crime
5.Counterfeiting Currency	5.Forgery		5.Organized Crime
6.Murder, Grievous Bodily Injury	6.Kidnapping, Illegal Restrain		6.Securities Crime
7.Piracy			7.Underground Banking
			8.Illegal Gambling (including Online Gambling) (newly-added)
			9.Corruption and Bribery
			10. IPR Infringement

#### 1. Very High Threat: Drug Trafficking

Assessment Period	2018 Assessment	2021 Assessment
Rated	Very High	Very High

More than 70% of the narcotics seized in Taiwan are imported from abroad. The most dangerous is the smuggling of drug precursors (Category four), of which ketamine and amphetamine precursors are the bulk, the finished product of the above two comes next. The finished products mainly come from Mainland China, including Hong Kong and Macau, and Southeast Asian nations. Most of the heroin comes from Thailand, Vietnam, Malaysia and other countries, and the transportation methods are mostly shipping container, fishing boat or air express. In the "2021 World Drug Report" issued by the UN Office on Drugs and Crime lists Taiwan as one of the main destinations for heroin<sup>17</sup>. Although amphetamine manufacturing factories have been seized in Taiwan, but there are very few cases of exportation have been found in the past two years. In recent years, drug trafficking groups have fine-tuned the chemical structure of related synthetic substances to avoid legal control. In addition, in order to reduce the vigilance of addicts, traditional drug crystals, powders, capsules have been transformed into common foods in daily life, such as coffee pods, candies and other mixed packaging forms, which have led to emerging drug abuse problems.

Before the outbreak of the COVID-19 epidemic, smuggling by fishing boat and shipping container were the main channels for drug trafficking. After the outbreak, due to the strict restrictions on the movement of people, a large number of smuggling channels were blocked and gradually replaced by postal parcels. The number of drug parcel cases increased by 17% from 2019 to 2020, which shows that the number of drug parcel cases has increased significantly due to the impact of the epidemic. In 2019, the largest number of drug parcels is smuggling of ketamine, followed by methamphetamine and marijuana. In 2020, the majority of drug parcels are smuggling of ketamine, but the number of marijuana parcels has increased significantly. In recent years, due to the gradual relaxation of cannabis control in some countries or regions in Europe and the United States, it is relatively easy to obtain the method. Nowadays, the cases of cannabis seeds purchased from foreign websites and sent by express parcels are ever-growing, and the cases of domestic cannabis cultivation are also increasing. Such crimes use international websites as trading platforms, and the sources of cannabis and its seeds are mostly from Canada, Australia and the Netherlands.

Drug traffickers buy drugs mainly in cash, with almost no payment through the banking system except for commissions or the necessary expenses for the delivery of drugs. In addition, the flow of criminal funds in the past was through underground banking system. Some domestic personnel

## Chapter 5 Risk Assessment Results: Money Laundering and Terrorist financing Threats

withdraw funds and transfer them to foreign countries. Now, cryptocurrency is used as a payment tool. In the cases of practical investigation, it has also been found that the use of specified accounts in Southeast Asian countries to make payments and so on. Moreover, drug traffickers in Taiwan mostly conduct face-to-face transactions in cash, remittance to nominee account, and underground casinos, so as to avoid law enforcement authorities from tracing the flow of money. Transnational drug cartels ensure the security of transactions by diverting people, goods and funds, and collude with members of organized crime groups to use nominee account wire transfers, shell companies, jewelry shop, underground banking system operators, overseas casinos, and personnel to carry cash in and out of the country. Or they launder the money by remittance in batches with normal foreign transaction payments mixed with goods and drug trafficking. However, it has recently been found that there are foreign currency exchange, foreign accounts in domestic banks, foreign tax evasion shell companies, or virtual accounts and Bitcoin for drug transactions. In the case of drug dealers on both sides of the Taiwan Strait, underground banking system, jewelry shop, the Taiwan branch of a Hong Kong trading company, a company that has commercial relations between Taiwan and Mainland China, and casinos in Hong Kong and Macau are used as channels for money laundering.

Although the outflow and inflow countries or regions of the proceeds of crime vary depending on the types of narcotics; in general, the outflow countries or regions of the proceeds of crime are mainly Mainland China, Hong Kong, Macau and Southeast Asia, and the rest are Canada, Netherlands, Australia and the United States. The other countries or regions where the proceeds of crime flow into are mainly Japan, South Korea, Malaysia, Indonesia and the Philippines. The proceeds of crime are estimated at market value based on the amount of drugs seized at all categories each year, approximately NT\$4,575.51 million in 2018, and approximately NT\$4,280.14 million in 2019 million and approximately NT\$1,693.5 million in 2020.

### 2. Very High Threat: Fraud

Assessment Period	2018 Assessment	2021 Assessment
Rated	Very High	Very High

Fraud crimes in Taiwan include, loan fraud, investment fraud, international trade fraud, real estate fraud, health insurance fraud, insurance fraud, bankruptcy fraud, negotiable instruments fraud, internet fraud, telecommunication fraud, and Ponzi scheme. Among them, investment fraud, internet fraud, and telecommunication fraud is the most threatening, and the illegal amount is huge.

Fraud crimes in recent years have shown the phenomenon of group, corporate and layered operation, and have developed towards cross-border division, special division of labor, and combination with other types of predicate crime. Telecommunication fraud criminals usually make the victim make mistakes and misunderstand his words and then transfer money to a specific account, and then other members go to the Automated Teller Machine, referred to as ATM to withdraw the stolen money with the ATM card of a nominee's account, deliberately create cash-flow breakpoints, which are then handed over to major criminal actors in layers. Other types of fraud include using legitimate companies or professionals to engage in financial planning, laundering the proceeds of fraud, so as to avoid tracing the flow of funds. It is obvious that their money laundering knowledge is very high. As for the part of illegally absorbing money, in recent years, the internet and emerging technologies have been combined to use the points or virtual assets created by them to calculate profits through the bonus distribution system, or use electronic wallets to store value, and then convert them into cash payments in the future.

The perpetrators of the above-mentioned group fraud crimes plan to carry out money laundering in a professional division of labor. The industries involved include service industry, telecommunications industry, information service industry, financial industry and third-party payment service provider, which are highly complex and have no geographical restrictions on criminal activities.

Criminal groups purchase high-value precious metals, jewelry or real estate with illicit money, or conduct false trades with overseas third-party payment companies, or use the account of an Offshore Banking Units, referred to as OBUs, to transfer the proceeds of crime overseas. In recent years, there have also been cases of domestic and foreign virtual asset platform operators or currency dealers converting illicit money into virtual assets and transferring them abroad. In addition, some actors transfer their illicit income abroad through underground banking system, casinos or cash withdrawals with Union Pay cards. Among them, Mainland China is the largest, followed by Hong Kong, Macau, Japan, South Korea and Southeast Asian countries. It is estimated that the proceeds of crime are about NT\$70 billion per year on average.

## Chapter 5 Risk Assessment Results: Money Laundering and Terrorist financing Threats

### Case 1

Since March 2019, A and B, Mainland China nationality, have conspired to form a fake dating investment fraud rings in Mainland China and set up a virtual asset investment Website-A. A and others first steal photos of handsome one and beauties to create an account on the dating software, get to know the victim and chat to gain trust. A again falsely claimed that the "B coin" of Website-A's virtual asset investments is promising, and the investment will have high profits, and induce the victim to registered as a member to place an order, and continue to use sales talk to convince the victim that website-A is a real investment and trading platform, and continued to invest more money. Website-A was shut down without warning in August 2019, leaving nearly 200 victims helpless, and the loss amounted to more than NT\$100 million.

Source : Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

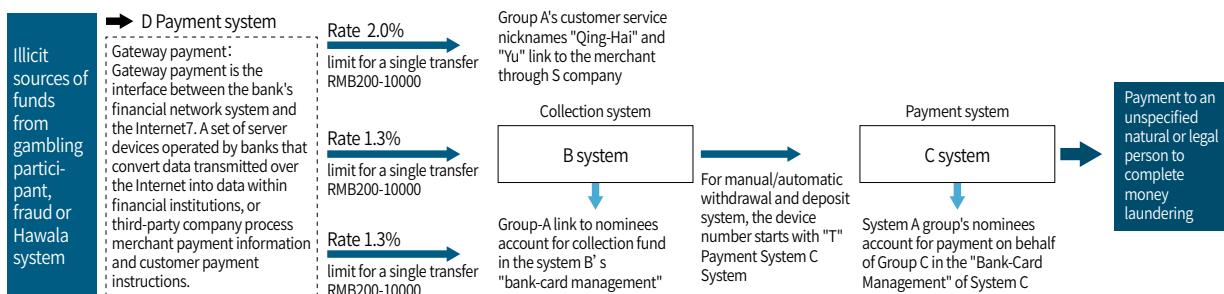
### Case 2

Financial group-A recruits investors in the name of investing in foreign exchange margins, setting up funds and holding groups to invest in industries in various countries and earn high interest. The main suspect A and the leaders and members of the Singapore and Malaysia groups, toured Southeast Asian countries to hold briefing sessions, established multi-level relationship by absorbing downlines, set up an electronic account platform for Financial group-A, allocate the absorbed funds as virtual points, giving high-value virtual points to develop a huge organization. Investors are located in Taiwan, Singapore, Malaysia, Mainland China and Hong Kong, and so on, more than 1,000 people have been victimized, and more than 460 million US dollars have been absorbed. A requires the downline members delivery the cash or small remittances to the account, hides a large amount of cash and foreign currency in several locations and safes hold by relatives and friends. A also purchases expensive leather goods, jewelry, and boutique for money laundering. The head of the Malaysian group, B, uses the shell company-B establishing 6 business accounts by Malaysia Nationality C in Taiwan. B instruct the cronies D to deposit the illegal income into the accounts of 6 business accounts of company-B by cash and small remittance, and then to finish the act of money laundering by remit the fund to Hong Kong, Malaysia and Singapore in batches in the name of normal business investment to company-B in excess of \$86 million.

Source : Investigation Bureau, Ministry of Justice

### Case 3

A Money-Laundering Center Group, in Taiwan, is responsible for the ML and transfer income of gaming center or casinos and other merchants or illegal sources of funds, using D payment system and other channels to deposit the fund by scan the code. Then it rents third-party payment platforms B, C and D in the Mainland China, to engage in cash flow collection and payment, and randomly depositing money into the nominee account link to B system, dividing the collected money, transferring it to the nominee account link to the C payment system, and assigning it to Customer designated account. The members of ML Center Group will make up for the shortfall of funds in these accounts at any time, arrange funds, and answer the bank notecalls. They conduct multiple layering transfers, and underground banking system through the nominee bank accounts link to each system to launder the money.



Source : Investigation Bureau, Ministry of Justice

### 3. Very High Threat: Smuggling

Assessment Period	2018 Assessment	2021 Assessment
	Rated	Very High

Smuggled goods are mainly divided into two categories: agricultural, forestry, fishery and livestock products and other smuggled goods. In terms of agricultural, forestry, fishery and livestock products, products with high economic value are the targets of smuggling, among which the largest number of seizures are fishery products, followed by agricultural products and livestock products. In recent years, there has been an increasing trend of smuggling of living animals. As for other smuggled goods, tobacco and alcohol are included, and tobacco is the highest quantity of seized goods among them, and the trend is increasing yearly. The main sources of smuggled goods are Mainland China, Hong Kong, and Southeast Asian countries such as the Philippines, Vietnam and Thailand. The smuggling methods are described as follows.

- (1) Transportation by fishing boat: This is the main type of seizure by law enforcement agencies. Criminals include individuals and groups, who usually use fishermen to hide smuggled items in the decks, masts, oil tanks, interlayers or fishing goods of fishing boats, or 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 criminals are mainly act as syndicates. They concealing smuggled goods in the normal customs declaration imported goods for customs clearance, or placing the smuggled goods in the hidden parts of the container to avoid inspection. In addition, there are also cases of entrepot shipping containers being stealthily swapped and so on.
- (3) Transportation through passenger, luggage or express parcels: It is usually carried out by individuals for their own interests, or at the instigation of the groups, in the form of carrying or concealing bundling. In practice, however, the amount of smuggling by this method is relatively small.

The profits from smuggling are based on the high price gap between low cost of foreign-source procurement and the controlled domestic prices, and smuggling can also avoid customs duties, business tax, tobacco and alcohol tax, profit-seeking enterprise income tax, and tobacco health welfare surcharge that must be borne when importing. The profits are even greater. Smugglers involve organized criminal organizations are all capable of creating distribution networks and payment channels for subsequent wholesale and retail deals. In addition, there are also cases where domestic gangs or cross-border organizations are cooperated.

Smuggling criminals often use cash-intensive industries, such as betel nut kiosks, construction site welfare shops or grocery stores, as channels for selling smuggled goods. In recent years, it has also been found that smuggled raw materials are assembled or mixed into products and sold to small retailers. Money laundering is done through channels such as the Southeast Asian financial system, underground banking system, jewelry shops and illegal casino operators.

Law enforcement authorities estimate that the proceeds of crime from 2018 to 2020 averaged approximately NT\$1,193.12 million per year.

#### 4. Very High Threat: Tax Crime

Assessment Period	2018 Assessment	2021 Assessment
Rated	Very High	Very High

The main types of tax crimes are tax evasion by fraud or other illegitimate methods, or helping others to evade tax.

The common methods are as follows:

- (1) The methods of tax crimes for individuals, companies and legal entities include falsely reporting costs, expenses or input tax without purchasing goods or paying facts, falsifying uniform invoices, trading in another person's name, concealing property and dividing income, and so on.
- (2) The main type of helping others to evade taxes is establishing shell companies, among which illegal methods include: using a large number of nominees to set up companies without actual operation, issuing false uniform invoices and providing them to company or legal entities, or evading personal income tax, profit-seeking enterprise income tax and business tax by dispersing income, or hiding the actual business transaction by fraudulently collecting tax refunds.
- (3) Fraudulent export tax refund: If the business operator utilizes the system of encouraging export sales, it can refund all the business tax contained in the exported goods, and declare false high-priced export products as low-priced goods or scrapped goods.

The characteristics of tax crimes require that criminals not only need to be familiar with the domestic business transaction models; but also, in order to avoid the investigation by judicial authorities, they often use false business transaction processes to extend and expand the transaction object as overseas transactions by means of international trade or triangular transactions to hide logistics and cash flow. In addition, in order to hide assets and disperse income, knowledge of domestic taxation and financial transactions is also required, which is a white-collar crime. Participants often use money laundering to transfer illegal gains to individuals or specific companies.

Criminals have opened a large number of nominee accounts in Taiwan, along with false transactions to create cash flow. For the concealment of personal illicit gains, it is often supplemented by cash withdrawals, making cash flow breakpoints, to conceal illicit income and evade investigation. Furthermore, set up paper companies in Mainland China, Hong Kong, Macau

## Chapter 5 Risk Assessment Results: Money Laundering and Terrorist financing Threats

or other countries (such as the Philippines), fraudulently collect tax refunds by means of fake exports and real tax refunds, or use offshore bank accounts to evade fund tracing, and then use underground remittances or engage in fake trading methods to transfer funds back to Taiwan. According to statistics from law enforcement authorities, Mainland China, Hong Kong, Macau and the Philippines are all countries and regions where criminal proceeds flow in and out.

From 2018 to 2020, the average annual tax crime income was estimated to be NT\$1.3 billion<sup>18</sup>, according to the criminal case referred by the Investigation Bureau, Ministry of Justice.

### Case

Responsible person R of company A sets up company B in Mauritius, set up company C, company D and company E in the British Virgin Islands, and opens an offshore bank account in a foreign branch of a domestic bank or an OBUs in Taiwan for these 4 companies accounts, but these companies do not actually operate. Afterwards, R forged export declarations and company accounting documents, and sold goods in the name of Company A to "customers outside the Americas and Europe markets", "customers in American markets", and "customers in European and Central and South American markets", respectively counterfeiting companies C, D, and Company E purchases goods from Company A, which is lower than the actual purchase amount. Then R requires the actual purchaser to remit the payment to Company B's account, and then instructs employees to transfer the money in Company B's account to the accounts of Company C, Company D, and Company E respectively, and yet again transfer the money from Company C, Company D, and Company E to the accounts of Company A's account in Taiwan, making fake cash flow as payment for company C, company D, and company E to purchase goods from company A. The operating income of Company A was included in the amount lower than the actual purchase amount, and the sales income of Company A was underreported by nearly NT\$300 million, thus evading the profit-seeking enterprise income tax of Company A by about NT\$60 million.

Source : Investigation Bureau, Ministry of Justice

## 5. Very High Threat: Organized Crime

Assessment Period	2018 Assessment	2021 Assessment
Rated	Very High	Very High

Organized crime groups in Taiwan mainly include "Tian Dao League", "Bamboo Union Gang", "Four Seas Gang" and "Supreme League". Such criminals are group-like syndicate, violent and habitual, with the intent to intimidate people for the purpose to seek illegal interests. Their crimes may violate the Organized Crime Prevention Act, Criminal Code of the Republic of China and the Controlling Guns, Ammunition and Knives Act, and so on. The types of crimes include : guarding for the underworld, extorting businesses, operating the porn industry, underground casinos, underground banks, investment companies, security companies, debt collection companies, organize Mark Six, electronic game arcade business, Internet cafe, gravel fields, wasteland

business, pay cable TV station, violent bid rigging for public works, violent intervention in public companies to seize management rights, violent intervention urban renewal, smuggling of drugs, firearms, violent obstruction of elections, violent debt collection, intimidation and extortion, forcible compensation, invading the campus to absorb gang members and illegal mining land resources, and so on.

In order to avoid detection, organized crime groups mostly manage their assets in cash, and rarely deposit their funds into bank accounts. Criminal gangs may transfer funds to companies controlled by them, hide or transfer illicit gains for money laundering by setting up fraudulent groups, drug trafficking groups, operating professional casinos, underground banks, and using the method of underground remittance. In addition, some organized crime groups will disguise the illegal exchange of foreign currency with legal transactions, and exchange the illegal NTD received in domestic into RMB or virtual assets abroad. Most of the proceeds of crime flows in and out from Mainland China, Hong Kong, Macau, the United States, Canada and Southeast Asian countries, and large gangs also have strong holds and business operations in those countries.

As for the estimation of criminal income, because organized crime has the characteristics of covering other types of crimes, the illegal income from drug, fraud, violence and other cases is estimated together. In 2018, it was approximately NT\$5,365.05 million, in 2019, it was approximately NT\$6,510.59 million, and in 2020, it was approximately NT\$14,133.13 million.

## 6. Very High Threat: Securities Crime

Assessment Period	2018 Assessment	2021 Assessment
	Rated	Very High

The current types of crimes related to violations of the Securities and Exchange Act in Taiwan include insider trading <sup>19</sup>, market manipulation <sup>20</sup>, securities fraud and false information, and tunneling companies. The legislative purpose of the Securities and Exchange Law is to protect investment. For company insiders such as company directors, supervisors, managers and other core members or tippees, when they learn that the information is not equivalent to general investment public information, there are special regulations to prevent insiders from taking advantage of the information unequal opportunity to seek illegal benefits, and pass the damage on to market-oriented investors.

## Chapter 5 Risk Assessment Results: Money Laundering and Terrorist financing Threats

In recent years, the capital owners who helped to manipulate stock prices have extended from domestic to foreign countries, especially Mainland China. In addition to entering the country through jewelry shop, underground private banks, underground banking system, smuggling gold, jewelry, and virtual asset trading, overseas capital owners can use the term of "fake loans, real investments" or "fake investments, real remittances" to make domestic trader to obtain funds for profit, or provide legitimate foreign investment in a third place, or fake investment in offshore third-party funds to be packaged as foreign accounts for domestic speculators, and jointly drive up stock prices for profit. However, it is difficult to identify the beneficial owner of the foreign-funded account in such cases, and there are obstacles in tracing the foreign targets involved in cases.

In most cases, insider trading and market manipulation are based on stock trading, Criminals usually do not use personal accounts to commit crimes, but use the securities accounts of others such as relatives, friends, and employees, supplemented by negotiating and borrowing funds from the capital owners. Most of the transactions are conducted in cash, deliberately evading the regulations on Cash Transaction Reports.

The main criminals of securities fraud and financial misrepresentation cases are company directors, general managers, and financial officers, who issue and trade stocks after increasing capital through inaccurate capital raising and capital inspection. In order to embellish their financial reports, some companies use false transactions to inflate their revenue, resulting in accounting distortions, attracting people to invest into shell companies and exchanging unworthiness stocks for banknotes to seek illegal benefits. After the shares are remitted to the company, the shares will be tunneled by means of false investment, cash withdrawal and so on.

The main criminals in the case of tunneling the company are responsible persons of a company, general managers, and financial directors and other senior decision-makers. The most common method is to conduct transactions with the former senior decision maker's related parties or their companies in a manner that is false or significantly inferior to normal transaction conditions, such as transferring company assets to the related parties or their companies, so that the company's losses or costs are passed on to the investing public. Although the modus operandi were previously revealed through financial accounts, but the criminals, after the assets are removed, then use cash withdrawals to create breakpoints and use them to purchase high-value precious metals, jewelry or real estate, or through underground banking system, or make fake

transactions to transfer the illegal proceeds to overseas through their own or a third party's OBUs account, the above-mentioned criminal practice may involve industries. The above-mentioned criminal practices may involve industries such as banking, real estate and finance.

Most of the proceeds of securities crimes flow into and out of Mainland China, Hong Kong, Macau, and Southeast Asian countries, and it's more common for most criminal proceeds to flow abroad. As the majority crime that tunneling companies are setting up offshore paper companies in tax havens such as the British Virgin Islands, Samoa Islands and Cayman Islands, and then transferring illegal funds abroad. Some transfers the illegal income overseas through underground banking system or casinos, and only a few keeps the illegal income in Taiwan to purchase of real estate or precious metals.

According to the estimation of criminal proceeds of law enforcement authorities, it was NT\$20.7 billion in 2018, NT\$17.6 billion in 2019, and NT\$17.1 billion in 2020.

#### Case

Company X sold the office building and realized more than NT\$1.4 billion. After paying off the loan liabilities and paying taxes and fees, the cash and equivalent cash on the account reached more than NT\$1.1 billion. Married couple A and B coveted the huge cash assets of Company X, believing that the company's financial fundamentals are good, that it has the theme of stock speculation, and that they think they are able to use its funds once they becomes the owner. A and B negotiated with C, the then chairman of company X, and signed an "Equity Interest Transfer Agreement" with C in the name of a friend, agreeing to pay NT\$25 per share of tens of thousands of shares of Company X from C, with the intention of raising the share price of Company X. A and B continuously buying shares of Company X at high prices on their own or in the name of other parties, which may affect the market price or order, and to continuously order or report a series of trades under one's own account or under the names of other parties, and to complete the corresponding transactions with the intent of creating an impression on the centralized securities exchange market of brisk trading in Company X's security. The appearance of active was trading, the general criminal contact of manipulating the stock price by continuously trading or reporting trading on their own or in the name of others, and the relative transaction in order to manipulate the stock price. In "Taipei T office", 29 people including person D were used for the couple to open a total of 60 nominee securities account, and borrowed money from fund owners E or securities dealers F and used the securities companies' nominee's securities account to buy a large amount of company X's stock in the centralized trading market and undertake the sale of company X's stock by C. Couple A and B's arrangement to enter into company X, and the manipulation of company X's share price for profit at the same time, resulting in the share price of Company X to rise from the opening price of NT\$16.3 per share, to a maximum of 24.1 yuan per share, an increase of 147%.

Source : Investigation Bureau, Ministry of Justice

## 7. Very High Threat: Underground Banking System

Assessment Period	2018 Assessment	2021 Assessment
Rated	None	Very High

Article 29 of the Banking Law of Taiwan stipulates that those non-banks persons are not allowed to operate banking and remittance business. However, due to the increase in cross-strait financial control and labor migration, underground remittance is very prevalent, including multinational groups and domestic operators, especially cross-border groups with certain knowledge and ability of money laundering, which have set up bases or long-term cooperation partners and support networks in relevant countries, and periodically debit and settle payments. In the case of the domestic industry, there are jewelry shops, resource recycling companies, travel agencies, Mainland China spouses, foreign spouses, to operate underground banking system. Some groups illegally operate bank remittance business, commonly known as underground banking organizations, and often offer prices lower than bank remittance fees to attract people who want to remit funds abroad, for example, domestic companies repatriate foreign exchange settlements in response to re-export trade across the Taiwan Strait, foreign exchange settlement needs of Taiwanese businessmen in Thailand and Vietnam, or repatriation of migrant workers' wages to their home countries, and so on. The criminals do not transfer cash, but settles the funds between the criminals' branch or specific person in other places to collect cheaper exchange rates and handling fees to operate the remittance business, and complete the receipt and payment of funds between different places for customers. Because this method saves money, saves time and is convenient, there are no complicated procedures, and there is no mandatory requirement to do KYC, it has been often used by criminal organizations, such as fraud and gambling syndicates, recently.

This type of crime includes the use of employees or nominee accounts and middleman, either individually or through the establishment of companies in domestic and foreign countries, to carry out the exchange of funds in a group manner. In order to settle the funds with other branches or specific people, after the exchange into New Taiwan dollars or other foreign currencies, the middleman will carry them abroad, use other nominee accounts for foreign exchange or settle with OBUs accounts.

The underground banking syndicates may set up companies in various names at domestic and foreign counties, and use the method of double-dealing the books to cover the real cash flow between the two parties. They even use the human hands to bundle a large amount of cash to cross the border or hide the cash in individual suitcases, which are carried out by the "carrier" staff within the organization to avoid detection.

The underground banking groups often combine and transfer the profits of foreign exchange with the transactions required for their business in Taiwan or Mainland China, making it difficult to distinguish between the two. Underground remittances are also common in Taiwan at stores selling foreign daily necessities, as well as through travel agencies, migrant labor agencies, corporate or personal bank accounts, and OBUs accounts. Proceeds of crime flow into and out of Mainland China, Hong Kong, Macau, and Southeast Asian countries. The estimated proceeds of crime from 2018 to 2020 are average annual amount of proceeds of crime is over NT\$90 billion.

In the previous national risk assessment report, underground banking system was classified as a third-party ML item, but in this national risk assessment report, clandestine foreign exchange is assessed as a separate project. In summary, the risk is rated as "very high" due to the increase in financial controls and labor migration across the Taiwan Strait in recent years, which has led to a large demand for underground bunking ML and high criminal proceeds.

## 8. Very High Threat: Illegal Gambling (Including Online Gaming)

Assessment Period	2018 Assessment	2021 Assessment
Rated	None	Very High

The criminal types of gambling may include professional casinos wandering in mountainous areas or private own houses, and there are also online gambling companies. In the name of "IT company" or "technology company", to claim that their services include technical logistics such as text customer service, marketing, website maintenance, to conceal the essence of the game, and usually recruit employees with high salaries to attract young people and information technology industries engage in their criminal activities.

Criminal groups usually put illicit gains such as fraud and drug trafficking into gambling websites or third-party payment services in the form of stored value or exchange tokens, and exchange cash for chips, and then require the gambling website to remit the money to a designated account. The proceeds are mixed with legitimate funds to confuse the cash flow and create multiple breakpoints to achieve the purpose of ML. Furthermore, the gambling company also requires employees to open a payroll account in the bank, but the deposit book, card and account use rights must be turned over, which in fact become the company's nominee account, and the employees are carefully monitored, which shows the criminals' ML knowledge very capable.

Illegal gambling companies need a large number of nominee accounts to convert gambling money for ML. In addition to the banking industry, the industries involved also include jewelrys, underground banking system and other industries where the flow of money is not easily traceable, and often disguise their criminal activities under the guise of technology companies or telecommunications operators. Due to COVID-19 epidemic, many gambling companies have moved to Dubai to set up their offices. The distribution of labor, people from Mainland China are the capital owners, the IP address is set up in the Philippines, and Taiwan is used as the gambling OEM industry base, setting up offshore internet data center in Hong Kong, Macau, Southeast Asia or the United States, and use the Virtual Private Network, referred to as VPN, platform to avoid detection. The countries or regions involved in the inflow and outflow of criminal proceeds are all over Asia, mainly including Mainland China, Hong Kong, the Philippines, Dubai, Vietnam and Cambodia.

In terms of proceeds of crime, illegal gambling, including online gaming, crimes are combined with emerging industries as a conduit for money transfer, and setting IP addresses are beyond the borders makes it difficult for the government to detect them. The proceeds of crime are estimated to be NT\$1.5 billion in 2018, and about NT\$2 billion in 2019, and as high as NT\$8 billion in 2020. There has been a clear upward trend in the proceeds of crime in the past three years, so the risk is overall rating as "very high".

Case 1

A digital entertainment development company claimed to operate a legal offshore gaming platform and assist in the OEM gaming platform business. Because the police seized the account passbook buyout group, they then cracked the money-laundering center and gambling data center operated by the digital entertainment development company, and found that the company assisted major online gaming platforms launder money, and take a commission from 1% to 1.6%. In this case, 56 suspects, 333 U-shields for transferring funds from mainland bank accounts (with a balance of RMB 3,454,105) and 147 UnionPay cards were seized.

Source : Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

### Case 2

Person P and others are headed by company A, and under it, dozens of branches such as company B have been established to form the game group C. In addition to operating a gaming website, Group C also operates a gaming platform D, attracting website owners in Mainland China and Southeast Asian countries to solicit gamblers. In addition, the subsidiary of C Group provides servers, and provides gaming website, game maintenance and design, and gambling money access and other services, commonly known as "package network" services, collects internet plan fees from overseas website owners, and then takes commission from gambling. In addition, Company A, under the guise of providing "information services" of offshore companies, attempted to legally cover up the illegal gains, and repatriated the illegal gains to Taiwan through the offshore companies for investment in real estate and mergers and acquisitions of enterprises. There are also cases where underground exchange methods are used to convert illegal incomes abroad into cash for P, B and other subsidiaries to spend. As for B and other branches, they are responsible for the accounting management of the D game platform, cleaning the illegal income beyond the border, and transferring the funds back to Taiwan. The illegitimate gains obtained by the P and the others through the D gaming platform totaled approximately NT\$59.5 billion.

Source : Investigation Bureau, Ministry of Justice

## 9. Very High Threat: Corruption and Bribe

Assessment Period	2018 Assessment	2021 Assessment
Rated	Very High	Very High

The type of corruption and bribery crime is that civil servants directly or indirectly accept bribes or other illegitimate benefits by taking advantage of the powers and opportunities to exercise their statutory duties, such as handling procurement, supervising construction projects, and carrying out investigation operations. Common types of crimes and their methods are as follows :

- (1) Types of corruption in public works or procurements: float quotations, quantities, or leaking confidential procurement information, such as basic prices, selection committee list, accepting hospitality and banquets from companies, accepting kickback, so that a specific companies can win the bid, and the supervisors of public works fail to verify the reports submitted by the companies, so that the companies passed the examination and obtained illegal benefits.
- (2) Types of corruption of legislators: In recent years, it is common for legislators to apply for their assistants' salaries subsidized by public funds on behalf of people who are not actually working as assistants, and use the money for personal use.
- (3) Type of corruption of construction: Some government official use their authorities powers such as reviewing and issuing building permit and use permit, accepting bribes to escorting specific businesses to obtain relevant licenses.
- (4) Types of land administration corruption: Civil servants colluded with construction companies to

illegally change the agricultural, animal husbandry or forestry land in general agricultural areas to be classified as other types of land, forged the drawing sheet of the measure, inflated the area of bases, and used the authority for land identification and complete the building surveys to obtain regulations fee.

- (5) Types of police corruption: Civil servants take bribes by taking advantage of their powers, covering up illegal businesses such as pornography or gambling, and accepting illegal inducements to leak personal information, such as car registration.
- (6) Types of Judicial corruption: Public officials take bribes and other illegitimate benefits by taking advantage of the powers such as prosecution and adjudication, which affects judicial impartiality and the people's trust in the judiciary.
- (7) Types of customs corruption: Civil servants use their powers to handle customs clearance, seizure, inspection and taxation, colluding with customs brokers or enterprises to facilitate fast customs clearance or the entry and exit of prohibited items, and accepting bribes.
- (8) Types of environmental protection corruption: Taking advantage of the opportunity to managing the business of the resource recycling plant, colluding with relevant environmental protection companies, to falsify weight reduction information in order to shorten the amount of unreal fees, and accepted bribes or kickbacks in exchange for illegal benefits.
- (9) Types of highway supervision corruption: Taking advantage of the authority and opportunity of managing the vehicle examination and vehicle inspection business of highway supervision, colluding with inspection agents to pass the inspection of substandard vehicles and accepting bribes or kickbacks in exchange for unlawful benefits.
- (10) Types of financial insurance corruption: Taking advantage of the authority and opportunity of to manage government funds on behalf of the company by accepting discretionary entrustment, the civil servants colluding with the relevant industry to manipulate the stock prices of specific public companies with government funds for the benefit of the industry and accepting bribes.
- (11) Type of tax corruption: Take advantage of the opportunity of being responsible for tax collection, auditing and other businesses, civil servants take the opportunity to ask for bribes, or illegally cover up businesses after accepting bribes.
- (12) Types of election bribery: This is the general term for crimes established by using money to influence elections. Common violations include the crime of offering bribe to candidates, the crime of taking bribe by candidates, the crime of offering bribes to voters, organizations and monopolizing vote-buying. The methods of bribery include vote-buying with cash, gifts giving, traveling and dinner reception. The bribery is usually done by the candidate or the

group or organization that supports the candidate, through the candidate's faction and the system of Farmers' and Fishermen's Association. Then on the voting day, the vote brokers at the lowest level will urge one by one the voters who have accepted bribes to vote, or provide incomparable consideration for travel or meals during the election period, and at the same time ask the voters to support them in exchange for the desired number of votes to be elected. The bribe requires a large source of money, and the money is laundered in the name of election expenses through large transactions with financial institutions.

Corruption and bribery criminals generally have higher level of ML knowledge, and usually withdraw cash under NT\$500,000 at the counter to avoid check by financial institutions. In addition, most of the ML is done through the provider of nominee accounts, offshore funds, repurchasing precious metals, such as gold, land or reinvesting in underground banks. The industries and channels involved include financial institutions, jewelry businesses, underground banks and offshore funds.

The estimated proceeds of crime are approximately NT\$727.39 million in 2018, and approximately NT\$1,355.37 million in 2019, approximately NT\$628.36 million in 2020.

## 10. Very High Threat: Intellectual Property Rights' (IPR) Infringement

Assessment Period	2018 Assessment	2021 Assessment
	Rated	High

IPR infringement crimes can be mainly divided into trademark infringement, copyright infringement, counterfeit medicines, manufacture of illegal alcohol and tobacco, and trade secret infringement. The following are described separately:

(1) Infringement of trademark rights and copyright crimes: At present, there have been few group crimes focus infringement of trademark rights and copyright in Taiwan, and most of them are illegal by a single company or individual. The main criminal methods of copyright infringement crimes are unauthorized reproduction or modification of other people's works; unauthorized public playing of music and videos; browsing and downloading of other people's works on the internet and blogs; using peer-to-peer, referred to as P2P, transmission software to share unauthorized audio and video files; providing Karaoke machines with unauthorized recordings

to stores; and online auctioning and selling pirated CDs on internet. In recent years, there have been more cases of online counterfeiting and piracy than traditional sales in night markets, retail stores or corporate infringement cases. In addition, due to the rapid development of the internet in recent years, the types of piracy cases have tended to use APPs and digital audio and video infringement to earn illegal profits, such as using digital set-top box for copyright infringement, and factories are rarely set up in Taiwan to produce physical pirated CDs. Those who set up illegal websites to infringe copyright crimes have high level of experties, and often rent servers from foreign countries, involving internet service providers, advertisers, and remit the proceeds to Taiwan through third-party payment. In copyright infringement cases, Mainland China, Hong Kong, Macau and Southeast Asian countries are the main countries and regions where criminal proceeds flow in and out. As for the cases of violation of the trademark law, it is rare to directly produce and manufacture counterfeit goods in Taiwan. Most of them are selling counterfeit goods on the internet or in physical booths and stores. The stores sell counterfeit goods, most of which are European boutiques, and the American earphones, shoes, hats, smartphone cases, Japanese cosmetics, cartoon characters merchandise. With the prevalence of online e-commerce, it is not difficult for foreign actors to directly or indirectly provide counterfeit products to end consumers through Taiwan or international e-commerce platforms, and even conduct large-scale social media such as Facebook, Instagram, or online live broadcasts for sale. It is difficult for consumers to confirm the actual product or to complain to foreign merchants.

- (2) Crimes of counterfeiting drugs and manufacturing fake alcohol and tobacco: These crimes mostly occur within Taiwan, and the criminals may need to have certain knowledge of ML to launder money through bank remittances by provider of nominee accounts, buying and selling gold, silver and jewelry, and buying real estate, and so on. The crimes of counterfeiting medicines and manufacturing fake alcohol and tobacco are mostly large-scale crimes, and the sectors that are more likely to be involved are banks, jewelry shop, and real estate brokers.
- (3) Crimes against trade secrets: It is common for employees to violate company regulations by copying files or sending them to others without permission, or in order to obtain higher benefits. They steal company secrets while they are on the job, sell them to others, take company secrets for job hopping, or resigning to set up related companies on their own. In addition to directly receiving funds from foreign companies through foreign currency accounts, OBUs

accounts, or directly receiving funds from offshore companies, those who leak business secrets criminally to foreign countries also receive foreign currency cash as remuneration in order to cover their crimes up. In recent years, Chinese funded enterprises have seriously violated Taiwan's trade secrets. The types of violations can be divided into: 1. Illegal poaching: Chinese funded enterprises set up companies under the guise of personal studios and "overseas compatriots investors" to hide the People's Liberation Army's background, and uses illegal means such as "offshore company offices" to hide in technology parks, waiting for opportunities to hunt Taiwanese scientific and technological talents to engage in technology research and development to expand their unlawful business. 2. Employees "departing with poaching secrets to the enemy's camp": Chinese enterprises continue to poach and lure senior executives, R&D engineers or R&D teams with high-salary, high-position, and high-benefit in the domestic semiconductor industry, stealing the company's trade secrets to work in other side companies to directly obtain R&D results.

Estimated Proceeds of Crime for Violation of Copyright Law, Trademark Law and Trade Secret Law, 2018-2020 Average Annual About NT\$229.17047 billion.

In recent years, the risk level has been adjusted from "high" to "very high" due to the increasingly serious cases of internet infringement and trade secret infringement, especially the theft of trade secrets and talent poaching of Taiwan high-tech companies by Chinese funded enterprises, the scope of ML activities of trade secret infringement involves offshore, including Mainland China.

#### Case 1

X and Y have conspired with Mainland China people to set up pirated drama binge-watching website A since 2015, rent cloud services hosts in foreign countries, download unauthorized movies, dramas, and TV series to website A or put the link on them, and upload pirated copies from various countries. Movies and series are free for netizens to watch, with a monthly traffic of up to 30 million times, and a monthly profit of at least NT\$2 million from advertisement clicks. X and Y were ferreted out in March 2020. The amount of profit they earned was more than NT\$76 million, and the market value loss to filmmakers and TV stations was as high as NT\$1 billion.

Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

Case 2

Group A in Mainland China is the largest client of Company B in Taiwan, and commission Company B to produce the products, such as image sensor chips. Group A is eager to establish its own industrial supply chain to replace Company B because of the great potential for future market development of image sensor chips. Therefore A has a plan for the construction of a factory, and started in December 2019. In order to achieve the goal of building a factory in a short period of time, Group A hired the former deputy general manager X of Company B, to be the general manager of Company C of Group A in Mainland China. X recruited one by one such as Y, the manager of the factory department of company B, to form a team. X and others have been senior executives of Company B for a long time, so they each have the opportunity to access the business secrets of Company B. In order to covet the huge sums paid by Group A, they violated the provisions of the Trade Secret Law and planned to use Company B's technology to build a factory for Group A. The new factory was enough to cause damage to Company B.

Source: Investigation Bureau, Ministry of Justice

## 11. Very High Threat: Third-Party Money Laundering

Assessment Period	2018 Assessment	2021 Assessment
Rated	Very High	High

FATF defines third-party ML as ML by people who have not participated in predicate Crimes. Although third-party ML is not a predicate crimes listed in the FATF 40 Recommendations, Taiwan's Money Laundering Control Act has criminal liability for third-party ML. In addition, in Taiwan's ML risk assessment and identification, the threat of third-party ML is high, and it is particularly independent as the assessment target. Third-party ML involves transferring, altering, disguising, concealing, receiving or holding other people's illegal income. The main criminal actors may be three types of groups, which is professionals individuals and groups who engaged in underground banking system. This risk assessment is only for professionals, and the underground remittance has been discussed in the previous section.

Professionals refer to accountants, attorneys, land administration agent and other people with high professional knowledge and ability, who understand relevant financial taxation, real estate practices and related regulations, and use them to create complex corporate structures, arrange operations or through fraudulent financial certification or trusts, or intermediary broker, to assist criminals to conceal or transfer their illegal gains.

The channels used by third-party ML include domestic and foreign banks, OBUs, accountants, attorneys, jewelry business, real estate, or the use of domestic and foreign companies, including tax havens, travel agencies, resource recycling operators, and so on. The methods used include cash and Mainland China UnionPay cards.

The countries or regions where criminal proceeds flow out or into are Mainland China, Hong Kong, Macau, Southeast Asia, such as Singapore, Indonesia, Switzerland and the United States, and the scope and complexity of global activities are relatively higher. Proceeds of crime are estimated to have averaged NT\$29.33 million per year between 2018 and 2020.

This risk assessment adjusted the risk level from the previous “very high” to “high” because the underground remittance was independently assessed from third party ML in this risk assessment, and the overall estimated amount of criminal proceeds was reduced.

## Section 2 Terrorist Financing Threats

There are no terrorist organizations in Taiwan, and no international terrorist organizations have developed branches in Taiwan. Coupled with factors such as religion, culture, geographical location, only a very few individuals may become potential terrorists because of their spiritual support or identification with terrorism and contact foreign terrorist organizations or foreign terrorist organizations through the internet or social media. However, from 2018 to November 2021, there have been no cases of TF in Taiwan, nor have there been any seizures of terrorists or terrorist organizations operating in Taiwan. Therefore, it is not possible to assess the main actors of TF, the capacity of the actors, and it is difficult to estimate the proceeds of crime. Considering that the financing resources of terrorist organizations have been transferred to the internet, virtual asset financing or other alternative financing systems, and the verification of the cash flow of virtual assets has increased the difficulty of verification by law enforcement authorities, so Taiwan uses seven indicators including the “Degree of direct / indirect contact with terrorist organizations by terrorist financiers”, “Knowledge, skills, and professionals of terrorist financiers to engage in terrorist financing”, “Network, resource, and terrorist financing execution capabilities of terrorism financiers”, “Reachable scope and area of terrorist financing operations”, “Annual estimated amount for terrorist financing”, “Diversified methods with which terrorism financiers collect and handle funds” and “The extent to which funds raised are used to harm national or international interests of Taiwan”, to analyze the possible threats to TF that we may face:

### 1. Degree of Direct / Indirect Contact with Terrorist Organizations by Terrorist Financiers

There are no terrorist organizations in Taiwan, which is a diverse society, and ethnic groups and religions are harmonious and co-prosperous country, so it is not a breeding ground for the development of terrorism. There are no international or regional terrorist organizations recruiting

personnel or collected funds in Taiwan, and there are no cases of Taiwan citizens going to conflict areas to engage in terrorist activities. There may be a small number of individuals in Taiwan who have the potential to support or identify with terrorist organizations. In the past, there are few cases female foreign workers in Taiwan had been exposed to terrorism through the internet, and then attempted to engage in terrorist activities after returning to their country. However, no relevant cases have been found in the recent three years.

## 2. Knowledge, Skills, and Professionals of Terrorist Financiers' Implementation of Terrorist Financing

The financing of terrorism, terrorist organizations or terrorists is through the formal financial system or the informal financial system, including through legal or illegal means, self-or through the use of shell company, fraud, other criminal proceeds, or as a non-profit organization, and so on. The methods of transferring funds include the use of foreign exchange in the money service business, direct transfer by carry cash abroad, and the use of virtual assets. Taiwan has not yet found any case of terrorist financiers to conduct TF.

## 3. Network, Resource, and Terrorist Financing Execution Capabilities of Terrorism Financiers

According to the UN Joint Report of 3 June 2020 on measures taken by member states to combat the TF; formal banking system, cash smuggling, currency and foreign exchange services business, alternative remittance system, underground banking, social media, prepaid cards, mobile payments, bank loans, social welfare, are legal or illegal means used by terrorist financiers. In addition, based on the reports of the UN Security Council Committee established by Resolution 1267/1989/2253 from July 2019 to July 2021, a number of reports, including the investigation of the pattern of information terrorism in Southeast Asia, are as follows:

a. Alternative remittance system and underground banking (Hawala) are the most common methods used to transferring funds to the Islamic State of Iraq (ISIS) and al-Sham and Al-Qaeda (Al-Qaeda) , and the subsequent closure of borders to prevent the movement of cash due to the COVID-19 epidemic.

b. There is a trend of mobile payments, virtual assets, and online banking being applied for TF, and cases of fundraising using Bitcoin have already appeared in Southeast Asia.

- c.The charitable and non-profit sectors, especially Indonesia which ranked first in the world in charitable donations, and some organizations may be using charity as a mean of TF.
- d.Women are playing an increasingly prominent role in fundraising and fund transfer, and in Southeast Asia, women's fundraising activities are usually carried out in the name of helping orphans and widows.
- e.Between 2018 to 2020, no cases of individuals or groups using online, offline, or non-profit organizations to finance terrorism have been detected in Taiwan, but the aforementioned TF networks are all easily accessible in Taiwan. In recent years, due to the impact of the COVID-19 epidemic, travel in various countries has been regulated, and the way of transferring funds by underground banking (Hawala) may be restricted as a result.

#### 4. Reachable Scope and Area Terrorist Financing Operations

We have not found any transnational fund-raising TF organizations in Taiwan. Based on the geographical location of Taiwan and the statistical analysis of the foreign population of its own nationality, Indonesia and Vietnam are the major sources of cross-border payroll remittances. Therefore, the scope and area of TF may be relatively simple, mostly Southeast Asia regions, such as Indonesia, Vietnam, Philippines, Thailand and Malaysia, and the source of funding is the wages of foreign workers. On the other hand, large amount cross-border remittances in Taiwan are commercial remittances to the United States and Mainland China, or, payroll remittances to Southeast Asian countries such as Indonesia, Vietnam, and the Philippines, which do not involve high-risk jurisdictions.

As for the financing of terrorism by virtual asset, although most of the virtual asset books are transparent, and the sources and cash flows are very clear, it is difficult to effectively link virtual asset funds with real-world natural persons. The effective transmission range of virtual assets is the global internet, expanding the reach and area of TF operations, and there are potential threats.

#### 5. Annual Estimated Amount for Terrorist Financing

There have never been any terrorist attack or TF cases in Taiwan, and if TF uses virtual assets to finance terrorist organizations, it is difficult to estimate the amount of TF due to the difficulty in tracing funds.

## 6. Diversity of Funds Collected and Processed by Terrorists Financiers

Taiwan has not found the use of non-profit organizations, charitable groups and criminal activities to raise funds, nor has it found suspicious fundraising platforms or the use of virtual asset platforms for fundraising. There are few potential high-risk financiers are only able to raise the funds through work income, single cash payments, direct delivery, cross-border wire transfer and virtual assets. The method of collecting and processing funds is relatively simple. Currently, there is no specific case of using online and mobile banking to finance terrorists or organizations with virtual assets.

## 7. The Extent to which funds Raised are used to Harm National or International Interests of Taiwan

There are currently no cases of TF in Taiwan, and it is still difficult to assess the immediate damage of TF, and it is also impossible to assess the impact and damage of potential crimes and TF activities on the financial system, institutions, economy and society.

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17. Source : World Drug Report 2021 - Statistical Annex 7.4.3, United Nations Office on Drugs and Crime <https://www.unodc.org/unodc/en/data-and-analysis/wdr2021.html>

18. The annual tax evasion income contained in the Estimated Proceeds of Crime section in the previous risk assessment report was NT\$75 billion, based on an average annual penalty of NT\$5.7 billion from 2014 to 2016. However, the calculation basis of this amount is based on the calculation of the amount of the administrative penalty plus the penalty by the IRS in each region, which is inconsistent with the specified unlawful activity of Article 3, paragraph 7 of Taiwan's Money Laundering Control Act, which is a crime against Article 41, Article 42 and Article 43, paragraphs 1 and 2, of the Tax Collection Act. According to Taiwan's Money Laundering Control Act, only those who violate the criminal penalty may constitute a specified unlawful activity of ML. Unlike some countries where the criminal penalty is imposed for tax evasion, the amount of criminal proceeds from the previous tax crime should be overestimated compared to the actual situation.

19. The main criminal perpetrators of insider trading are those who know major positive or negative news inside the company, or the attorneys, accountants, financial consultants who assist the company in handling mergers and acquisitions, and people who have been informed of the news by mentioned above. Most of its criminal methods are those who know major news, during the prohibited trading period (before or within 18 hours after the news is published), borrowing the accounts of relatives, friends or employees to trade the stock of the underlying company, and then conduct reverse trading after the news is published to obtain illegal capital profits.

20. The main criminal actors in manipulating stock prices are market speculators, who usually have a certain amount of capital. Most of them will make further advances from financial business advance providers, financiers, to increase their operating leverage. Because the manipulators continuously buy at high prices, sell at low prices, complete the corresponding transactions and even disseminate false information, and so on, the supply and demand of the stocks of the target companies are unbalanced, resulting in a sharp rise or fall in the stock price. Market speculators then profit from the high spread.

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist Financing Vulnerabilities

### Section 1 Results of the National Money Laundering and Terrorist Financing Vulnerability Assessment

#### 1. Government Organization and Judicial System

Taiwan is a democratic and constitutional country. The government structure can be divided into central/counties and cities, hereafter referred to as counties/cities; counties are subdivided into townships and county-administered cities, hereafter referred to as townships/cities. 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, the Legislative Yuan, the Judicial Yuan, the Examination Yuan and the Control Yuan.

The Constitution is the fundamental act of Taiwan, and it has the highest legal authority, and no other laws, orders, shall violate the Constitution. The Constitution regulates the state organization and the basic rights and obligations of the people. The former stipulates the central government system with the separation of five powers (Yuan) and the local self-government system. It is clearly stated that the division of power between the central and local governments adopts a system of equal rights, and the Fundamental National Policies. The latter is revealing the idea that sovereignty lies in the people, making it clear that the people are guaranteed by basic rights. According to the constitution, the president and vice president are directly elected by all the people for a term of four years and can run for re-elected once. The president is the head of state, representing the country to the world, commanding the army, navy and air force of the country, promulgating laws, issuing orders, declaring martial law and appointing and dismissing civil servants and military officials.

The Executive Yuan is the highest administrative organ of the country and is divided into 12 ministries and 20 organs of equal levels. The Legislative Yuan is the highest legislature of the country. It is composed of the legislator elected by the people for a term of four years and can run for re-elected. The Judicial Yuan is the highest judicial organ of the country, and is in charge of the judicial interpretation of the constitution, the unified interpretation of acts and legal orders, the trial of civil, criminal, and administrative litigation cases, the disciplinary action of civil servants, and the judicial power of political parties' unconstitutional dissolution. Unlike most countries, which adopt

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

the political structure of the separation of three-power, Taiwan adopts a unique model of separation of five powers. Among them, the Examination Yuan is the highest examination institution in the country, which is in charge of examinations, employment, and dismissal of civil servants. The Control Yuan is the country's highest supervisory organ, exercising the powers of impeachment, censure and audit.

Taiwan adopts the judicial system of the civil law system, which is based on the principle of abstract and systematic statutory law. When making judgments, the judges of each trial must judge independently according to the law. When the Court of Final Appeal encounters differences in legal opinions or the principle of legal issues is critical, Taiwan has applied the Grand Chamber mechanism to unify different legal opinions since July 2019, and abolished the previous system of precedents and resolutions. Taiwan's judicial system is divided into three levels. In principle, the District Courts are responsible for first-instance judgments; the High Court and its branches are responsible for appeals against first-instance judgments; and the Supreme Court is the court of final appeal, which is different from the first and second instance judgments in fact-based judgment, and is only responsible for reviewing whether the judgment of the lower-level courts have legal errors. The prosecutorial agencies are also divided into three levels based on the level of the court : 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. Based on the principle of the prosecutorial integration, the Prosecutor General of the Supreme Prosecutors Office commands and supervises prosecutors of all levels in criminal investigations, filing public suits, conducting public suits, assisting in private prosecutions, implementing private suits, directing the execution of criminal judgments, and perform other duties specified by regulations. In addition, in order to achieve the joint participation of citizens and judges, enhance judicial transparency, reflect the citizens' legitimate legal feelings, and demonstrate the concept of national sovereignty, Taiwan's Citizen Judges Act will be implemented on January 1, 2023. It is expected that citizens will fully understand and comprehend how judges conduct fact-finding, apply laws and impose punishments, through their own participation in the trial process. While making judgments based on legal purposes, the court also enriches the perspectives and connotations of court trials through the process of dialogue and exchange with the outside world.

Since the government retreated from the Mainland China and relocated to Taiwan in 1949, and after the lifting of the martial law in 1987, Taiwan has developed in a stable and democratic

environment in which the five powers are separated to perform their respective tasks. So far, Taiwan has successfully completed multiple peaceful political party rotations of the governing party, and retains a mature democratic environment with capable and incorrupt government agencies. The American non-governmental organization "Freedom House" released a report on the degree of freedom of countries around the world, which is often used as an indicator to review democracy, freedom and human rights in all countries. In its 2021 report, Taiwan scored 94 points of a perfect score of 100. The degree of freedom was "Free". In addition, Transparency International (TI) released the 2020 Corruption Perceptions Index, CPI, and Taiwan ranked 28th among 180 rated countries in the world. It was the best result in the past ten years.

Although these laws and authorities have played key roles in fight against crimes, the freedoms provided to Taiwanese citizens and the legal and procedural safeguards created to protect defendants may be exploited by criminals, including money launderers and terrorist financiers.

## 2. Geographical Location

Taiwan is located in the southeastern coast of the Asian continent and between the East Asian island arcs on the west coast of the Pacific Ocean, with Japan and the Ryukyu Islands to the north, the Philippine Islands to the south, and the Mainland China to the west. Taiwan Island has a North-South length of approximately 395 kilometers, a maximum width of about 144 kilometers from east to west, and an area of 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 geographic location, Taiwan is vulnerable to cross-border criminal activity via air or sea transport modes, and detection of criminal activity is extremely challenging. Geographically, Taiwan's neighboring countries include North Korea, a high-risk country designated by FATF, Mainland China, an important international economic and trade power, and Hong Kong, an important financial center in the Asia-Pacific region. In recent years, this factor has had an even greater impact on ML and TF in Taiwan.

## 3. Economic and Financial System

Since the 1960s, Taiwan has undergone economic and industrial reforms, and social

development has a rapid development. The economic achievements in the 1970s and 1980s have made it one of the four Asian tigers, and in the 1990s it has become one of the developed countries. Since the 1980s, Taiwan's economic structure has gradually shifted from labor-intensive industries to high-tech industries. Among them, the electronics industry plays an important role in the world economy. It has excellent performance in the fields of semiconductor, optoelectronics, information technology, communications, and electronic precision manufacturing. In the next few years, on the basis of the government's 5 plus 2 industrial innovation (smart machinery, Asian Silicon Valley, biotechnology and medicine, green energy technology, national defense and circular economy) the government will build six core strategic industries : information and digital industries, excellent information security industry, Taiwan precision health strategic industry, national defense and strategic industry, green power and renewable energy industry, people's livelihood and combat readiness industry, allowing Taiwan play a key role in the global supply chain, and prepare the talents, funds, regulations, brand and other common strategies, and fully support the promotion of the six major industries.

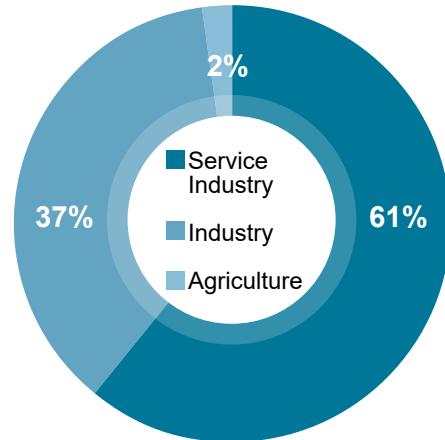
Taiwan has a small domestic market and lacks natural resources. Its economic growth relies upon international trade which became the bloodline of its economy. In the past 20 years, Taiwan's dependence on trade has been higher than 100% most of the time, and it once has reached the highest 140%, and the rate now is 94.389% <sup>21</sup> so far. As for trading partners, the United States and Japan have long been Taiwan's top two trading partners. Until 2004, Mainland China became Taiwan's largest import and export trade area. The United States and Japan were the second and third, and trade relations with ASEAN countries were even closer. In recent years, the government has promoted the New Southbound Policy to encourage the economic and financial system to move southward to the country. Since the implementation of the policy, closer cooperation between Taiwan and ASEAN, South Asia, New Zealand and Australia has been gradually established in the fields of economy and trade, tourism, education, culture, agriculture and talent exchange. Under the active promotion of government agencies, the New Southbound Policy has shown initial results so far.

The types of legal persons in Taiwan are mainly divided into two categories: corporation associations and foundations. Until December 31, 2020, there were 714,652 registered for-profit corporations, which are companies. Among them, limited companies, 540,927 companies, were the largest, followed by joint-stock companies (173,711 companies). There are 2,205 public companies;

171,506 non-public companies, including 3,098 lock-up companies <sup>22</sup>. The non-profit organizations are divided into legal persons of associations and legal persons of foundations according to their attributes, with the Ministry of Interior, Ministry of Health and Welfare, Ministry of Education, Ministry of Culture, and county and city governments as the authorities; the nature of non-profit organizations is divided into cultural, religious, Social / fraternity / charity, medical and educational, and so on. As of December 31, 2020, there were a total of about 86,083 non-profit organizations, of which social / fraternity / charitable organizations accounted for approximately 80% <sup>23</sup>.

The economic growth rate was 3.12% in 2020, the gross domestic product (GDP) was US\$669 billion, the average GDP per person was US\$28,371, the gross national income (GNI) was US\$687.5 billion, and the average GNI per person was US\$29,153; In terms of prices levels, the consumer price index fell by 0.23% over the same period of the previous year; as for the employment situation, the average number of labor force employed was 11.5 million and the unemployment rate was 3.85%. From the perspective of industrial structure, agriculture accounted for 1.65%, industry accounted for 36.86% (of which manufacturing accounted for 31.75%) , and service industry accounted for 61.49%. The service industry is mainly wholesale and retail, accounted for 15.29% of GDP, real estate and residential services accounted for 8.22%, and finance and insurance accounted for 6.73%.

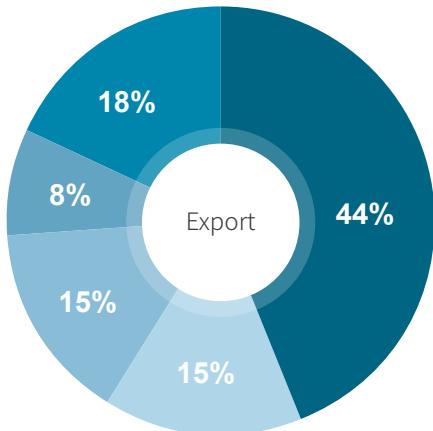
2020 Taiwan Industrial structure



Taiwan's largest export market is Mainland China in 2020, including Hong Kong, account for 43.9% of the overall export; the second largest market is the Association of Southeast Asian Nations (10 countries) , account for 15.4% of the overall export. Exports to the United States account for 14.6% of overall exports; exports to Europe account for 8.2% of overall exports. In the same year, Taiwan's largest source of imports was Mainland China, including Hong Kong, account for 22.7% of the overall imports. Taiwan's second largest source of imports is Japan, account for 16.1% of overall imports. Imports from the United States account for 11.4% of the overall imports; imports from the Association of Southeast Asian Nations (10 countries) account for 12.6% of the overall imports; imports from Europe account for 12.9% of the overall imports.

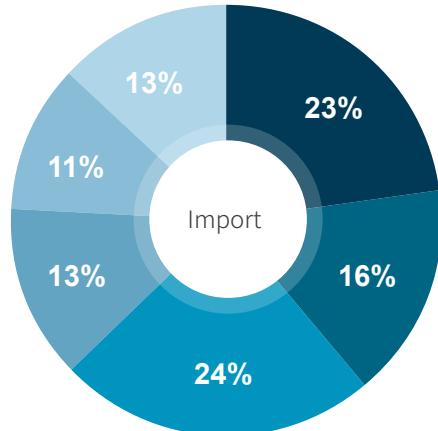
#### 2020 Export counties or regions of Taiwan

■ Mainland China, including HK  
■ Others    ■ US    ■ EU  
■ Association of Southeast Asian Nations ( 10 countries )



#### 2020 Import counties or regions of Taiwan

■ Mainland China, including HK  
■ Japan    ■ Others    ■ EU    ■ US  
■ Association of Southeast Asian Nations ( 10 countries )



The financial system is a mature and diverse, which plays an important role in the economy in Taiwan. As of the end of December 2020, the total assets of the financial system accounted for approximately 515% of GDP, and 6.73% of Taiwan's GDP in terms of related output. There are 1,541 financial institutions in the overall financial sector, providing a variety of financial products and services, and managing and intermediating large amounts of capitals from a variety of sources through a highly developed financial system.

The financial industry in Taiwan mainly includes the banking industry, securities and futures industry, insurance industry and agricultural financial institutions. The banking industry includes banks, credit cooperatives, bill financing companies, credit card business institutions, and other institutions approved by the competent authority. Among them, domestic banks are the most important sector in the entire financial industry, and their total assets account for 49.13% of the financial industry assets. Other types of financial industries are detailed in the table below.

### An Overview of the Scale of the Financial Industry in Taiwan

Unit : million dollars  
Base Date : End of December 2020

Type	Number of financial institutions	Number of domestic business location (including head office and branches)	Total assets in New Taiwan dollar	Total assets in US dollar	Total assets on percentage of overall assets in financial sector	Percentage of 2020 GDP
Domestic banks	37	3,403	50,064,573	1,668,819	49.13%	252.87%
Local Branches of Mainland Chinese Banks	29	38	4,426,762	147,559	4.34%	22.36%
Postal Service Institution	1	1,300	6,663,982	222,133	6.54%	33.66%
Credit Cooperatives	23	285	809,903	26,997	0.79%	4.09%
Bills Finance Companies	8	30	962,799	32,093	0.94%	4.86%
Credit Card Companies	4	4	41,747	1,392	0.04%	0.21%
Electronic Payment Institutions	5	5	4,163	139	0.00%	0.02%
Electronic Stored Value Card Institutions	5	5	18,687	623	0.02%	0.09%
Financial Leasing Enterprises	37	85	954,926	31,831	0.94%	4.82%
Securities Firms	105	848	2,090,952	69,698	2.05%	10.56%
Securities Investment Trust Enterprises	39	86	65,379	2,179	0.06%	0.33%
Securities Investment Consulting Enterprises	85	94	13,666	456	0.01%	0.07%
Securities Finance Enterprises	1	1	34,643	1,155	0.03%	0.17%
Centralized Securities Depository Enterprises	1	1	33,000	1,100	0.03%	0.17%
Future Commission Merchants	15	31	315,994	10,533	0.31%	1.60%
Managed Futures Enterprises	6	6	541	18	0.00%	0.00%
Reinsurance Companies	3	3	48,390	1,613	0.05%	0.24%
Life Insurance Companies	27	147	31,752,150	1,058,405	31.16%	160.38%
Property and Casualty Insurance Companies	23	188	411,375	13,713	0.40%	2.08%
Insurance Brokers Companies	483	483	25,292	843	0.02%	0.13%
Insurance Agency Companies	292	292	42,200	1407	0.04%	0.21%
Agricultural Bank of Taiwan	1	7	868,584	28,953	0.85%	4.39%
Credit Departments of Farmers' and Fishermen's Associations	311	1164	2,243,135	74,771	2.20%	11.33%
<b>Sum total</b>	<b>1,541</b>	<b>8,506</b>	<b>101,892,843</b>	<b>3,396,430</b>	<b>100.00%</b>	<b>514.65%</b>

Source : Financial Supervisory Commission, Council of Agricultural, Executive Yuan

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

In order to improve the AML system, Taiwan has announced in December 2016 that the designated non-financial business or professions that meet the definition of FATF will be included in the Money Laundering Control Act, which was officially implemented on June 28, 2017, and was partially amended in November 2018 in response to the FATF 40 recommendations. Each industry has a corresponding competent authority responsible for regulating and supervising the compliance of the companies with the obligations of preventing ML and countering TF. The current list of designated non-financial businesses or professions, DNFBPs, by Taiwan is detailed in the table below.

**Table : The scale of DNFBPs**

Base Date : End of 2020, except July 2021 for Attorneys

Type of industry	Number of Licensing / Regulation / Registration
Jewelry Business	4,986 shops
Land Administration Agents	Land Administration Agent: 10,832 agents
Real Estate Broking Management	Brokerage: 7,167 brokers
Attorneys	Registered of practitioners: 10,878
Notaries	256 notaries
Accountants	practitioners / 2,112 practice offices
Certified Public Bookkeepers and Bookkeeping and Tax Return Filing Agencies	9,279 agencies

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

Taiwan's well developed, open and stable economic performance of economy and financial system, widely available financial system and advanced global trade are all factors that active criminals, money launderers and terrorists financiers at domestic and abroad can take advantage of. In addition, due to the high degree of economic and trade dependence and the deep influence of the world's two major economic and trade powers, the economic environment will also affect the development of the underground economy. Furthermore, in view of abundant domestic funds and a relatively large-scale high-asset customer base, the foundation of wealth management has been established. Coupled with the recent changes in the international situation such as the US-China trade war, the global capital and industrial layout are gradually adjusted, which also deepens the willingness of Taiwanese businessmen to return capital. In order to attract more Taiwan and foreign funds to Taiwan for wealth management, the Financial Supervision and Administration Commission has opened up more diversified financial products and services through the loosening of regulations, so as to expand the scale of Taiwan's wealth management business, cultivate wealth management talents, and strengthen the product research and development capabilities of financial institutions, and enhance the international competitiveness of Taiwan's financial institutions.

#### 4. Financial Popularization and Cash Usage

According to the research report "Finance and Inclusive Growth" released by the Organization for Economic Cooperation and Development (OECD) in 2015, moderate financial development is conducive to economic growth, and fair and reasonable distribution of income. It will promote the overall steady growth of the economy and enhance social welfare. All along, Taiwan's financial supervision agencies have also been committed to promoting financial infrastructure and services, so that all people can enjoy financial services on an equal footing. In terms of the prevalence rate of bank accounts, according to the survey results of Financial Inclusion Indicators for Taiwan established by the Financial Supervisory Commission, the ratio of adults with deposit accounts in 2020 is on average 69% in major countries, and 93% in Taiwan which is much higher than the average.

The number of bank branches and ATMs in Taiwan is also quite dense, and people can easily enjoy financial services. As of the end of 2020, there were 3,441 bank branches and 1,300 Chunghwa Post branches, one financial institution per 7.59 square kilometers; a total of 31,216 ATMs are installed in Taiwan, with one ATM installed in every 1.15 square kilometers. The transaction amount reached NT\$13.3 trillion, and the number of transactions hit a record of 994 million. In addition, the fees of inter-bank withdrawal and transfer of ATMs in Taiwan are NT\$5 and NT\$15 respectively, which are cheaper than those in other countries. In addition, Taiwan's financial payment tools are diversified, and credit cards, electronic tickets and mobile payment tools are all booming. As of the end of December 2020, the total number of credit cards in circulation is about 50.12 million. The number of e-ticket cards is approximately 100 million and 3,519. Most people have more than one credit card or electronic stored value card<sup>24</sup>.

As Taiwan has a high level of financial inclusion and diverse payment tools, most of the payment transactions in Taiwan have become electronic transactions. In general, the large-value and retail payments handled by the domestic payment and clearing system mainly use "bank accounts" for electronic fund transfers, and transfer money through a variety of "retail e-payment" processing methods such as credit cards, debit cards, e-tickets, e-payment accounts. Taking 2019 as an example, the total amount of electronic payment in Taiwan is as high as NT\$647.3 trillion, which is 34 times the GDP of the same year, and the amount is quite large including: (1) The amount of electronic fund transfer through "bank account" amounted to NT\$643 trillion, containing NT\$483 trillion from the Central Bank Interbank Funds Transfers and Settlements System and

NT\$160 trillion from inter-bank payment settlement system by Financial Information Service Co., Ltd., accounting for 99.3% of the overall electronic payment, covers all large-value payments and some retail payment transactions. (2) The amount of diversified "retail electronic payment" is only about NT\$4.3 trillion, which is mainly used for consumer payment. Compared with the total private consumption about NT\$9.8 trillion of Taiwan in 2019, it shows that there are still NT\$5.5 trillion (about 56.3%) of the consumption amount still using non-electronic payment tools (mostly cash)<sup>25</sup>.

In conclusion, Taiwan currently has a comprehensive financial infrastructure, and large-value payments are almost fully processed electronically; Retail payment can also use a variety of convenient electronic payment tools, and the proportion of cash payment has gradually declined. However, with interest rates falling in recent years, the opportunity cost of holding cash has declined, and the impact of the COVID-19 outbreak, people have increased their holdings of cash as a safe store of value, resulting in the continued demand for cash. Nonetheless, in recent years, relevant government departments have vigorously promoted mobile payment. According to the statistics released by the National Development Commission, the penetration rate of mobile payment in Taiwan has increased from 62.2% in 2019 to 67.5% in 2020. The reduction of cash held by the public based on payment needs will help reduce the risk of ML and TF in this part of Taiwan in the future.

## 5. Population Structure

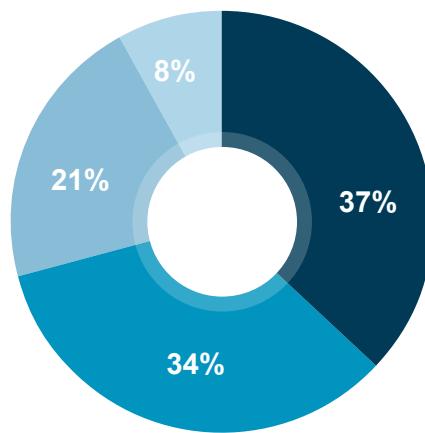
Taiwan has a total population of approximately 23 million which include indigenous peoples that have lived in Taiwan throughout the ages. They account for approximately 2.36% of the total population and others are Han Chinese who immigrated after the 17th century. The integration of different ethnicities 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 is concentrated in the five metropolitan areas in the west (Taipei, Taoyuan, Taichung, Tainan, and Kaohsiung), of which the largest is the Taipei metropolitan area, where the capital Taipei City and the largest city, New Taipei City, are located.

As of the end of December 2020, there were approximately 797,000 foreigners in Taiwan with residence permits, including public and business personnel, doctors, engineers, teachers, missionaries, construction workers, guardians, domestic helpers, students, and family members., the top five nationalities are all Southeast Asian countries, account for 92% of the total, including:

Indonesia (31.8%) , Vietnam (30%) , the Philippines (19.3%) , Thailand (8%) and Malaysia (2.9%) . The vast majority of the other 709,000 migrant workers are from Southeast Asian countries, including : Indonesia (37.14%) , Vietnam (33.40%) , Philippines (21.26%) and Thailand (8.20%) <sup>26</sup>.

The proportion of foreign workers in Taiwan

■ Indonesia ■ Vietnam  
■ Philippines ■ Thailand



## 6. The COVID-19 Pandemic

Since the end of 2019, the COVID-19 epidemic has ravaged the world, and the world has faced unprecedented challenges and difficulties. The World Economic Forum (WEF) pointed out global infectious diseases are the biggest risk that countries are confronting in the short term, which will not only exacerbate the gap between the rich and the poor and social divisions, but also seriously threaten the economic prospects, thereby weakening geopolitical stability. The National Development Council compiled reports from the World Bank, the IMF, the UN and other institutions, and concluded that the long-term impact of the epidemic on the world is as follows <sup>27</sup> :

- a. Weakening potential output growth: The epidemic has hindered trade and investment, coupled with the disruption of education during the Great Lockdown, slowed the accumulation of human capital and caused permanent damage to productivity.
- b. Worsening inequality of income distribution: The epidemic has different impacts on labor in different industries. Temporary workers, immigrant workers and informal workers who lack social security and personal savings will be greatly affected, especially in low-skilled service industries where it is difficult to work remotely.

- c.Accumulated loss of human capital: The pandemic has caused school closures to shift to distance learning, which may lead to unequal educational opportunities due to the digital gap, thereby eroding human capital accumulation. Long-term unemployment causes some workers to give up job hunting, withdraw from the labor market, or degrade their work ability due to unfamiliar skills and lack of occupational switching skills.
- d.The risk of financial crisis has increased: The extremely Quantitative Easing Policy has injected a large amount of liquidity into the market, but more funds have been transferred to real estate and financial assets, giving rise to the bubble economy and increasing financial market risks.

The above Influence will have an impact on the world. At present, the domestic epidemic is still affected, and the international epidemic is still arduous. Facing the severe challenges of the epidemic, our government has also actively responded by promoting multiple and diversified solutions, hoping to reduce the impact on the people and the industry.

## 7. Money Laundering and Terrorist Financing of Consequences

International experience in AML points out that major criminals often use ML channels to clean dirty money, so as to use their illegally obtained money legally, avoid law enforcement agencies' tracing, or even reuse the criminal proceeds for crimes.

ML will have a significant impact on the economy and society. For example, major criminals will gain huge profits and wealth, and will be able to infiltrate and corrupt government authorities at all levels, legitimate enterprises and financial systems, as well as all strata of social.

In addition, since ML can assist criminals in maintaining and increasing the proceeds of criminal activity, if a country or region becomes a hotbed of ML activities, it will attract more criminals and breed various crimes such as organized crime, corruption, drugs and fraud. In addition to the huge social costs associated with fighting crime, ML will also distort national policies, reputation and economy, and affect taxation, foreign investment and the overseas layout of legitimate enterprises, and cause serious damage to the reputation and stability of financial institutions, and even make society lose fairness and justice. Failure to comply with international anti-ML standards may result in countries subject to international sanctions.

For example, the people in Taiwan who suffer the most are the telecommunications and internet fraud rings and Ponzi scheme groups. In recent years, the fraud and Ponzi scheme groups have not only defrauded the Taiwanese, but even expanded overseas, which has seriously affected the Taiwan's image. The stolen funds are remitted to the nominee account, and then withdrawn by the Taiwanese middleman with UnionPay cards in Taiwan, funds been laundered overseas, and difficult to recover. If there is a loophole in the Taiwan's ML defense line, the overall order of cash flow will be sabotaged, and it will also cause other countries to take sanctions or prevent it, affecting normal cash flow transactions.

In recent years, with the rapid development of science and technology, the methods of fund transfer tend to be diversified. Most of them take advantage of the characteristics that the internet is not restricted by time and place to make the transfer of funds more convenient, thereby increasing the difficulty of AML and combating TF. For example, during the recent case investigation by law enforcement authorities, it was discovered that a large number of criminal actors of fraud, online gambling and other financial crimes use third-party payment platforms and virtual assets as their ML tools. This is a new challenge brought by the development of new technologies to the threat of ML and TF, and will also become the focus of future work in AML and combating TF.

## Section 2 Results of the Industry/Sector Money Laundering and Terrorist Financing Vulnerability Assessment

In this risk assessment, a total of 36 industries and sectors in Taiwan are rated, and each industry is based on its inherent characteristics of the industry, the nature of products and services provided by the industry, the nature of business relationships with customers, the geographic scope of industry activities, and the nature of service channels to review various risk factors. Due to the length of an article, the content disclosed in this section is limited to the 17 industries rated as very high and high vulnerabilities, and the 3 industries that were listed for the first time and rated as moderate or low vulnerabilities , and does not cover the remaining industries with moderate or low vulnerabilities.

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

Risk Assessment Table of Vulnerabilities Industry and Sector			
Low	Medium	High	Very High
1.Managed Futures Enterprises	1.Car Trading Enterprises (including Trading Used Cars) (newly-added)	1.Offshore Securities Units	1.Offshore Banking Units
2.Credit Card Companies		2.Online Games Enterprises (newly-added)	2.Virtual Asset Enterprises (newly-added)
3.Non-life Insurance Companies (Industrial and Professional reinsurance company)	2.Art Auction (newly-added) 3.Credit Cooperatives	3.Branches of Foreign Banks	3.Domestic Banking Units
4.Pawnshops (newly-added)	4.Securities Investment Consulting Enterprises	4.The Postal Services Institution	
5.Foreign Currency Exchange Counters	5.Land Administration Agents	5.Securities Firms	
6.Centralized Securities Depository Enterprises	6.Securities Finance Enterprises  7.Financial Leasing Enterprises	6.Offshore Insurance Units  7.Jewelry Businesses  8.Accountants	
	8.Electronic Payment Institutions  9.Futures Commission Merchants	9.Attorneys  10.Real Estate Brokers  11.Life Insurance Companies	
	10.Insurance Agents and Brokers	12.Third-Party Payment Service Providers	
	11.Certified Public Bookkeeper and Tax Return Filing Agents	13.Agricultural financial institutions.	
	12.Bills Finance Companies	14.Securities Investment Trust Enterprises	
	13.Notaries		

### 1. Very High vulnerability: Offshore Banking Units

Assessment Period	2018 Assessment	2021 Assessment
	Rated	Very High

The Offshore Banking Act have been promulgated since 1983, it has been developed in Taiwan for more than 30 years, allowing banks to set up Offshore Banking Units (hereinafter referred to as OBUs) to handle international financial business. OBUs provide diversified foreign currency financial services such as deposits and remittances, international syndicated loans, foreign exchange transactions and global fund management. The transaction principle of OBUs

does not involve domestic customers, domestic markets and New Taiwan dollars, and overseas customers are entitled to exemption from withholding tax on interest. At present, domestic and foreign banks have set up 59 OBUs in Taiwan, with total assets accounting for about 9% of all banks. At the end of December 2020, the total assets of all OBUs were NT\$6,217.2 billion, and the deposit scale was NT\$2,516.6 billion. The industry has a considerable scale. In 2020, the inward amount of OBUs' remittance is about NT\$24 trillion, and the remittance amount is about NT\$24.6 trillion. The transaction is quite large.

OBUs can handle foreign currency deposits, foreign currency credit, sales of foreign currency financial bonds, being the commission agency, brokerage, agency of foreign currency securities and financial commodities trading; foreign currency letter of credit issuance, notification, negotiate and import and export collection; foreign securities underwriting; consulting on asset allocation or financial planning, and foreign currency trust and other businesses. Among them, many businesses such as foreign exchange deposits, trade financing, foreign exchange and foreign exchange transactions are highly vulnerable to ML and TF. The OBUs has assisted Taiwan's economic transformation for many years, and has allowed export- and trade-oriented Taiwanese companies (offshore Taiwanese entrepreneur) to effectively allocate funds nearby. In addition, according to Article 7 of the Offshore Banking Act, OBUs shall not accept foreign currency cash, nor shall it be exchanged for foreign currency deposits to withdraw New Taiwan dollars. Therefore, OBUs does not involve products and services with the possibility of cash payment and monetary instruments.

Many OBUs customers have a background of Taiwanese entrepreneur. Since OBUs provides substantial foreign currency financial services such as deposits, credit, import and export foreign exchange business, and financial commodity investment, and so on, some intermediary businesses involve indirect relationship customers, but most of the business relationships with customers involve overseas, which is highly complex. OBUs' customers are mainly offshore legal persons, accounting for more than 97% of the total number of customers. About 4.75% of clients have assets under management greater than US\$1 million (including equivalent NTD). Among the OBUs legal person customers in 2020, high-risk customers account for about 51.92% of the customers in that year. Most of OBUs' current customers are Taiwanese entrepreneur registered overseas. According to statistics, the top 5 registered places of corporate customers are the British Virgin Islands, Samoa, Hong Kong, Seychelles and Belize. The proportion of inward funds involving high-risk countries or regions announced by FATF is not high, but considering the risks of these

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

customers and transactions, the overall risk is still very high.

In 2020, the outbound transactions conducted by OBUs through non-face-to-face channels accounted for about 41.38% of the total number of outward transactions (including face-to-face and non-face-to-face), in addition, OBUs can handle cross-border remittance business through foreign correspondent banks, but they must obtain the relevant information of the remitter or beneficiary in accordance with the regulations. In 2020, cross-border inward remittances account for approximately 61% of whole inward remittances, and cross-border outbound remittances accounted for approximately 64% of whole outbound remittances. Due to the high ratio of OBUs cross-border remittance, it may involve multiple foreign correspondent banks, and a certain percentage of services are provided through non-face-to-face methods, so the characteristics of service channels are still highly risky.

OBUs has significant capital transfer capability, provide foreign currency credit, exchange, foreign currency trust and other products or services, the main customers are offshore legal persons and offshore natural persons. Industry activities involving high-risk jurisdictions and countries of particular concern, and there is a considerable proportion of non-face-to-face transaction services, so it is always rated as "very high".

### Case

Person X is the chairman of company A, and Person Y is the actual person in charge of company A, who controls the management rights of company A. Due to the long-term serious deficit of Company A, the related authorities have repeatedly requested company A to improve and increase the capital in order to strengthen its financial structure. Unexpected X, Y have no intention of operating the company pragmatically. Instead, they coveted the huge assets of company A and attempted to take the company's assets as their own. With the assistance of friend Z, they successively set up paper companies B and C overseas, and purchased overseas zero-interest bonds at high prices through companies B and C, making Company A pay an additional total of about NT\$600 million, resulting in heavy losses to Company A. In addition, due to the continuous loss of company A, the competent authority requested an increase of NT\$300 million in capital to improve its Corporate Constitution. Then, Y provided D overseas paper company controlled by him, and commissioned Z to establish another overseas company E as a bond issuer for company D's USD 25 million loan. The bond issuing company repackaged the bonds issued by overseas banks into financial products with a total amount of USD 55 million and sold it to Company A, and obtained illegal benefits of USD 5 million from it. After Company D received the payment of USD 25 million, in order to cover up the illegal gains and create a cash flow breakpoint, X, Y and others transferred the USD 13 million to the account of Company F controlled by X in the Hong Kong branch of a foreign bank. On the same day, USD 12 million was transferred from this account to the OBUs account of Company G controlled by X in the Taipei branch of a foreign bank. With the pledge of the deposit in this account as a guarantee, he applied for a loan of NT\$300 million, and then transferred the loan to X's OBUs account set up by the individual in the same bank as the investment company under X's name to participate in the capital increase of the Company A, and use this method to tunneling the huge assets of the Company A.

Source: Investigation Bureau, Ministry of Justice

## 2. Very High Vulnerability: Virtual Asset Industry

Assessment Period	2018 Assessment	2021 Assessment
Rated	None	Very High

According to the FATF definition <sup>29</sup>, a virtual asset service provider refers to any natural or legal person who conducts one or more of the following activities or transactions for, or on behalf of, other natural or legal persons:

- (1) Exchange between virtual assets and fiat currency.
- (2) Exchange of one or more virtual assets.
- (3) Transfer of virtual assets.
- (4) Safekeeping and/or management of virtual assets or tools for controlling virtual assets.
- (5) Participate in and provide financial services related to the issuance and/or sale of virtual assets.

According to the statistics of the Financial Supervisory Commission, the total assets of eight large-scale domestic exchanges in 2019 were NT\$1 billion, and the operating income was NT\$170 million. According to the statistics of Coin Market Cap on December 6, 2021, the total daily trading volume of the three virtual asset exchanges denominated in New Taiwan Dollars in Taiwan is approximately NT\$930 million <sup>30</sup>. However, according to the above definition of FATF, the industry should at least include exchanges, trading platforms, over-the-counter trading platform providers (referred to as OTC providers, commonly known as personal coin exchanger) and custodial wallet providers.

In addition, stablecoins issuers, decentralized finance, known as DeFi, service providers and P2P platforms may also constitute virtual asset service providers <sup>31</sup>. Consequently, the previously disclosed data cannot yet represent the overall business scale of the industry in Taiwan. Moreover, although the Executive Yuan designated the Financial Supervisory Commission as the ML control authority for the "Enterprises Handling Virtual Currency Platform or Transaction" on November 7, 2018. However, Taiwan has not yet stipulated the competent authority for virtual asset businesses, so there are no relevant restrictions on the qualifications of its founder and the amount of capital. The market access qualifications are relatively loose, and the industry is not a licensed industry, and registration is not necessary. Therefore, at this stage, the exact scale of the industry and the scale and type of user groups in my country have not been fully grasped, which also increases the risk of ML and TF in this industry.

Virtual assets are traded through network transmission, and there is no transaction limit. Users can execute transactions directly without going through government agencies or third-party financial institutions to complete transaction procedures. Also the operating location of this industry is not restricted by national borders, and the counterparties may involve high-risk jurisdictions and countries of concern. In addition, the two largest exchanges in Taiwan, MaiCoin and BitoPro, take advantage of the intensive characteristics of domestic supermarkets, and open users to select the purchase quantity in the APP, and then they can use the generated payment barcode to the supermarket. Scan the code to pay cash and complete the transaction. According to the Coin ATM Radar platform <sup>32</sup>, there are currently about 20 Bitcoin automated teller machines, known as BTMs, in Taiwan, mainly in Taipei, with 2 each in Taichung and Hsinchu, and 1 each in Taoyuan, Tainan and Kaohsiung. Therefore, the operating locations of this industry are generally located at home and abroad, and the services it provides can be widely used by customers and provide significant capital transfer capabilities.

According to the statistics provided by the Financial Supervisory Commission, the services provided by the 8 relatively large-scale exchanges in Taiwan include:

- (1) Trading of virtual assets for customers: The total transaction value in 2019 was NT\$32 billion.
- (2) Exchange of virtual assets for customers: The total transaction value in 2019 was NT\$86.9 billion.
- (3) Transfer of virtual assets for customers: The total transfer value in 2019 was NT\$67.5 billion.
- (4) Custody of customers' virtual assets: The total custody value in 2019 was NT\$11.4 billion.
- (5) Provide underwriting and other services for virtual assets issued by customers: The total issue value in 2019 is NT\$400 million.

The transaction of virtual assets can not only be carried out on exchanges or trading platforms (payment methods are online remittance, ATM transfer, or convenience store QR code payment, and so on), but also can be freely traded with individual coin exchangers on the OTC platform according to the agreement between the buyers and the sellers (payment methods include bank transfer, Alipay, WeChat, PayPal, and face-to-face cash payment), or use the services of BTMs. In addition, although P2P transactions are not currently the subject of AML regulations required by FATF, FATF has recently repeatedly reminded countries to pay attention to the scale of P2P transactions in order to assess the ML and TF risks of such transaction models and how to deal

with them in the future. Therefore, Taiwan will continue to monitor the ML and TF risks associated with P2P transactions in a forward-looking manner<sup>33</sup>. To sum up, the virtual asset industry has a relatively complex structure and is well integrated with other industries such as financial institutions, convenience stores, and various digital payment tools, and can support rapid and significant capital transfers.

According to the FATF definition<sup>34</sup>, a virtual asset is a digital representation of value that can be traded or transferred digitally and used for payment or investment purposes; FATF also defines virtual currency as a digital representation of value that can be transacted digitally and function as: (1) a medium of exchange, (2) a unit of account, and (3) store of value, but not functioning as legal tender in any jurisdiction<sup>35</sup>. Based on this, virtual assets should be a kind of monetary value. In addition, the cash flow of virtual asset transactions can be divided into fiat currency transactions (that is, trading virtual assets with fiat currency) and coins transactions (that is, exchanges between virtual assets). In the fiat currency transaction part, although domestic exchanges cooperate with banks to handle fiat currency payment business, the content of the cooperation is not the same as that of domestic securities firm, where banks directly handle the cash flow. On the contrary, the bank acts as a trust to keep the customer's legal currency, and then allocates funds according to the instructions of the trading platform. Therefore, in this type of transaction, the bank has limited customer information. In the coin transaction part, because the bank cannot handle the delivery of the virtual asset themselves, the customer identity of such transactions is beyond the control of the bank, and the virtual asset service provider still need to identify the true identity of the customer.

Virtual asset services are mostly non-face-to-face transactions, with high anonymity, transaction economic value, decentralization, cross-border transfer, and fast transactions. It realizes the circulation and payment functions through the transmission of the network system, directly enters the account address, and waits for the network to confirm the transaction, and then a large amount of assets can be transferred without going through any control agency, and without leaving any cross-border transaction records, so it is easier become an emerging ML and TF tool abused by criminal actors. According to the "Virtual Assets Red Flag Indicators of Money Laundering and Terrorist Financing" report<sup>36</sup> released by FATF in September 2020, it pointed out that virtual assets have gradually become a mainstream tool for criminal activities. The FATF has also observed that professional ML networks have used virtual assets in recent years as one of the means of transferring, collecting or layering their criminal proceeds<sup>37</sup>. By analyzing the cases investigated

and handled by Taiwan's law enforcement authorities in recent years, five major types of virtual asset crimes can be identified, including fraud, kidnapping and ransom, intimidation and extortion (including computer ransomware), robbery, and electricity theft for mining. Among them, fraud is the most common. According to the statistics of law enforcement authorities, from January 2020 to September 2021, the number of cases of virtual asset investment fraud (including investment fraud in the name of virtual assets) reached 5,281, and the fraud amounted to NT\$2,869,492,365<sup>38</sup>, showing that virtual assets have become one of the tools used by criminal groups to scam and launder money. The criminal group will defraud the victim with various tricks or under the pretense, asking the victim to withdraw the deposit and then purchase virtual assets for delivery, or store the value in the designated electronic wallet, and then the criminal group will transfer it to the electronic wallet on the nominee phone, in order to confuse the trace of cash flow. After continuously layering, it is transferred to other virtual asset accounts, and finally falls into the physical nominee account to be exchanged for fiat currency, and the cash is withdrawn by the middleman to complete the breakpoint and avoid tracing. In addition, fraudulent groups combine with individual currency merchants to conduct so-called "third-party fraud" crimes, or fraudulent groups directly pretend to be individual coin exchanger to conduct fraud and ML are also rampant.

The cross-border transfer characteristics of virtual assets are also targeted by criminal groups as tools for cross-border ML. Cases seized by law enforcement authorities include: the criminals first transfer the proceeds from the fraud to a financial account in Mainland China that can be used under control. Then transfer to the Mainland China nominee account designated by the personal coin exchanger. At the same time, after being converted by the personal coin exchanger according to the exchange rate, directly transfer the virtual assets to the e-wallet address registered by the fraudulent group to the overseas blockchain asset trading platform with real-name authentication (that is, convert the proceeds of crime into virtual assets), then transfer the virtual assets to the address of the e-wallet designated by the personal coin exchanger, that is convert the virtual assets into TWD cash, for ML<sup>39</sup>.

In view of the fact that Taiwan currently has not yet stipulated a competent authority for the virtual asset industry, the control of the industry is relatively low. The virtual asset service has the characteristics of high anonymity, transaction economic value, decentralization, cross-border transfer and fast transaction. As a result, the industry is increasingly used for ML cases, so it has been rated is "very high".

### Case 1

In order to avoid detection, the fraud rings headed by suspect X set up the telecom fraud room in Mainland China. Defrauding Taiwanese people to send money to the nominee account by means of "fake online auctioning", "phone scam: guess who I am", and then convert the fraudulent money withdrawn by the middleman into Tether(USDT) and remit it to the virtual asset wallets owned by the group members. The profit from May to July 2021 exceeded NT\$10 million. After further investigation, it was found that Suspect X and his accomplices applied for a large number of SIM cards in the name of the company, and then used "Modem Pool" to receive verification text messages in batches, and registered fake accounts on third-party payment platforms. After the account was successfully opened, it would be sold to Guangdong, Mainland China. The fraud rings was suspected of using the batch of fake accounts to set up an online platform store and conduct fake online shopping fraud. Therefore, this case belongs to a model of emerging compound crime. The fraud rings is well aware of the weakness of ML in industries such as third-party payment service platforms and virtual asset industries, and uses it to achieve their criminal goals.

Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

### Case 2

The members of the criminal group applied for 4 accounts on the virtual asset trading platform, using the time difference loophole that cannot be updated in real time on the platform, and repeating the exchange, sale and withdrawal of virtual currency. From the end of 2020 to January 2021, the group was involved in overtaking 300,000 USDT and 217 ETH with a market value of more than NT\$25 million, and then transferred the withdrawn virtual coins to other virtual asset trading platform operated by other members to hide the proceeds of crime.

Source: Investigation Bureau, Ministry of Justice

### Case 3

In September 2021, the law enforcement authority found that the fraud rings A suspected of setting up an overseas telecom fraud room, using flattering girls' photos to make friends through Facebook and LINE, claiming that investing in Bitcoin can get high returns. A small amount of money was given to the victim in the initial stage, inducing the victim to increase the investment and then cut off contact. After investigation, it was found that the criminal group B, headed by the suspect X, had cooperated with the fraud rings A for a long time and assisted the fraud rings A to use the stolen funds to buy Tether for ML. It is conservatively estimated that the amount of money laundered exceeded NT\$500 million.

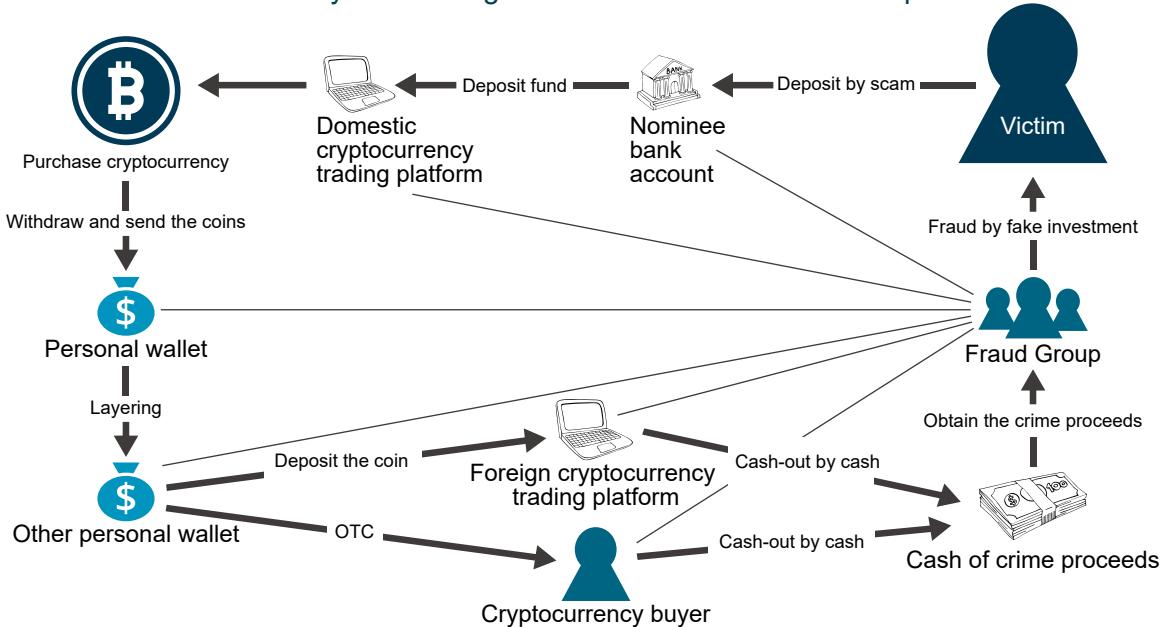
Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

### Case 4

Members of the ML group A purchased nominee accounts everywhere, and after obtaining personal data, they applied for accounts on domestic virtual asset trading platforms. Then cooperate with B Telecom Fraud Room to defraud and launder money. Its method was to use fictitious games or investment websites to defraud the victim to transfer or remit money to the nominee account. ML group A then transferred the stolen money through online banking to the nominee account of the virtual asset trading platform. Taking advantage of the decentralization and anonymity of virtual currency, it has been layering transferred to electronic wallets and overseas trading platforms. Finally, the virtual currency was successfully sold and cashed-out. The initial estimate of the amount handled has exceeded NT\$30 million.

Money Laundering Flow Chart of Fraudulent Groups



Source: National Police Agency, Ministry of the Interior

### Case 5

Person X is in charge of Platform A of the internet virtual asset website, and Person Y is the engineer of platform A. During 2018, X and Y both knew that they had not actually successfully developed an arbitrage program, nor did they really intend to operate and manage the cryptocurrency ETH for others. However, they claimed to investors that Platform A had successfully developed a virtual asset arbitrage system by themselves, which could use a computer to automatically detect the price difference of ETH on various virtual asset exchanges, and make profits from the price difference between exchanges by buying low and selling high (commonly known as: crypto arbitrage). As a result, more than 200 investors were misinformed, and they transfer all their ETH to entrust X and Y for arbitrage, or to invest in B platform, then X and Y took the ETH entrusted by the investor as their own. In order to cover up the source and whereabouts of the illegal incomes, X and Y not only sold part of the ETH to the unsuspecting public in exchange for cash through unwitting personal coin dealers, but also transfer the defrauded investors' ETH into B's wallet, and transfer it multiple times between more than 10 cold wallets of ETH that under X and Y can control. After focusing on 4 or 5 hot wallets of domestic exchanges without real-name authentication, the "coins trading" function in the exchange is used to convert the illegally obtained Ether into Tether, creating a breakpoint in the cash flow and increases the difficulty of investigation by judicial units. A total of 12,565.92 ETH were defrauded, and the illegal income were about NT\$145.75 million.

Source: Investigation Bureau, Ministry of Justice

### 3. Very High Vulnerability: Domestic Banking Units

Assessment Period	2018 Assessment	2021 Assessment
Rated	Very High	Very High

Until December 31, 2020, the total assets of 37 domestic banks were NT\$48.5 trillion, total loans were NT\$27.7 trillion, and total deposits were NT\$41.2 trillion, which is one of the most important parts in Taiwanese financial system. Most of the domestic banks with larger assets are members of the financial holding company, with operating locations all over the country and abroad, and almost all industries may use domestic banking services, with a high degree of integration with other industries.

In terms of business operations, domestic banks provide services involving cash receipt and payment, such as deposits and foreign exchange, and also provide services including loan, foreign currency exchange, private banking, trade finance, safe deposit boxes, and so on, to quickly transfer funds or be easily exploited for ML or TF. According to the investigation of telecom fraud cases by the National Police Agency, Ministry of Interior, in recent years, the proportion of virtual accounts (services provided by the bank to customers who need to receive payment) in the watch-listed accounts was 26.41% in 2018, then surged to 44.52% in 2019, 45.99% in 2020, showing that criminal groups are gradually turning to the use of virtual accounts to hide or receive illicit money. In addition, because domestic banks can concurrently operate securities industry, insurance industry, trust industry, bills financing industry, electronic payment and credit card, and so on, the products and services are diversified. Automated service equipment (such as ATMs) in the banking industry is open to cross-border cash withdrawals. In cases involving cross-border ML, there are also cases of using ATMs for cross-border ML.

The financial services of domestic banks are mainly domestic customers, and the customer relationship is continuous and direct. However, temporary customer relationships are still allowed. Some intermediary businesses, such as correspondent banking services, involve indirect relationship customers having certain vulnerabilities in ML and TF. In addition, almost all types of customers will conduct business with the bank, including customers with important political positions, high net worth individuals, and various types of legal persons whose beneficial ownership are difficult to identify.

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

Domestic banks participate in a high proportion of international activities. In addition to a large number of international exchange and trade finance activities every year, they also expand their international business by setting up offshore branches. At the end of 2020, the proportion of natural person and legal person customers of domestic banks coming from countries or regions with serious deficiencies in ML, TF, and PF announced by FATF were 0.35% and 0.03% respectively. In 2020, the inward and outward remittances to the above countries or regions accounted for 0.03% and 0.06% of the total inward and outward transactions of the year respectively.

The service channels of the banking industry are diverse and complex. In recent years, due to technological advancement, the banking industry has developed non-physical channels to reduce costs, but those channels, such as the internet or ATMs, are highly anonymous. In 2020, the number of ATM transactions reached 454.1 million, 341.95 million cross-bank cash withdrawal transactions, 3.41 million cross-border cash withdrawal transactions with UnionPay cards in Taiwan, and 9,002 cross-border cash withdrawal transactions with financial cards. The number of outbound transactions in non-face-to-face transactions was 634.21 million, accounting for 52.61% of the total number of outbound transactions, of which online banking and mobile banking outbound transactions were the most.

Domestic banks provide products and services involving cash receipts and payments and monetary instruments, in addition, the remittance business can transfer funds across borders and has a significant ability to transfer funds. The customer base is mixed, moreover, industry activities involve countries of concern and high-risk jurisdictions, and service channels include non-face-to-face transactions, which are easily exploited by ML criminals. In practice, there are also many cases of abusing transactions or services provided by domestic banks for ML, so it is been rated as "very high".

### Case

The unscrupulous group published "petty-loan" advertisements on Facebook, attracting people who were desperate for fund to come for help. They used NT\$30,000 as bait to persuade the people to sell their financial accounts (including passbooks, passwords, and ATM cards and online banking account and password). Those accounts actually were used for fraud, gambling and ML purposes. Not only purchasing the nominee account, the group also transferred the ATM card of the account to the middlemen, and went to the ATMs across the country to withdraw the illegal income. The middlemen earned a commission from it, and then delivered it to the upstream of the group. The group has made huge profits from it. After investigation, there were as many as 50 nominee accounts acquired, and the victims were distributed all over the country.

Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

#### 4. High Vulnerability: Offshore Securities Units

Assessment Period	2018 Assessment	2021 Assessment
Rated	High	High

The Financial Supervisory Commission has issued the Offshore Securities Units (hereinafter referred to as OSUs) license since March 2014. Compared with other industries, it is a relatively young industry compared to others. Because the customers who purchase OSU financial products are limited to domestic professional investors and offshore non-residents (that is, foreign natural persons and legal persons registered abroad), it is not easy to develop markets, resulting in a small business scale. At present, 19 securities firms have set up OSU business, and the number of customers is about 1,176. The total operating income of OSU in 2020 is approximately NT\$6.861 billion, accounting for only 4.7% of the overall operating income of the securities industry of NT\$147.435 billion.

OSUs provides a wide range of services, including various types of securities services (such as securities brokerage, proprietary trading, underwriting, wealth management, OTC derivatives business, foreign exchange business), and commodities include various types of foreign currency financial products (such as stocks, bonds, futures, structured type commodities, derivatives, fund beneficiary certificates and foreign exchange commodities, and so on, but not insurance commodities). Commodities may come from all over the world, and the types of services and commodities provided are diverse and extensive. However, because the operating scales of OSU is still small, its revenue is concentrated in specific businesses. According to statistics, 70.28% of OSUs' operating income in 2020 comes from securities proprietary business, and the proportion of other securities business is still low.

OSUs' products are limited to commodities denominated in foreign currencies, mostly involving investment in overseas commodities. The service objects provided by OSU are limited to domestic professional investors and offshore non-residents. Most of the trading of offshore stocks, funds and other financial products are continuous transactions. It is not ruled out that the customer must be a one-time transaction, which has the vulnerabilities of ML and TF. OSUs' main planning to expand its customer base is mainly offshore non-residents, spanning various countries in the world, and may have contacts with important political positions at domestic and abroad, and the implementation of customer due diligence practices is relatively difficult, and its being the

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

vulnerabilities in ML and TF. According to the statistics at the end of December 2020, 11.31% of OSUs' clients are professional institutional investors (for example financial institutions), 40.39% are professional investment legal persons or natural persons, and 48.30% are general retail investors. Generally speaking, overseas retail investors are the majority. However, in terms of transaction amount, proprietary business accounts for 70.28% of OSUs' overall operating income, and 99.51% of which comes from professional institutional investors. Therefore, OSUs' overall business volume mainly comes from professional institutional investors.

OSUs' service to foreign customers is an important and ongoing activity in this industry, which has a wide range of products and may issue products from all over the world. Customers may come from the countries all over the world. In addition, because this industry mainly serves non-residents overseas, the probability of activities involving countries of concern or high-risk jurisdictions is relatively higher than other industries.

OSUs can accept online, telephone and other non-face-to-face orders, and cannot accept or withdraw cash in foreign currencies. All transactions are conducted through the banking system.

Considering the variety of commodities that OSUs can provide, the high complexity of commodities, and the high degree of integration with other industries, it has the characteristics of attracting offshore customers with tax concessions. Customers may come from all over the world, and the service targets include offshore non-residents, which are vulnerable to ML and TF, so they are always rated as "high risk".

### 5. High Vulnerability: Online Games Enterprises

Assessment Period	2018 Assessment	2021 Assessment
Rated	None	High

Online games refer to games that provide interactive entertainment through the internet. It includes Massively Multiplayer Online Game (MMOG) downloaded by the client, and web games and community games that can be played on the web-browser. There are currently nearly 400 online game companies in Taiwan, most of which are small and medium-sized enterprises, and their output value were NT\$40.06 billion in 2020 <sup>40</sup>.

According to reports released by research institutions such as App Annie, nearly 85% of the annual revenue of Taiwan's mobile market in 2020 was come from games. In the same year, the global mobile game revenue has reached 54 billion US dollars, while Taiwan's mobile game revenue were exceed 2.4 billion US dollars, ranking 7th in the world. The overall game download counts has exceeded 752 million times. It can be seen that the industry has a certain scale in terms of transaction volume and asset scale <sup>41</sup>.

Customers of the online games enterprises can connect to the server set up by the game company via the internet through devices such as computers, mobile phones or tablets, and log in to play games without geographical restrictions. Due to the unique borderless and cross-border characteristics of this industry, customers can widely use the products and services provided by them no matter where they are. Therefore, its industry activities may also involve high-risk jurisdictions or countries of concern. In addition, the industry has no restrictions on the identity, occupation and business of customers. The consumer base is mainly young people, and there are also many middle-class customers with financial ability, which may also include important Politically Exposed Persons and high net worth individuals.

The online games enterprises is mainly operated by using cyberspace, and its revenue sources include research and development income, and income from consumers paying for game services. Customers can purchase game time cards to exchange for paid game content provided by operators, such as downloading game software, purchasing virtual items in the mall, game currency and other peripheral goods. Because the sales channels of the game time cards provided are divided into physical sales (such as convenience store, other electronic products wholesale and retail channels) and online purchases (with credit cards, online ATMs and telecommunications micropayments). Therefore, the industry is highly integrated with other industries such as financial institutions, convenience stores and channels.

The structure of the industry itself is not complicated, because the game time cards provided the functions of a medium of exchange, a unit of account and a store of value. Moreover, the game time card is an anonymous commodity, which can be transferred before the point is redeemed. In addition, the customer's transaction type, such as buying and selling on the online platform, transferring points or storing value for the purchase of virtual treasures, has the problem of anonymity that is difficult to link to the actual customer identity behind. Therefore, it is easier for

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

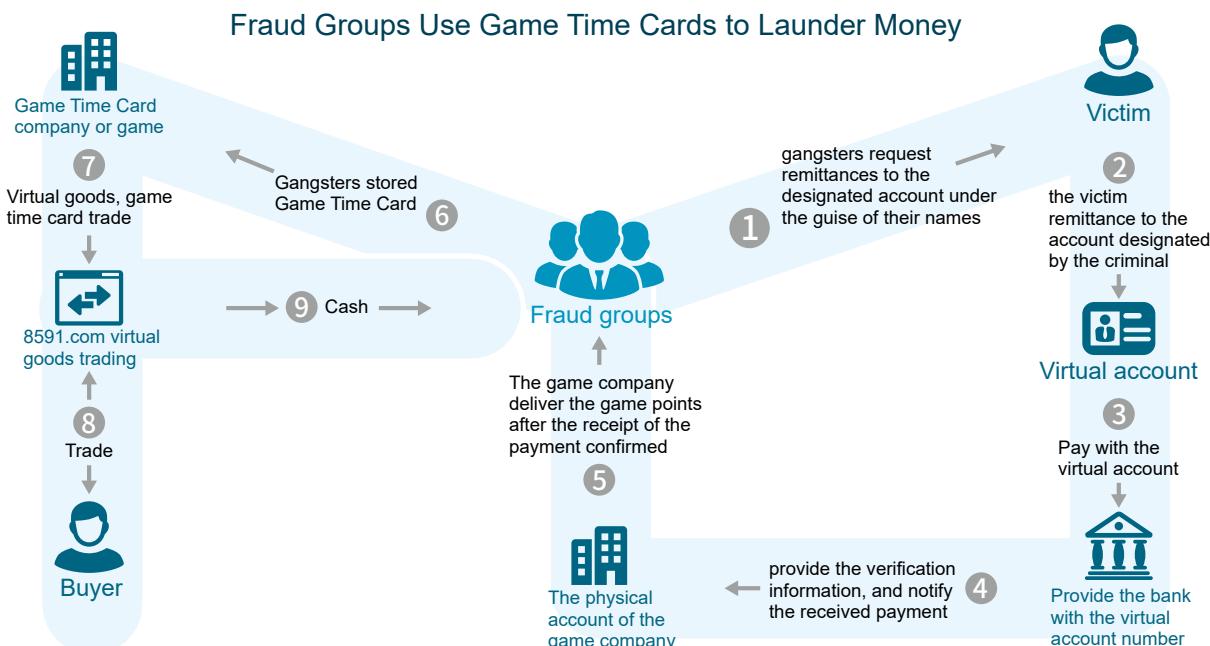
criminals to abuse it as a ML tool. According to the statistics of law enforcement authorities, the number of fraudulent ML cases committed by fraudulent groups with the delivery of game time card was 579 in 2018, 833 in 2019, and 1,060 in 2020. The number of crimes has increased every year<sup>42</sup>. The criminal mode of the fraudulent group is mainly to defraud game time card by means of erotic calls and fake online auction. Afterwards, ML is usually carried out in the following two ways, please refer to the money laundering methods as shown below:

### (1) Deposit game time card on behalf of others

Resell on the treasure trading platforms or auction platforms by storing game time card at a low price. After obtaining the game account and password of the player, store the illegally obtained game time card into the game, so as to convert them into cash for legal transactions.

### (2) Purchasing in-game currency or virtual goods on the game platform

Purchase in-game currency or virtual goods by deducting points from the game platform cooperated by the point company, and then through private transactions between game players or with individual coin exchanger to exchange for cash.



Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

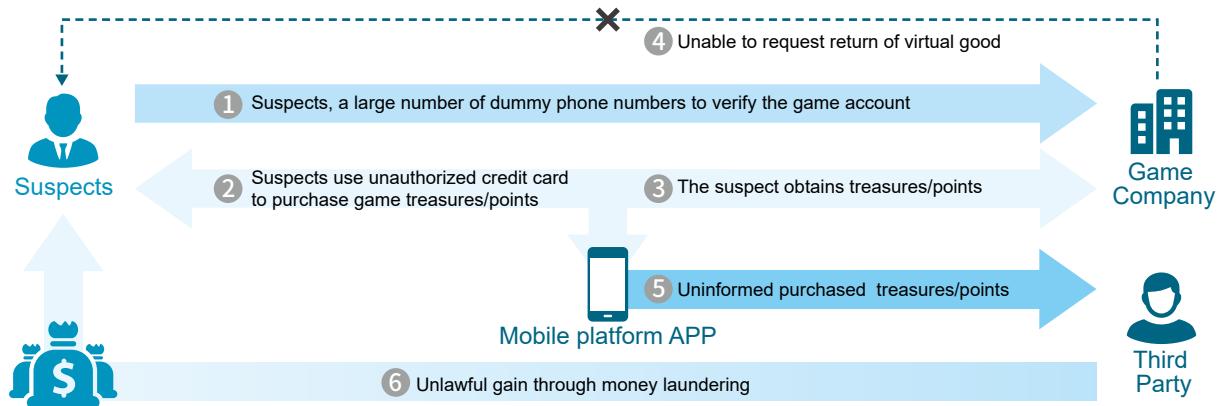
In addition, in recent years, law enforcement authorities have also discovered cases of cross-border ML by criminal groups using third-party payment services in combination with points of game time card: Criminal actors first apply for a virtual account from a Third-party payment providers with their own financial account in Taiwan. Subsequently, the virtual account was provided to an illegal group in Mainland China for the purpose of receiving gambling or fraudulent money, after the illegal money is deposited into the financial account of the group, the members or their entrusted friends withdraw cash, and purchase game time card from the online game company by cash remittance. They then send the stored value password of game time card back to the employees of their-own company Mainland China through WeChat. In this way, ML is performed by disguising, concealing the nature, source and destination of illicit money from gambling and fraud<sup>43</sup>.

The industry structure of the online games enterprises itself is not complicated, but its operation mode is mostly non-face-to-face transactions, and there is the problem of anonymity that it is difficult to identify the real identity of the customer. In addition, the good circulation and transferability of the game time card provided by it makes the product more likely to be abused by criminals as a ML tool, so it is overall rated as "high".

#### Case

Some game companies will sell points of game time card through Apple IOS or Android platforms. Because such platforms can provide refund services, some criminals take advantage of the time lag loopholes in refunds to clean up a large number of game points. On September 13, 2021, law enforcement authorities seized that a criminal group used nominee to authenticate more than 1,000 game accounts. Then stole game points and virtual goods, and then sold them on the platform. After more than one year of committing the crime, the illegal profits were as high as NT\$30 million.

Schematic diagram of criminal actors using credit card loopholes to fraudulently purchase virtual treasures for money laundering



Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

## 6. High Vulnerability: Banks of Foreign Banks in Taiwan

Assessment Period	2018 Assessment	2021 Assessment
Rated	High	High

As of the end of December 2020, the total assets of the branches of foreign banks in Taiwan amounted to NT\$5,145.4 billion, accounting for only 9% of the total assets of domestic banks and only 3% of the deposit business compared to domestic banks. The business scale of the branches of foreign banks in Taiwan accounts for only a small proportion of the overall scale of Taiwan's banking industry, and they mainly provide financial services for domestic professional institutional investors or large enterprises. However, they can use their head offices or group networks to enable provide fast money movement and to provide a variety of financial services.

Services provided by branches of foreign banks in Taiwan, except to general deposits, loans, foreign exchange and other businesses, it also includes trade financing services, such as export letters of credit, online foreign exchange transactions, interbank exchanges with Correspondent banks and private banking. These businesses rarely involve cash transactions. However, it is also often found in criminal investigations that most transactions or services can be used to provide quick transfer of funds through network of the head office or the financial group or are easily exploited for AML or TF. In addition, the international remittance business and wealth management business of some banks constitute an important part of the overall business operation. It has certain vulnerabilities in ML and TF.

Most of the services provided by the branches of foreign banks in Taiwan are public companies (higher transparency) or large enterprises. Some clients' trade and transactions involve high-risk jurisdictions or countries of concern. A few other foreign banks offer private banking services in Taiwan branches, which may also attract domestic and foreign people or international politically exposed persons. It is vulnerable to ML and TF. However, politically exposed persons are not an important part of the customers of the branches of foreign banks in Taiwan.

The inward and outward remittance areas of the branches of foreign banks in Taiwan may involve bank secrecy or be identified as tax havens, countries of concern or high-risk jurisdictions.

Foreign banks have very limited branches in Taiwan. In addition to the out-of-office services of business personnel, transaction channels have a higher ratio of non-face-to-face service channels such as telephone or fax transaction instructions. In 2020, outbound transactions conducted through non-face-to-face channels accounted for approximately 95.31% of the total number of outbound transactions (including face-to-face and non-face-to-face).

Because the branches of foreign banks in Taiwan are affiliated to foreign head offices or groups, they can provide fast capital movement and a variety of financial services through the network of their head offices or groups, a few also offer private banking. In addition, a high proportion of its service channels are conducted through non-face-to-face methods such as telephone or fax to deliver transaction instructions. However, the transaction volume is still much lower than that of domestic banks, so its overall rating is "high".

## 7. High Vulnerability: Postal Service Institution

Assessment Period	2018 Assessment	2021 Assessment
Rated	High	High

The only postal institution handling postal savings remittance and life insurance business in Taiwan is Chunghwa Post. The company's total assets at the end of December 2020 were NT\$7.47 trillion, and its total deposit balance was NT\$6.41 trillion, which is larger in the industry than any financial institution. Chunghwa Post is a non-public company, 100% owned by the Ministry of Transportation and Communications, not affiliated with any large financial group and has no foreign branches. At the end of December 2020, there were a total of 1,300 branches across the country. Since the business bases are located in urban, rural, outlying islands and remote areas, they can be widely used by many customers and can quickly transfer funds.

The financial products or services provided by Chunghwa Post are mainly from the savings and remittances related business. The business contents of each department include:deposit services department, international remittances, Postal Gift Coupons, electronic payment service agent receipt and agency collection and payment services and online banking, and so on; simple life insurance and policy loan in the life insurance department, and real estate mortgage loan; cash bags and other items in the postal department. The above items are essentially products with ML and TF vulnerability.

The customers are mainly domestic natural persons, and there are more than 36.45 million depositors in total, accounting for 96.26%. The proportion of customers of domestic legal persons and other non-legal entities are 0.65% and 0.3% respectively. In addition, the proportion of foreign natural persons and Mainland China customers are 2.55% and 0.24% respectively, most of which are continuous and direct relationships. The proportion of foreign customers is very low. Most of them are employed foreign workers to open accounts for salary transfers. Domestic customers may include local parliamentarians or government officials, but the proportion is not high. Chunghwa Post's corporate accounts are limited to NTD accounts, no foreign currency accounts, and some types of accounts have interest-bearing restrictions. The average balance is not high. In 2020, the average balance of each household was about NT\$90,000. Most of the clients' occupations and businesses are housewives, students and retirees, while legal entities are mostly the central government, local governments or schools. The transaction nature is relatively simple, and the proportion of high-net-worth clients is lower than that of the banking industry.

Chunghwa Post's saving and remittance business involves cross-border traders are limited to international remittance business, and there are not many transactions, the wire transfer part does not send telegrams directly through the Society for Worldwide Interbank Financial Telecommunication (SWIFT). It is transferred by the cooperative bank agent. However, there are still cross-border transactions handled by some foreign customers (foreign students, foreign spouses), high-risk jurisdictions or countries of concern may be involved. In the past 3 years, Chunghwa Post's top 3 countries or regions for outward and inward remittances are Mainland China, the United States and Hong Kong.

Although most of Chunghwa Post's savings business customers use face-to-face and over-the-counter transactions by agent as the main service channels, transactions may also be made through the internet, mobile post offices, telephone or ATMs.

Even though Chunghwa Post does not have foreign branches, it has significant capital transfer capabilities because the size of the sector is larger than that of any financial institution, it has a wide range of operating locations, and its operating activities are mainly for savings and remittances related business with significant capital transfer capabilities. Most of the service targets are domestic customers, and there may be a small number of local politicians, such as local parliamentarians or local government bureau chiefs, town mayor representatives. Cross-border transactions forwarded by partner banks may also involve high-risk jurisdictions or countries

of concern. There are also concerns about anonymity in non-face-to-face transaction channels such as the internet, mobile post offices, telephone and ATMs. At the same time, in recent years, there are still many cases of fraudulent groups using post office nominee accounts to transfer and launder money, so its overall rating is "High".

## 8. High Vulnerability: Securities Firms

Assessment Period	2018 Assessment	2021 Assessment
Rated	High	High

A securities firm must be established in the form of a company limited by shares. Among them, 16 securities firms are subsidiaries of financial holding companies, and 9 are reinvested by other financial institutions. As of the end of 2020, there were 68 specialized securities firms, 848 branch offices, and 80 foreign subsidiaries, including 39 in Hong Kong, 12 in the British Virgin Islands, 8 in Mainland China and 7 in the Cayman Islands. The total assets of all securities firms amounted to NT\$2,134.2 billion, account for approximately 2.05% of the overall financial industry. In addition, the business income of securities companies is mainly based on the commission income from brokerage business, which is closely related to the trading volume of the stock market. In 2020, the transaction value of the securities market was NT\$49.1825 trillion, the brokerage business income of securities firms was NT\$82.399 billion, and the profit was about NT\$46.388 billion. The main business of securities firms is securities brokerage, dealer and underwriting. Among them, the clients of the underwriters may use other people's accounts to participate in the price inquiry, and the services provided by the securities brokers can be easily used by investors as a channel for quick transfer of funds.

Securities firms have ongoing direct relationships with most of their clients, who are mainly domestic customers, but may include a small number of foreigners or politically exposed persons at domestic and abroad, which have certain vulnerabilities in ML and TF. As of the end of 2020, the cumulative number of securities account openings totaled 11.23 million 5,446 (after connect to account), among them, there are 11.15 million 567 natural person and 84,879 legal person. In addition, the transaction value of corporate clients in the centralized trading market accounted for 37.8%, the proportion of foreign capital was 26.7%, and the proportion of domestic capital was 73.3%.

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

Most of the business activities of securities firms are within Taiwan, but foreign legal person clients may come from countries of concern (United States, Singapore, and British Islands). However, its transaction volume accounts for a small proportion of the overall business (3.37% in the United States, 0.65% in the British Islands, 0.6% in Singapore). In addition, the legal person clients of securities firms may involve countries of concern such as tax havens. In 2020, the securities transactions of Taiwanese traders in the United States and Hong Kong, two countries or regions with high financial secrecy index accounted for 87.05% of the total foreign securities transactions.

Most of the brokerage business is placed through the internet and speech recognition system. At the end of 2020, the number of electronic transactions of securities firms accounted for 70.82% of the market transactions. There may be situations where a third party or a nominee account transaction is authorized. In addition, clients of securities firms can connect to Internet Service Providers (ISPs), or Financial Information eXchange (FIX for short, such as Bloomberg), Application Programming Interface (API) online ordering, and multiple channels such as telephone ordering, voice ordering and on-site entrusting ordering.

The securities industry has a high degree of integration with other financial institutions, and the industry already has reached a considerable business scale. Brokerage business customers may authorize a third party or a nominee account to trade, and there are insider trading, obtaining improper benefits through enquiry placement and being used as a channel for rapid fund transfer. Its foreign clients may come from high-risk jurisdictions or countries of concern such as tax havens, so its overall risk has been rated as "high".

### 9. High Vulnerability: Offshore Insurance Units

Assessment Period	2018 Assessment	2021 Assessment
Rated	High	High

The Offshore Insurance Units, hereinafter referred to as OIUs, has been approved for business since June 2015. Compared with other industries, the establishment time is shorter. Because the proposer and the insured that purchase OIUs insurance products must be foreigners, the source of sales has its limitations, resulting in a small business scale. In 2020, the OIU premium income of life insurance industry is about NT\$1.6 billion. Compared with the overall premium income of

the life insurance industry (approximately NT\$3.2 trillion), it accounts for a very small percentage (approximately 0.05%). At present, 20 insurance companies (15 life insurance companies, 4 property insurance companies and 1 reinsurance company) have been approved to conduct OIU business.

OIU mainly provides life insurance products including interest sensitive whole life insurance, variable life insurance, variable universal life insurance and other high savings whole life insurance products or investment-linked insurance policy products, among which investment-linked insurance policy products can be linked to different investment instrument according to their product design, commodity types are different from general protection insurance products. In addition, the interest generated from the payment of OIU customer insurance benefits and investment-type insurance contracts linked to the investment target, or the income from structured commodity transactions, can be exempted from withholding income tax, which is essentially more likely to attract overseas customers with different insurance purposes.

The services provided by OIU are all to foreigners or foreign legal persons. According to statistics by the end of 2020, foreigners' natural person clients' account for 52.17%, customers from foreign legal persons account for 47.83%. The proportion of customers of foreign politically exposed persons is 1.21%, clients of high net worth individuals accounted for 2.49%. OIU transactions involve cross-border goods or services. Compared with domestic insurance business, it is difficult to identify the authenticity of the customer's occupation or the beneficial ownership.

According to statistics by the end of 2020, OIUs' sales targets are mainly the one who from Mainland China, Japan, South Korea, and Thailand. 2.36% of customers are from or registered in tax havens, there are currently no policyholders in North Korea and Iran. However, customers may still be from other high-risk jurisdictions or countries of concern.

OIUs' life insurance business transactions are mainly based on personal contact with customers. In addition, the property insurance and reinsurance business is with foreign legal entities. According to statistics, by the end of 2020, the proportion of face-to-face transactions reached 79.15%, but the contract can be done by an agent. And its services are available through the insurance company's own salesman, it may also come from a third-party insurance broker or insurance agent. Among them, the proportion of services through insurance brokers, insurance agents or banking service channels was 41.83%.

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

Because OIUs mainly deals in insurance or reinsurance business in foreign currency, and the offshore customers are the sales target, therefore the beneficial ownership is not easy to be identified. Most of the insurance products currently provided are high-saving commodities, which have a higher risk of ML. In addition, the proportion of services provided by non-insurance company salespersons is very high, so the overall rating is "high".

### 10. High Vulnerability: Jewelry Business

Assessment Period Rated	2018 Assessment	2021 Assessment
	High	High

According to the list of business category codes and its definition by Ministry of Economic Affairs, the business scope of Jewelry Business includes the manufacture, wholesale and retail of jewelry, precious metals and accessories, including the import and export of their commodities. Since the Jewelry business is not a franchise industry, there are a large number of operators. As of the end of 2020, there were a total of 4,986, with approximately 4 categories, (1) The traditional jewelry shops, buying and selling jewelry in wholesale; (2) It is the same as the previous category, but with jewelry factories; (3) Wholesalers that operate jewelry businesses; (4) New-style jewelry shops or jewelers, dealing in high-end jewelry, and the sources of goods come from abroad. Among them, 63% were sole proprietorships or partnerships, and 37% were corporate organizations. The average capital was about NT\$4.43 million. Most of them were small-scale store and tend to be family-run. Its annual sales in manufacturing, wholesale and retail were about NT\$70.2 billion in 2020, accounting for about 0.35% of Taiwan's nominal gross domestic product (GDP).

#### Overview of the Jewelry Shop Industry: Numbers of Companies and Stores and Average Capitalization

Based Date: End of 2020

Capital level (NTD: Yuan)	Number of business		Average capital (NTD: Yuan)
	Company	Store	
Over 30,000,001	55	1	266,677,922
20,000,001-30,000,000	36	0	26,344,444
10,000,001-20,000,000	83	0	15,266,012
5,000,001-10,000,000	187	5	7,956,090
1,000,001-5,000,000	565	67	3,377,876
500,001-1,000,000	456	103	963,016
0-500,000	441	2,987	221,923
Subtotal / Grand Average	1823 (37%)	3163 (63%)	4,434,599
Total		4986	

Source: Department of Commerce, Ministry of Economic Affairs

Jewelry itself has the characteristics of a high-risk product with high unit price, high value, small in size, and easy to carry without drawing attention. In addition, it is difficult to supervise jewelry transactions, especially diamonds, which are sold at unique prices. The market for gold bars, or platinum bar, and uncut diamonds has high liquidity, and their resale possibility is very high. Also, most of the transactions are paid in cash. Large-value transactions are paid by credit card or bank transfer remittance in department store. Law enforcement authorities have also uncovered cases of Ponzi scam, where criminals often use ill-gotten gains to buy gold or high-priced jewelry.

According to Taiwanese domestic customs, most of the customers in the jewelry business purchase gold and silver accessories, jewelry, gold and silver bars for festive gifts. As a result, operators are usually familiar with the customers. However, it is difficult for business operators to have an in-depth understanding of the identity of customers in one-time transactions other than regular customers. The source of customers is broad and unrestricted. Gold, silver or jewelry is not a controlled item. There is no mechanism for ownership registration, and it is not easy to grasp the real identity of customers and purpose of transaction.

Since Taiwan does not produce jewelry, the industry must rely on imports. According to import trade statistics, the top five importing countries in 2020 were Japan, Switzerland, Hong Kong, the United States and Singapore.

Gold silver and jewelry transactions are mostly face-to-face transactions, and there are few intermediaries in service channels.

Since gold, silver and jewelry products are highly liquidable, the identity of customers or the purpose of transactions are not easy to be identified, and the geographic scope of industry activities involves countries of concern, it is generally rated as "high".

## 11. High Vulnerability: Accountants

Assessment Period	2018 Assessment	2021 Assessment
Rated	High	High

According to the statistics at the end of 2020, there were about 3,651 certified public accountants and 2,112 accounting firms nationwide, with Taipei City, New Taipei City and Taoyuan

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

City accounting for 60% of the total. Accountants' business projects may be regulated by Money Laundering Control Act, including "tax planning", "management consultant" and "business registration", and their business income totaled NT\$3.9 billion, account for 12.11% of all business revenue (NT\$32.3 billion).The statistics on the number of transaction types are: "tax planning" 6,033 (10%), "management consultant" 8,853 (14%) and "business registration" 47,722 (76%), a total of 62,608. Although specific statistics are lacking, the amount of transactions handled by accountants listed in the Money Laundering Control Act may be relatively high. Taking the mergers and acquisition (hereinafter referred to as M&A) services that accountants may provide as an example, according to the 2021 Taiwan M&A White Paper, there will be 76 M&A transactions in Taiwan in 2020, with a total transaction value of approximately NT\$300 billion.

The structure of the accountant industry involves a wide range of businesses and has a certain degree of complexity. It prepares or conducts related transactions for clients, usually involving other industries, including banking, financial leasing, securities, real estate, and attorneys, and has a highly integrated with other sectors.

In the business projects provided by accountants in Taiwan, services such as tax planning, corporate mergers and acquisitions, and setting up offshore companies for clients may involve a multi-level structure. The nature and scope of this part of the service are more likely to be complicated, which is conducive to concealing the identity of the perpetrator. Accountants have expertise in capital management and commercial transactions, and they provide services such as company establishment, company operation or management, corporate mergers and acquisitions, financial and tax consulting, which may be used for illegal purposes.

In terms of relationship with clients, the business types such as tax planning, management consulting, and Business Registration provided by accountants for clients are mostly one-off business relationships. Among them, except that the establishment or change of registration of domestic companies may be indirect business relationships (referred by bookkeepers, bookkeeping and tax return filing agents), the rest are mostly direct business relationships. As for the source of customers, most of them are domestic natural persons and legal persons, including high net worth individuals and political exposed persons. According to the results of the 1,526 firms surveyed on the risk assessment of ML prevention by accountants in 2019, 5.7% of clients are political exposed persons, only 0.85% of foreign political exposed persons. In addition, industries involving risks of

ML and TF, such as banking, securities, attorneys, real estate brokers, life insurance and securities investment trust, may all be clients of accountants, and their clients cover all major industries.

Accountants can accept cross-border entrustment of clients to handle specific transactions stipulated by the Money Laundering Control Act, customers or transactions may involve high-risk jurisdictions or countries of concern. According to the 2019 Accounting Firm Service Industry Survey Report, there were 22 accounting firms that have performed business in Mainland China. The business it provides involves money laundering control business, such as appraisal investment and consulting business, accounting for about 17.5%, and the practice income was approximately NT\$125.88 million. As for multinational mergers and acquisitions, in principle, the relevant services were provided by the local accounting firm in the country. In the case of companies from other countries coming to Taiwan to acquire domestic companies, Taiwanese accountants may be involved.

In the service channel part, because the professional ethics of accountants has strict restrictions on accountants' advertising and publicity, accountants rarely contact customers through referrals. Only some accountants may involve non-face-to-face service channels because they assist foreign investors in opening bank and securities custodial accounts. Some business registration services may be referred by bookkeepers, bookkeeping and tax return filing agents.

When accountants handle the transactions listed in the Money Laundering Control Act, the transaction amount handled by them is quite high. Accountants have professional knowledge in capital management and commercial transactions, and they provide services such as company establishment, company operation or management, corporate mergers and acquisitions, financial and tax consulting, and so on, which may be used for illegal purposes. Accountants are familiar with financial and tax-related laws and can tailor-made meticulous business arrangements for clients. Cross-border cases may involve high-risk jurisdictions or countries of concern, so they are generally rated as "high".

## 12. High Vulnerability: Attorneys

Assessment Period	2018 Assessment	2021 Assessment
Rated	High	High

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

According to the statistics as of the end of July 2021, there were about 10,878 practicing attorneys in Taiwan. According to the statistics as of the end of 2018, there were total 5,582 law firms, and their practice locations are generally all over the country. In addition, according to the 2016 statistics of the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the total output and gross output of the legal service industry were NT\$29.957 billion Thus the industry has a certain economic scale.

Most of the Taiwanese law firms are small and medium in size. Most of the attorneys deal with litigation cases, while some large firms or attorneys deal with asset transfers (including mergers and acquisitions or real estate transactions), company registration, or foreign-related non-litigation events. It also handles with non-litigation matters. When assisting clients in drafting contracts or providing consultancy services, it may be necessary to cooperate with other industries, such as banking, securities, real estate, and accounting industries, to deal with property rights changes of assets, so its industry structure has a certain degree of complexity and good integration with other industries.

Attorneys provide a variety of services, including the following business characteristics or transactions type: purchasing real estates, managing of client money, securities or other assets, management of bank, savings or securities accounts, providing services of the creation, operation or management of companies, operation or management of legal persons or agreements. Attorneys' professional legal services have been identified by FATF as easy to be used by ML criminals, and are regulated by Taiwan's Money Laundering Control Act. In addition, attorneys provide more complex legal structures or contractual services when dealing with mergers and acquisitions or tax planning cases, which may involve dealing with huge transactions. If major criminals use the social credibility of attorneys and their professional knowledge in law and finance, it will often help them to carry out the crime, which is enough to cause heavy losses to the victims. Take the major case of Ponzi scheme in recent years for example, criminals have been seen committing Ponzi frauds on the grounds of investment in land sales, development, and so on, and appoint attorneys to pretend that the contract is legal, so that investors mislead that the company is accepting deposits legally, causing more than 1,000 investors were victimized, and the proceeds of crime amounted to billions of NT dollars. They may also use attorneys to recruit farmers for high-priced crops under the pretense of issuing trust certificates, and so on, and are suspected of illegally attracting tens of millions of NT dollars.

In addition, if criminals further use the expertise of attorneys to help convert illegal incomes into legal assets and hide the source and beneficiary ownership of such funds, it will have a significant impact on the financial order and social stability. For example, when investigating a major group fraudulent bank loan case in 2019, it was found that an appointed attorney assisted the criminal in destroying important evidence. Afterwards, those attorneys attempted to disguise illegal incomes arguing that the proceeds of crime received were "consultant fees" and "attorney's fees".

Attorneys have clients from all occupations. Natural person clients may include high net worth individuals or political exposed persons in Taiwan, while legal person clients are mostly small and medium-sized enterprises, and large multinational corporations do not account for the majority. When appointing legal advice, asset management, mergers and acquisitions or tax planning, it is mostly an ongoing business relationship. But in the case of real estate transactions, it is mostly a one-off business relationship.

Due to the large differences in legal systems in different countries, the scope of business activities of attorneys in Taiwan is mostly limited to domestic, only large firms or a small number of attorneys can provide cross-country or cross-border services. Large firms provide multinational legal services, usually not involving high-risk jurisdictions, but still involving countries of concern. In addition, due to the strict regulations on the avoidance of conflicts of interest in the law, in order to understand the case and confirm the information, attorneys rarely accept anonymous clients, and their service channels are mostly face-to-face transactions.

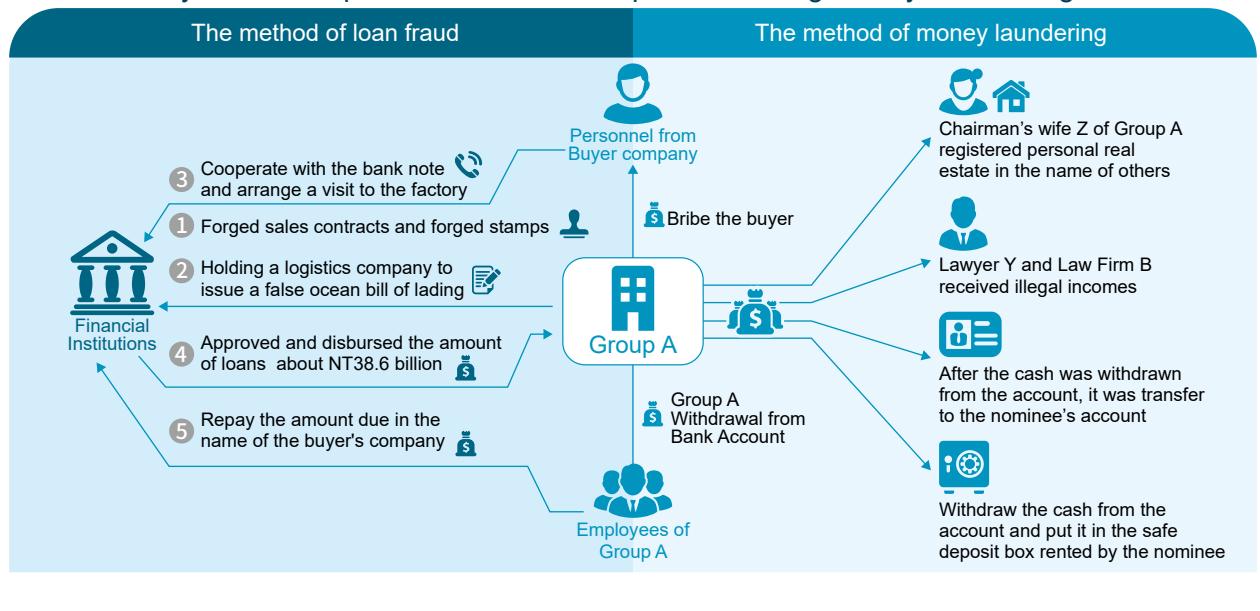
To sum up, since attorneys can provide more complex legal structures or contract services, and may involve cross-border or huge transactions, their clients include high-net-worth individuals or those who hold important political positions in Taiwan, and in practice, there have also been cases of criminal actors abusing the services provided by attorneys to engage in ML, so their risks are generally rated as "high".

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

### Case

The person X in charge of Group A, used fraudulent techniques to borrow a total of about NT\$38.6 billion from the bank. In order to conceal the illicit benefits obtained by fraudulent loans through false transactions, X purchased 16 real estates with the illicit proceeds of fraudulent loans, and registered them in the names of multiple nominees to hide the actual ownership of these assets. In addition, since April 2019, practicing attorney Y has discussed countermeasures with Z and others from Group A for many times in relation to the fraudulent loan case. Knowing that Group A committed fraudulent acts of defrauding loans from multiple banks, Y still received the criminal proceeds of fraudulent loans from Z and others in the account under the name of Y himself and the law firm B that Y presided over, totaling approximately NT\$12.5 million. After Z and others absconded in early June 2019, in order to conceal and disguise the illicit gains from fraudulent loans, members of Group A continuously withdrew money from Group A's account over the counter, and transferred the total amount of criminal proceeds exceeding NT\$20 million to the financial accounts of Law Firm B, Company C and several individuals. In addition, they transferred NT\$6 million in cash to the safe of Bank D rented by nominee, in an attempt to hide the proceeds of crime and evade arrest.

### The Attorney's Modus Operandi to Assist Group A in Violating Money Laundering Control Act



Source: Investigation Bureau, Ministry of Justice

### 13. High Vulnerability: Real Estate Brokerage Industry

Assessment Period	2018 Assessment	2021 Assessment
Rated	High	High

Real estate brokerage industry includes real estate brokerage and real estate agency in Taiwan. As of December 2020, there were 7,167 companies in total, including those established by companies or stores. According to practical experience in the industry, it is estimated that about 65% of real estate sales cases are dealt through the brokerage industry. According to the statistics of the number of profit seeking enterprises and sales of the Ministry of Finance, the total sales of the real estate brokerage industry in 2020 were approximately NT\$85.678 billion (approximately

NT\$76.963 billion for the brokerage industry and NT\$8.715 billion for the agency business), and the real estate brokerage industry itself does not have many assets. The real estate brokerage industry mainly accepts the entrustment of real estate developers or real estate right holders to handle real estate transactions. After both parties agree to trade, the entrusted or hired local Land administration agents will handle the follow-up real estate sales and transfer registration matters, and will not especially cooperate with attorneys, accountants or other professionals. A small number of offshore real estate operators also cooperate with overseas developers or brokers to sell or broker overseas real estate in Taiwan to domestic people. Business locations are commonly found in various domestic cities, including branches of foreign real estate brokers in Taiwan. In addition, some domestic companies also operate overseas real estate brokerage business.

High value of real estate, with the characteristics of value preservation and appreciation, it is a favorite and investment channel for criminals, including the use of nominees (natural persons or legal persons) to purchase real estate, or purchasing multiple real estates at the same time, with real estate loans paid with illegal incomes, or buy real estate with large amount of cash and then obtain a loan from the bank. A small part of the real estate brokerage industry operates overseas real estate transactions, which account for 0.89% of the total. When nationals are intermediaries to purchase real estates overseas, funds may flow abroad in this way, and the risk of being easily used as ML channel increases.

After the real estate broker accepts the entrustment and sells the real estate, its business relationship is terminated, and the business relationship with the buyer is a one-time business relationship, which is terminated after the real estate transaction. Clients may include natural persons, legal persons or trust relationships, and may also include high net worth individuals, political exposed persons, and may also be foreigners, including those in Mainland China. However, the proportions of people who may have contact with the citizen of Mainland China or foreigners are extremely low, approximately 0.022% and 0.49% respectively.

Most real estate brokerages operate primarily domestically and do not operate in high-risk jurisdictions. A small number of overseas real estate sellers are mainly developed countries (such as the United States, the United Kingdom, Japan.) or emerging countries in Southeast Asia (such as Malaysia, Thailand, Indonesia, the Philippines).

With regard to service channels, brokers and sales representatives of real estate brokerage agencies would directly face buyers and sellers when performing their business. However, when the buyer or the seller appoint different real estate brokerage companies, the brokers of both parties will negotiate, and the buyer and seller are also allowed to conduct transactions through an agent. It is rare for Taiwanese or foreigners living overseas to sell domestic real estate, and the proportion is less than 0.49%.

Due to the large number of real estate brokerage bases, the product itself has the characteristics of value preservation and appreciation, allowing agents to trade, and its business activities include overseas real estates, which is a favorite investment channel for criminals, its risk is generally rated as "high".

#### 14. High Vulnerability: Life Insurance Companies

Assessment Period	2018 Assessment	2021 Assessment
Rated	High	High

As of the end of December 2020, there were 22 life insurance companies <sup>44</sup>; among them, there were 19 domestic life insurance companies and 3 branches of foreign life insurance companies in Taiwan. Assets of life insurance industry totaled NT\$3.1754.9 billion, premium income was approximately NT\$3,163.9 billion, approximately 15.9% of GDP. Although the insurance density<sup>45</sup> continued to drop from NT\$148,865 in 2018 to NT\$134,287 in 2020, and the insurance penetration rate<sup>46</sup> also continued to drop from 20.01% to 16.95%, the overall life insurance industry in 2020 continued to decline. The ratio of total assets to the total assets of financial institutions still reached 31.19%.

At present, Taiwanese life insurance companies can achieve the benefits of cross-industry operation by establishing or joining financial holding companies, it is also possible to expand business through strategic alliances with financial institutions such as banks or securities firms. Also insurance products can be sold through channels such as insurance agents or insurance brokers. This shows that the life insurance industry and other financial industries have a high degree of mutual participation in operation, which can be described as a good degree of industry integration.

The insurance products operated by life insurance companies include life insurance, health insurance, casualty insurance and annuity insurance. In terms of premium income of various insurance types in 2020 are life insurance account for NT\$2,396.5 billion (accounting for 75.7%) as the largest, followed by health insurance with NT\$399.7 billion (accounting for 12.6%), then annuity insurance NT\$300.1 billion (accounting for 9.5%) and casualty insurance NT\$67.4 billion (accounting for 2.2%). Insurance commodities that are more likely to be used as ML tools are mainly those with policy value reserves or cash value, such as life insurance, investment insurance, and annuity insurance. Premium income from these commodities accounts for a significant proportion of the overall life insurance market. In addition, insurance ML offenders usually pay premiums by single payment when purchasing life insurance or annuity insurance, and terminate the contract within the policy review period (or short term), or use policy loans in the future to achieve the purpose of ML.

In general, both Taiwanese and foreigners, possibly including high net worth individuals or political exposed persons are allowed to purchase life insurance products. Secondly, except for the proposer, the insurance premium may be paid by the insured or the beneficiary on its behalf. Due to the diversity of customers scope and transaction sources in the life insurance industry, there is a certain degree of ML risk.

The operating scope of the life insurance industry is mainly in the domestic market, and overseas bases are rare. They are mainly set up in Mainland China, Hong Kong, Vietnam, South Korea and other countries or regions. Although the proportion of premium income of overseas branches is not high at this stage, their locations of business may be located in high-risk jurisdictions or countries of concern.

The business sources of the life insurance industry can be divided into direct marketing and indirect marketing. The former refers to insurance companies selling insurance products directly to consumers, while the latter refers to selling insurance products through other financial institutions, including insurance brokers and insurance agents, through joint marketing or strategic alliances. In terms of marketing methods, it can be divided into face-to-face marketing by salespersons and non-face-to-face marketing by means of internet or telephone. Due to the diverse sales channels and a high proportion of indirect marketing, there is a certain risk of ML.

Based on the nature of life insurance products mostly have policy value reserves or cash value, insurance products can be sold through various channels such as insurance company salespersons, insurance brokers, insurance agents, internet and telemarketing. In practice, there are also cases where criminals use the single payment of premiums and then terminate the policy, so its risk is generally rated as "high".

## 15. High Vulnerability: Third-Party Payment Services Providers

Assessment Period Rated	2018 Assessment Medium	2021 Assessment High
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The third-party payment service providers provide online cash flow integration services, the value of which is to protect the rights and interests of both parties and the security of the transaction process, and contribute to the development of e-commerce. The third-party payment service providers accept the money transferred from the consumers after the actual online transactions occur, and after a certain condition is fulfilled, a certain period expires or the consumer's instruction, the transaction money will be transferred to the payee according to the consumers' instruction. The providers simply provide the business services of collecting and making payments for real transactions as an agent, and the total balance of agency collections and payments they hold in custody should not exceed a certain amount (an average daily balance of NT\$2 billion). The cash flow services they provide can be divided into credit card payment, convenience store collection (up to NTD 20,000), ATM (up to NTD 30,000) and online ATM (up to NTD 100,000).

According to the company registration statistics of the Ministry of Economic Affairs as of July 20, 2021, at present, there are 10,623 (existing) companies registered in the "I301040 third-party payment service provider" in Taiwan. However, operating a third-party payment provider business is not prohibited or restricted by law, registration is therefore not necessary. In addition, there is currently no competent authority in charge of this industry in Taiwan. For that reason, it is not yet able to grasp its exact industry size.

The operating model of the third-party payment provider service industry includes enabling consumers to obtain a full performance guarantee from the bank or handing over the payment to a trust company to ensure the fairness and reliability of the transaction. Therefore, the industry will cooperate with banks or trust companies, and the industry will also collect and pay through physical

channels like convenience store. Its structure therefore allows for some degree of integration with other industries. In addition, the industry's network operation model and business characteristics enable its services to be widely used by many customers, and to provide rapid and certain capital transfer capabilities.

The client relationship of the business is that the third-party payment service provider, acting as agents between the payers and the payees, simply provide the service of custodial agent to receive and make small payments for actual transactions. During the transaction process, although the customers temporarily deposit the transaction amount into the third-party service providers' payment account, the third-party payment providers never have the ownership of the funds, and the nature of business is relatively simple. However, because their customers include both buyers and sellers, the customer identities and business relationships are more diverse, which may include continuous and one-time transaction relationships. In addition, the industry restricts that only Taiwan citizen and foreigners holding Taiwan residence permits can use its services. Therefore, the geographical scope of industrial activities is limited to the country, and does not involve high-risk jurisdictions or countries of concern.

The transaction type of the third-party payment service provider is online rather than face-to-face. Although the customer has registered as a member before the transaction, it is still difficult to confirm the anonymity of the real user (such as using other people's registration information for payment services or using false identity to register). Despite the fact that the third-party payment service providers will establish business relationships with a number of financial institutions, financial institutions cannot know the real transaction object when processing transactions and it is difficult to grasp the full picture of customer relationships and information. Therefore, the industry has the risk of fraudulent transactions to achieve illegal transfer of funds, cash out or ML. In addition, the collection and payment business in this industry is not a bank remittance business in nature, but by combining the design of the internal virtual account provided by the bank, the purpose and effect of the fund transfer can still be achieved in essence, plus its rapidity, convenience and other characteristics, it is more likely to become a channel for criminals to launder money. In recent years, law enforcement authorities have found that a large number of fraud, online gambling and other financial crime criminals use third-party payment platforms as their ML tools, or take advantage of the extremely low market entry requirement of the industry to establish and

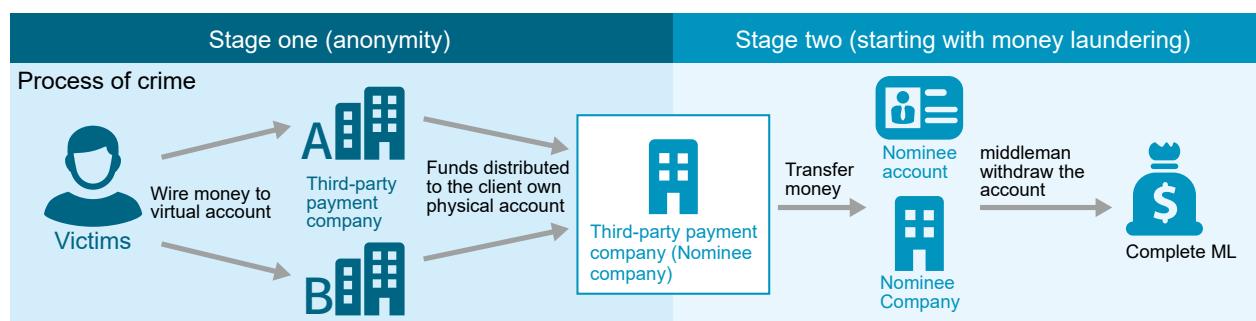
## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

operate their own third-party payment company, or to launder money by connecting the platform-to-platform, which greatly increases the difficulty of tracking the cash flow.

The third-party payment service providers only provide a single service of acting as an agent to collect and make payments of actual online transactions, and their business activities mainly take place within the country, less involving high-risk jurisdictions or countries of concern, and the nature of the industry is relatively simple. However, considering the anonymity, rapidity, difficulty of cash flow tracking and non-face-to-face transactions of third-party payment tools, and it has been found in recent years that the industry has been abused as a ML tool by financial criminals such as fraud, online gambling and account theft. Therefore, this risk assessment adjusted the risk level of this industry from the previous "medium" to "high".

### Case 1

Criminal actors set up third-party payment companies on their own, applying for "collection and payment" service from other regular third-party payment companies, then provide the virtual account number applied by the formal third-party payment company to the cooperating bank to the buyer (including the victims of investment fraud cases, participants in online gambling and other financial crime victims). After the customer remit the money, it was transferred to the physical account of the nominee company, the offender then transferred the funds to other nominee accounts or other nominee companies for middleman to withdraw money, completing the multi-layer transfer money laundering operations.



Source: Investigation Bureau, Ministry of Justice

### Case 2

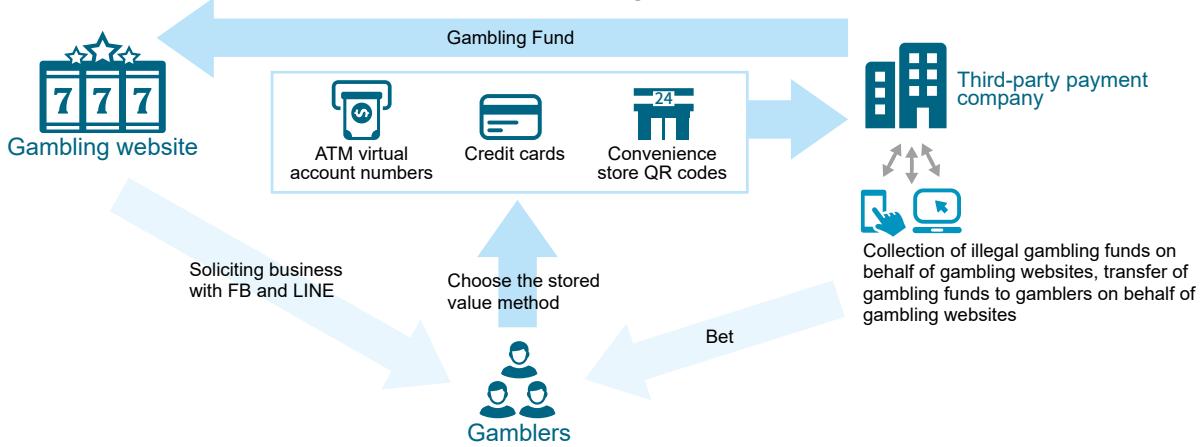
The victim was deceived by a fraudulent group to invest in platform A and platform B on the internet. After registering as a member, remit the investment funds to the virtual account of collection and payment set by C Technology and D Company on the third-party payment platform, then the funds flew to the physical financial account bound to the client. The police checked the corresponding client information from C Technology and D Company, and found that it was actually another registered third-party payment company "Company E". Police then went to "Company E" to check the details of the customer's information, but was delayed in every possible way. After the aforesaid investment funds entered the physical financial account of "Company E" bound by C Technology, they were immediately transferred to the names of suspects X and other companies such as supercars and watches. It is obvious that in addition to using nominee to set up a shell company operating the Third-party payment providers, the X and the others are specially designed to perform financial exchange for various fraudulent groups, and use the supercars and watches as tools to launder money.

Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

### Case 3

In recent years, the police have found an increase in the number of ML cases involving online gambling groups combined with third-party payment services. For example, in 2018, the police found that criminals set up 3 third-party payment service companies, which specialized in assisting more than 20 gambling websites to process cash flow. Their service allowed gamblers who took a bet, to use credit cards, ATM transfers and the codes of convenience store to first deliver gambling funds to third-party payment service companies, and then flow into gambling websites to avoid detection.

Schematic of the Gambling Websites' Cash Flow



Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

## 16. High Vulnerability: Agricultural Financial Institutions ( including Agricultural Bank of Taiwan, Taiwan Credit Departments of Farmers' and Fishermen's Association )

Assessment Period	2018 Assessment	2021 Assessment
Rated	Medium	High

The total assets of Agricultural Financial Institutions, including Agricultural Bank of Taiwan,

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

Taiwan Credit Departments of Farmers' and Fishermen's Association, at the end of 2020 were NT\$3,111.8 billion, total deposits amounted to NT\$2,764.3 billion, and total loans amount was NT\$1,535.3 billion, and the head office and branches have 1,171 operational locations, with no foreign branches. The Taiwan Credit Departments of Farmers' & Fishermen's Association is a regional entry level financial institution. Although the location of operation is restricted by the region of the organization, it is common in the country. The Agricultural Bank of Taiwan is the upper-level institution of the Taiwan Credit Departments of Farmers' and Fishermen's Association. It has statutory tasks such as receiving and transferring deposits and counseling, and its business operations are the same as those of commercial banks.

The Agricultural Bank of Taiwan is the only agricultural professional bank licensed by the government in Taiwan. The main business is to cooperate with agriculture and fishery policies, handle agriculture, forestry, fishery, and animal husbandry financing, and accept transfers from the Taiwan Credit Departments of Farmers' and Fishermen's Association, and also provide domestic and cross-border remittance services. The Taiwan Credit Departments of Farmers' and Fishermen's Association provides deposits, loans, fee collection and payment, domestic remittance services, the products and services are simpler than commercial banks.

The customers of the Agricultural Bank of Taiwan are mainly farmers and fishermen, agricultural and fishery enterprises and the Taiwan Credit Departments of Farmers' and Fishermen's Association, 94.5% of its deposits are transferred from the Taiwan Credit Departments of Farmers' and Fishermen's Association. The Taiwan Credit Departments of Farmers' and Fishermen's Association is the main entry level financial institution. The business area is restricted by regulations. Most of the customers served are local farmers, fishermen and the public. Among them, there may be representatives of local public or heads of local authorities, with political influence in the local area, including important political positions in the country. The members of the Association of Agriculture and Fisheries have localized characteristics and may be influenced by local political factions, and act as a channel for the flow of illegal funds.

The scope of business activities of agricultural financial institutions is limited to domestic and no overseas business bases, and transactions are mainly domestic. The Agricultural Bank of Taiwan business involving cross-border transactions are limited to cross-border remittance and trade financing. The countries involved are mainly Luxembourg, Hong Kong, Japan, South Korea,

and so on. The undertaking volume of these businesses accounts for a relatively low proportion of the overall banking industry.

Agricultural financial institutions provide customers services mostly through face-to-face channels, meaning over-the-counter, and a small number of transactions are conducted through online banking, telephone speech services, and ATMs.

As the total assets of agricultural financial institutions have a certain scale, the headquarters and branches of the Agricultural Bank of Taiwan, Taiwan Credit Departments of Farmers' and Fishermen's Association have formed an agricultural financial service network throughout the country. The funds transfer channel is convenient, and most of the customers are local farmers, fishermen and the public. However, there may be local representatives of public or heads of local competent authorities, including domestic political exposed persons. The members of the Association of Agriculture and Fisheries may be influenced by local political factions and used as a channel for the flow of illegal funds, so its risk is generally rated as "high".

#### Case

Since February 2017, X has became the head of the group which betting on Mark Six. He and his niece Y, who is employed in the Taiwan Credit Departments of Farmers' and Fishermen's Association, jointly run a gambling station, and take advantage of Y's position to open an account and transfer the gambling money. As of July 2019, a total of NT\$80.75 million has been collected. In order to avoid being arrested, Y brought in his colleague Z to spy on the documents issued by the police and the Internal Revenue Service. The prosecutor, on suspicion of gambling, ML, and leaking secrets, indicted clerk Y and Z of Taiwan Credit Departments of Farmers' and Fishermen's Association and 7 members of Mark Six group with the head X.

Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior

## 17. High Vulnerability: Securities Investment Trust Industry

Assessment Period	2018 assessment	2021 assessment
Rated	High	High

As of the end of 2020, the securities investment trust industry had total assets of NT\$65.379 billion, with 39 of them and 47 branches. The business is mainly fund raising and fund sales (divided into mutual funds, hedge funds, offshore funds) and fully fiduciary discretionary. Total assets under management at the end of 2020 were NT\$9.91 trillion. Due to the need to sell funds through financial institutions, there is a certain degree of integration with other industries. Many securities

investment trust industries are subsidiaries of financial holding companies or reinvested by other financial institutions, and are highly integrated with other financial institutions in terms of equity.

The industry characteristics of the securities investment trust industry do not have the ability to move funds quickly. When an investor engages in fund or fully fiduciary discretionary deal, the invested capital must be deposited into the special custody account of the custodian institution, and shall not be arbitrarily used by the investor. Redemption of funds or withdrawal of fully fiduciary discretionary funds also needs to be processed through the custody account of the custodian institution, which does not involve cash payment and requires considerable processing time. Therefore, customers cannot use the products and services of securities investment trust consulting industry to move funds quickly. In addition, according to past cases, the fund or the fully fiduciary discretionary manager has improperly used the assets under management to buy or sell stocks for the benefit of themselves or others. There were also illegal groups that illegally solicited investment in the name of hedge funds, which are products that are easily exploited. Compared with mutual funds, hedge funds and discretionary funds have higher risks of ML and TF because the product design of hedge funds and fully fiduciary discretionary funds are easier to provide services for a few or specific customers. In addition, after the offshore fund is introduced into Taiwan by the qualified general agent, the investment amount of Taiwanese will be remitted by the investor himself or through the general agent or fund sales agency to the designated account of the offshore fund management institution. As of the end of 2020, the hedge funds of the securities investment trust industry accounted for about 0.49% of its total assets under management, about 23.96% for fully fiduciary discretionary funds, and about 29.77% for offshore funds.

Most of the securities investment trusts industries and customers are continuous transactions. The transaction relationship with customers mainly comes from the sales channel of financial institutions, and the number of direct customers and transaction volume do not account for a high proportion of the overall operation. Natural person customers still account for the majority, and as of the end of 2020, the proportion of legal person customers and foreign customers was 1.44% and 1.37% respectively. Clients include foreign nationals, domestic and foreign politically exposed persons and high net worth individuals.

Securities investment trust industry's business activities are mainly in Taiwan, with only 2 overseas subsidiaries. In 2020, the proportion of investment in foreign targets reached 51.17%,

and most of the clients and investment targets do not involve high-risk jurisdictions or countries of concern, among which clients from Belize, Myanmar, and Mauritius, which are countries or regions of particular concern, accounts for about 0.0456%. The amount of investment targets invested in countries or regions of interest such as Mainland China, Hong Kong, the Cayman Islands and Indonesia accounted for approximately 12.42% of the total investment fund.

The number of non-face-to-face transactions in the securities investment trust industry accounted for about 79.38% of the total number of transactions in 2020, the amount of electronic transactions (including network and speech) account for about 2.22% of the subscription and redemption amount (calculated by the subscription and redemption amount), a considerable proportion of them are placed online. As of the end of 2020, the proportion of funds sold through financial institutions was about 75.55%.

In general, the securities investment trust industry has a large scale of assets under management and a high degree of integration with other industries. In addition, services such as fully fiduciary discretionary and hedge funds are relatively risky, and some customers are foreigners, politically exposed persons at domestic and abroad, and high-net-worth individuals. In addition, the service channel has a high proportion of non-face-to-face transactions, so its risk has generally been rated as "high".

## 18. Medium Vulnerability: Motor Vehicle Retail Sales Industry (including used motor vehicles)

Assessment Period	2018 Assessment	2021 Assessment
Rated	None	Medium

According to the statistical survey of Sales of Wholesale, Retail and Food Services by the Department of Statistics, Ministry of Economic Affairs, in 2020, the turnover of Sales of Wholesale, Retail and Food Services was NT\$14,366.29 billion. The turnover of the Retail Sale of Motor Vehicles, Motorcycles and Related Parts and Accessories was NT\$1,492.22 billion, it was about 10.38% of the overall wholesale and retail industry. The sales target was the adults, and there was no limited customer identity. Since the overall turnover in 2020 only accounted for 10.38% of the overall wholesale and retail industry, and most of the operating locations existed in Taiwan, the industry scale was small <sup>47</sup>.

The automobile trading industry is the back-end of the automobile industry. In sequence, it is upstream automobile parts production, midstream automobile assembly, repair and technical services, and downstream sales and import and export business. The industry is technology- and capital-intensive, and its structure is not complicated in terms of the industrial chain. As for the selection of the vehicle dealership and operation location, it is determined on market conditions, land conditions, business district structure, traffic conditions, future development potential, financial conditions, location conditions and other factors. Automobile are high-value commodities, and ML criminals can use cash to buy high-priced vehicle for ML. In addition, the operating locations of the automobile trading industry are mostly set up in developed traffic places, which can be easily accessed by most unspecified customers. As for the trading volume, trading frequency and payment methods (such as cash transactions, credit card transactions, check transactions, transfer or remittance or apply loans), it depends on the situation of different customers.

In the part of the nature of business relationship, the transaction interaction of most customers in the auto trading industry is a one-off transaction. And it is a direct relationship between customers and sales vendors, and the process is less completed through third-party business relationships. Although anyone can buy or sell a vehicle, and the buyer is not a high proportion of high net worth individuals <sup>48</sup>, it still includes politically exposed persons <sup>49</sup>, so it is still risky.

Regarding the geographic scope of the industry activities in the auto trading industry, they involve high-risk jurisdictions or countries of concern, but they account for a relatively small proportion of overall business activities <sup>50</sup>.

Regarding the nature of service channels, although the new car trading industry is relatively transparent and simple in terms of anonymity and complexity of service channels. However, in the used car trading industry, there are anonymous trading (such as transfer of ownership to an unknown person) or buying and selling of used vehicles through agencies. There were a few cases where a criminal group set up a used car dealership and acted as the front company of the criminal group to cover up the members or illicit income of a fraud rings or other illegal criminal group. This industry still has a certain degree of complexity.

The motor vehicle retail sales industry is divided into new car trading and used car trading. Although new car trading is relatively simple in terms of the geographical scope of industry activities

and the nature of service channels, in used car trading, there is the risk of anonymous trading and the risk of becoming a front company of a criminal group, which may become a channel for ML. Therefore, the risk is generally rated as "medium".

## 19. Medium Vulnerability: Fine Art Auction Industry

Assessment Period	2018 Assessment	2021 Assessment
Rated	None	Medium

The fine art auction industry is not a franchising industry and is mainly classified under the category of wholesale of general merchandise auction (retail) industry. At present, there are only 36 domestic art auction companies. Due to the small domestic auction market, the top 10 art auction companies account for 94.80% of the net operating profit. The main business method is to provide a business platform for sellers to exposing the artworks and buyers to acquire artworks, charging about 10% to 20% commission or service fee. In order to maintain long-term operation and maintain reputation, auction companies will refuse stolen goods or auction items of unknown origin, so as to avoid becoming a channel for buyers and sellers to launder money. Due to the characteristics of art collection and possible value-added, it has close business contacts with related support service providers in the surrounding areas, including art appraisal and appraisal, logistics and warehousing, art insurance, brokerage, hotel industry, art and literature exhibition of works, and so on. The operating locations and venues for holding vernissage and auctions are mainly concentrated in metropolitan areas such as Taipei, Taichung and Kaohsiung.

Most of the auction items have a low transaction value in Taiwan, and only a few items in each auction exceed NT\$10 million. The payment method of the auction price is cash, financial institution account remittance, check or credit card, and so on, and remittance and credit card are the main transaction methods. The payment methods required by each auction company vary, but some auction companies require transactions that exceed a certain amount, such as NT\$300,000 or 500,000, to be remitted. Domestic art auction companies are entrusted to auction a wide variety of items, but since the determination of the value of art is relatively subjective and there is no absolute measurement standard, in practice, marketing hype cannot be ruled out, and it is easy to be used as ML or TF.

The clients of the domestic art auction industry include natural persons and legal persons of

Taiwan or foreign nationalities. It is mainly divided into the sellers who entrust auctions and buyers who participate in bidding. Customers are mostly continuous and direct or indirect relationships, the customers' base is relatively stable, and customers usually have certain financial resources. Therefore, the client's occupation is more likely to belong to the white-collar class, or people with a certain wealth background. Clients of fine artworks usually have certain social and economic status and financial resources, and may also be high-net-worth individuals or politically exposed persons.

Domestic art auction companies mainly conduct auction activities by holding preview exhibitions and physical auctions, and the scope of business activities is mainly domestic. Although the auction transaction prices are also remitted in and out across borders, most auction companies mentioned that none of their clients or sources of funds were from the list of high-risk Jurisdictions published by FATF and countries with scores below 30 in the 2019 Global Corruption Perceptions Index published by Transparency International

The domestic art auction industry mainly holds preview exhibitions and physical auctions through art exhibition centers, convention and exhibition centers, star-rated hotels, and so on. Buyers can participate in the auction in person at the venue, or through online bidding, or by telephone or written entrustment. Domestic art auction companies have not yet held purely online or internet auctions. However, due to the impact of the COVID-19 epidemic, large international auction companies have switched to online bidding methods, thus increasing the demand for auction companies to conduct auctions through non-face-to-face channels demand and willingness, this trend may increase the overall risk in the fine art auction industry.

Since artworks are not controlled items, the auction companies require all bidders to provide personal information such as identification to facilitate subsequent payments and other operations. However, at present, Taiwanese government does not require art auction companies to carry out relevant laws and regulations such as procedures for identifying customers' identities. Therefore, it is yet to be confirmed whether the information collected can effectively recognize the identity of the client. Some transactions in the art auction industry do use agents, and there may be doubts about anonymous transactions. In addition, there is no ownership registration mechanism for artworks. The auction company will require the seller to provide basic information on the origin of the auction items. The auction items are filtered through layers to ensure that the origin of the auction items is not in dispute. However, there has been several recent news in Taiwan about the theft of a famous

master's painting many years ago, and the painting will appear at auction later. This situation is basically the same as that described in the notice issued by the Financial Crimes Enforcement Network (FinCEN) of the U.S. Department of the Treasury on March 9, 2021, that the cultural relics or works of art are involved in ML or illegal acts, so its risk is generally rated as "middle".

## 20. Low Vulnerability: Pawn Broker Industry

Assessment Period	2018 Assessment	2021 Assessment
Rated	None	Low

According to the statistics of the Business Units and Sales in the statistical database of the Ministry of Finance, the number of pawnshops in 2018 was 1,991 with sales of NT\$1,393,379. In 2019, it was 1,981 with sales of NT\$1,424,179. In 2020, the number was 1,995, with sales of NT\$1,432,408. The industry scale is small, nearly half of them do not actually operate, and their industry complexity and integration with other industries are not high. In addition, the operating locations of the industry are scattered all over the country, and the scope of services is also limited to the country.

There are various types of items pawned in the pawnshop industry, but their value is limited. And the services provided are limited to small-amount pledged loans. After the pledger delivers the pledged items (such as cars, motorcycles, gold, and so on) to the pawnshop, the pawnshop will then deliver the funds to the pledged borrower, and the amount involved in the transaction is relatively small.

Most of the customers in this industry are people with relatively low socioeconomic status and education level, and there are few politically exposed persons and high net worth individuals. In addition, the services it provides are usually short-term capital loan, non-continuous loan, and customers cannot entrust others to conduct transactions, so the customer business relationship is mostly a one-off direct relationship.

The pawnshop industry has no rare and complex anonymous service channels, and is mostly family-run, with little integration with other industries, and there are few cases of pawnshops accepting stolen goods. Therefore, the industry is simple in nature, so its risk is generally rated as "low".

## Chapter 6 Risk Assessment Results: Money Laundering and Terrorist financing Vulnerabilities

- 21.Source: Bureau of Foreign Trade, Ministry of Economic Affairs.
- 22.For legal person risk, please refer to the analysis in Chapter 7.
- 23.For non-profit organization risks, please refer to the analysis in Chapter 9
- 24.Source: Financial Supervisory Commission.
- 25.Source: Financial Supervisory Commission, Central Bank of the Republic of China (Taiwan).
- 26.Source: Immigration Service, Ministry of the Interior, Ministry of Labor.
- 27.Source: National Development Council.
- 28.The three industries that were included in the assessment for the first time and were rated as medium or low vulnerabilities included "Motor Vehicle Retail Sales Industry (including used motor vehicles)", "Fine Art Auction Industry" and "Pawn Broker Industry".
- 29.Source: FATF Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, p.22  
<https://www.fatf-gafi.org/media/fatf/documents/recommendations/Updated-Guidance-VA-VASP.pdf> (Last visited: December 14, 2021).
- 30.Three virtual asset exchanges are MaiCoin, BitoEX and ACE Exchange.
- 31.Source: FATF Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, p.27, p.33-35  
<https://www.fatf-gafi.org/media/fatf/documents/recommendations/Updated-Guidance-VA-VASP.pdf> (Last visited: December 14, 2021).
- 32.Source: <https://apps.apple.com/us/app/coinatmradar-bitcoin-atm-map/id944855781>  
(Last visited: November 27, 2021).
- 33.Source: FATF Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, p.18-19  
<https://www.fatf-gafi.org/media/fatf/documents/recommendations/Updated-Guidance-VA-VASP.pdf>  
(Last visited: December 13, 2021).
- 34.Source: FATF Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, p.21  
<https://www.fatf-gafi.org/media/fatf/documents/recommendations/Updated-Guidance-VA-VASP.pdf> (Last visited: December 13, 2021).
- 35.Source: FATF Report Virtual Currencies Key Definitions and Potential AML / CFT Risks, <https://www.fatf-gafi.org/media/fatf/documents/reports/Virtual-currency-key-definitions-and-potential-aml-cft-risks.pdf> (Last visited: Dec 13, 2021).
- 36.Source: <https://www.fatf-gafi.org/media/fatf/documents/recommendations/Virtual-Assets-Red-Flag-Indicators.pdf> (Last visited: December 12, 2021).
- 37.SOURCE: UPDATED GUIDANCE: A RISK-BASED APPROACH TO VIRTUAL ASSETS AND VIRTUAL ASSET SERVICE PROVIDERS, p.12, <https://www.fatf-gafi.org/media/fatf/documents/recommendations/Updated-Guidance-VA-VASP.pdf> (Last visited: December 12, 2021).
- 38.Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior
- 39.Source: Investigation Bureau, Ministry of Justice
- 40.Source: Digital Content Industry in Taiwan 2019, Industrial Development Bureau, Ministry of Economic Affairs.
- 41.Source: Gaming Industry Analysis and Marketing Insights in Taiwan 2021 <https://storage.googleapis.com/kol-reports/2021%20%E5%8F%B0%E7%81%A3%E9%81%8A%E6%88%8B2%E7%94%A2%E6%A5%AD%E5%88%86%E6%9E%90%E8%88%87%E8%A1%8C%E9%8A%B7%E6%B4%9E%E5%AF%9F.pdf> (Last visited: November 27, 2021).
- 42.Source: Criminal Investigation Bureau, National Police Agency, Ministry of the Interior
- 43.Source: Investigation Bureau, Ministry of Justice
- 44.A total of 27 business licenses have been issued by life insurance companies, of which 4 companies, including Chaoyang Life Insurance, Global Life Insurance, Singfor Life Insurance, and Kuo Hua Life Insurance, are currently closed for liquidation; RLNM Limited has closed its business, but has not paid and cancelled the business license.
- 45.Insurance Density, that is, the insurance premium income of the country's insurance industry divided by its population, that is, the average annual insurance premium expenditure per person, which represents the development of the country's insurance industry and the strength of the Taiwanese people's awareness of insurance.
- 46.Insurance Penetration, that is, the ratio of insurance premiums to the country's gross domestic product (GDP), that is, the contribution and importance of the country's insurance industry to the economy.
- 47.According to the statistics of the number of profit-making enterprises and sales in the statistical database of the Ministry of Finance, the number and sales of new and old automobile retail enterprises in Taiwan from 2018 to 2020 are shown in the following table.

Period	Industry	Number of Business	Total Sales
2018	4841-11 New Auto Retail	2,081	523,999,224
2018	4841-12 Retail of used cars	2,314	24,010,798
2019	4841-11 New Auto Retail	2,033	540,053,812
2019	4841-12 Retail of used cars	2,411	26,855,254
2020	4841-11 New Auto Retail	1,986	580,681,210
2020	4841-12 Retail of used cars	2,540	32,616,213

- 48.According to the Ministry of Transportation's 2019 survey report on the use of self-use passenger cars, the average monthly personal income of personal-use passenger car drivers is NT\$44,000, of which 52.3% are less than NT\$40,000. If the average monthly income is less than NT\$60,000, it will reach 80.4%, and the average monthly personal income of NT\$90,000 and above will account for 4.9%. According to the 2019 National Employee Salary Information Platform released by the Directorate-General of Budget, Accounting and Statistics, the salary of the top 10% of employees in Taiwan is NT\$1.179 million or more, which is equivalent to a total monthly salary of NT\$98,000.
- 49.According to the Ministry of Transportation's 2019 survey report on the use of self-use passenger cars, the average monthly personal income of personal-use passenger car drivers is NT\$44,000, of which 52.3% are less than NT\$40,000. If the average monthly income is less than NT\$60,000, it will reach 80.4%, and the average monthly personal income of NT\$90,000 and above will account

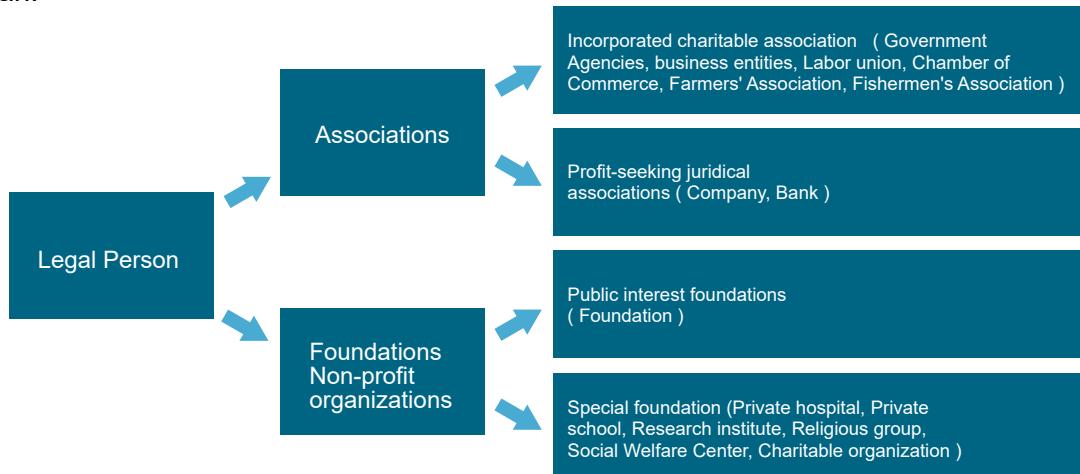
for 4.9%. According to the 2010 National Employee Salary Information Platform released by the Directorate-General of Budget, Accounting and Statistics, the salary of the top 10% of employees in Taiwan is NT\$1.179 million or more, which is equivalent to a total monthly salary of NT\$98,000.

50. According to the cross-organization vehicle integration data of the Customs Administration of the Ministry of Finance, the number of imported vehicles was 248,568 in 2019, 258,889 in 2020, and 230,962 in 2021. The top five countries for imported cars are Japan, Germany, the United States, Thailand and Indonesia.

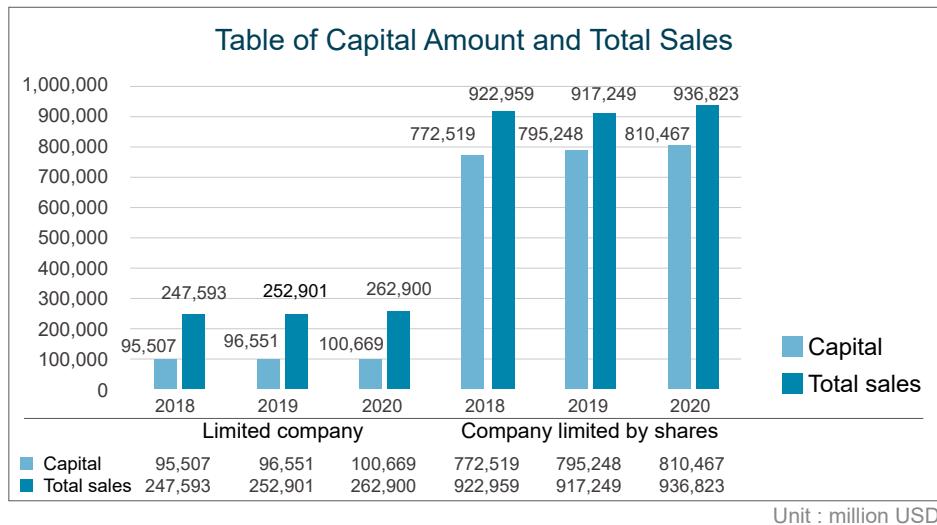
## Chapter 7 Risk Assessment Results: Legal Persons

Type \ Rating	Public company	Non-Public company			Limited Partnership
Company limited by shares	Company limited by shares	Limited company	Unlimited company & Unlimited company with limited liability Shareholders	Limited partnership	
Previous risk assessment	Lower risk	Higher risk	Higher risk	Lower risk	Lower risk
Current risk assessment	Lower risk	Higher risk	Higher risk	Lower risk	Lower risk

The types of legal persons in Taiwan are mainly divided into two categories: associations and foundations. The risk assessment in this chapter is for the profit-seeking juridical associations, to put it in another way, the type of company. The rest of the types are discussed with in Chapter 9, non-profit organizations. The following is a simplified diagram of the types of legal persons in Taiwan:



By the end of 2020, the number of registered companies was 714,652. Among them, limited companies (540,927 companies) were the largest, followed by company limited by shares(173,711 companies). There were 2,205 public companiesand 171,506 non-public companies (including 3,098 closed companies). Compared with the previous risk assessment period, the number of companies of all types increased. The capital and total sales of limited companies increased, while the capital of limited companies increased and total sales decreased by US\$395 million. The overall industry scale still showed a growth trend.



The establishment of a company in Taiwan adopts a standard-based approach, with the registration system as the management method, and the competent authority conducts a formal review (see the Table of company application for establishment registration process for details).

Table of company application for establishment registration process



The establishment or change of registration of the company does not adopt mandatory legal representation or exclusive system, however, if an agent is entrusted, the agent must be an accountant or an attorney (see the table of case statistics for details of the agency scale). In practice, due to considerations such as the complexity of cost registration items, although a small company does not appoint an agent, it will appoint a consultant, bookkeeper or bookkeeper and tax return filing agent to assist in the registration process. In addition, when a company is established

or increased in capital, an accountant must verify whether the capital contribution is true. A company with a capital exceeding NT\$30 million still needs an accountant's audit. In practice, the company may directly appoint an accountant to deal capital structure planning and verify the amount capital contribution and handle the registration matters, and appoint an accountant to handle the matters involving company registration.

**Statistical Table of Cases Handled by Accountants and Attorneys for Company Registration in the Recent 3 Years**

Agents	Statutory agents				Non-Statutory agents: Self-Apply or Apparent agency		Total	
	Accountant		Attorney					
Year	Number of Cases	Annual Ratio	Number of Cases	Annual Ratio	Number of Cases	Annual Ratio	Number of Cases	Annual Ratio
2020	87,253	14.43%	3,118	0.52%	514,357	85.06%	604,728	100.00%
2019	78,886	13.77%	3,020	0.53%	491,013	85.70%	572,919	100.00%
2018	71,063	12.77%	2,737	0.49%	482,618	86.74%	556,418	100.00%

In terms of the geographical scope of industry activities, Taiwan is an economy dominated by import and export trade, and its dependence on foreign trade in 2020 has reached 94.389%. In the concerned countries section, in 2020, the trade volume between Taiwan and the top five trading partners was US\$166 billion in Mainland China, US\$83.1 billion in the United States, US\$69.3 billion in Japan, US\$50.2 billion in Hong Kong, and US\$35.8 billion in South Korea. With regard to high-risk jurisdictions, in the past 3 years, our country has trade relations with Iran, Albania, Barbados, Botswana, Burkina Faso, Cambodia, Cayman Islands, Haiti, Jamaica, Malta, Mauritius, Kingdom of Morocco, Myanmar, Nicaragua, Pakistan, Panama, the Philippines, Senegal, South Sudan, Syria, Uganda, Yemen and Zimbabwe and other high-risk jurisdictions. Taking 2020 as an example, the top five high-risk jurisdictions for trade transactions are the Philippines (approximately US\$7.771 billion), Cambodia (approximately US\$788.21 million), Pakistan (approximately US\$524.58 million), Myanmar (approximately \$269.49 million) and Nicaragua (approximately \$166.5 million).

In terms of suspicious transaction reports, the number of financial intelligence cases involving companies (the company may be the perpetrator or the victim) distributed by the FIU from 2018 to 2020 were 1,496 cases in 2018, 1,185 cases in 2019 and 972 cases in 2020, respectively. Among them, the types of suspicious transactions and crimes analyzed and distributed were in violation of company act, tax crimes and fraud.

Analyzing the cases in which the law enforcement authorities have used companies to commit crimes in recent years, the following types of crimes can be summarized:

1. Creating fake transactions and embezzling company funds

In this type of crime, the main criminal is the person in charge of the company, who conspires with others to create false transactions to embezzle company funds, or create fake transactions to beautify the company's financial report, so as to tunneling the company.

2. Establishing a nominee shell company to conduct fraudulent acts

In this type of crime, the main criminal actor uses the corporate status of the company to defraud other unsuspecting victims by writing bad checks or other criminal methods to obtain criminal benefits.

3. Borrowing existing companies for underground exchange

This type of crime mainly involves illegal groups borrowing existing companies, engaging in underground exchange, and assisting others to transfer funds for illegal incomes. The criminal method is to solicit domestic foreign exchange business through the company, which may include illegal incomes from crimes such as drug trafficking, telecom fraud, tax evasion, and so on, through the company's bank account and foreign or regional banks account to engaged in the illegal transfer of money.

4. Offshore (Mainland China)-funded enterprises set up subsidiaries in Taiwan to steal trade secrets

This type of crime mainly involves Mainland China-funded enterprises establishing subsidiaries in Taiwan by legal means, and using various opportunities and channels to obtain key technologies in Taiwan's high-tech industries.

High-risk crimes that may be involved with the companies include fraud, smuggling, tax crimes, securities crimes, market manipulation, drug trafficking, and corruption and bribery. Among them, it was found that some overseas companies located in tax havens and offshore financial centers, although not registered in Taiwan, were established by local people through management consulting companies or directly established abroad by them, and the criminals committed crimes through this channel.

According to the current statistics, due to the prosperity of Taiwan's economic and trade development, the company's industry activities have a wide range and a high proportion of countries of concern are involved. Among them, the number of companies limited by shares and limited companies are the largest. The experience of law enforcement authorities shows that due to lack of transparency, private companies limited by shares and private limited companies are the most commonly abused types. The departments that may be involved include accountants, attorneys, and bookkeepers who provide services during the establishment process. However, public companies are obliged to disclose information, and their important material information such as its financial business must be disclosed on platforms such as Market Observatories Post System in accordance with regulations. Therefore, publicly companies have a certain degree of transparency and a high degree of information disclosure. In addition, public companies listed in Exchange and OTC need to comply with relevant regulations such as the verification and public handling procedures of major information, and the requirements for transparency are higher. Therefore, the public offering company should be less likely to be exploited for crime than the non-public offering company. As for unlimited company with limited liability shareholders, unlimited companies, and limited partnerships, because the capital and total sales amount are small, and the number of companies is relatively small, there are very few cases of being used for crimes, and the risk is naturally low. In addition, although the offshore company established in the tax haven is not registered in Taiwan, it was found in the case that the offshore company was established through the management consulting firm, combined with the use of the OBUs account, which is vulnerable to abuse.

## Chapter 8 Risk Assessment Results: Trusts

Rating \ Type	Business trusts	Charitable trusts	Civil trust
Previous risk assessment	Lower	Lower	Higher
Current risk assessment	Lower	Lower	Higher

Trusts in Taiwan can be divided into "business trusts" and "civil trusts" according to whether the trustee operates a trust or not; if they are distinguished by the purpose of establishing the trust, they can be further divided into "charitable trust" and "private trust<sup>51</sup>". As for the supervisory authority of the trust, it varies depending to the nature of the trust. The supervision of business trusts is carried out by the Financial Supervisory Commission, while the supervision of charitable trust is carried out by the competent authority of each purpose business.

The so-called charitable trust refers to the trust established for the purpose of charity, culture, academics, artistry, religion, worship or other public interests. Due to the fact that the total trust assets of charitable trusts account for a very low proportion of the whole, and the nature of its business is simple and uncomplicated, the scope of execution is limited to Taiwan and does not involve high-risk jurisdictions. In addition, both the settlor and the beneficiary have clear records, there is no concern of anonymity, and the information disclosure is transparent. Furthermore, the trustees of charitable trusts are mainly financial institutions, and the trust business is subject to the supervision of the Financial Supervisory Commission. Based on this, in terms of risk level, charitable trusts are lower than other trusts.

As far as business trusts are concerned, according to the Trust Enterprise Act, non-trust enterprises are not allowed to handle trust business entrusted by an unspecified majority. Therefore, domestic trusts are mainly concentrated in business trusts, which include money trusts, securities trusts, real estate trusts and other items. At present, there are no specialized trust companies in Taiwan, and most of the trust businesses are concurrently operated by financial institutions such as banks, securities firms, credit cooperatives, and Agricultural Bank of Taiwan. Although the trustees of the trust property include high net worth individuals and politically exposed persons, or domiciled in jurisdictions with high risk of ML or TF and countries of concern, their proportion is relatively low. Moreover, financial institutions are subject to a high degree

of supervision by the Financial Supervision and Administration Commission, so its information transparency is relatively high.

As far as civil trust is concerned, it refers to the trust accepted by the trustee for the purpose of non-business purposes, such as natural persons, attorneys, and accountants serving as trustees. Civil trusts can be established orally or in writing, and there is limited information on the substantive beneficial ownership behind the civil trust property, so it is failed to conduct a more in-depth ML or TF risk assessment of the trust. At present, the relevant laws and regulations on the transparency of civil trusts in Taiwan are mainly the Trust Law and the Income Tax Act, but the disclosure and reporting of trust assets by trustees in these two laws and regulations are not complete. Based on this, in terms of risk level, civil trusts are higher than other trusts.

Basically, simply signing a trust contract only has the effect of the rights to person on a claim. However, 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 the right has been duly completed. Therefore, if the subject matter of the trust is real estate, registered securities, which needs to go through the ownership registration, because the trust property registration is also carried out, the information is relatively transparent.

In conclusion, as for the domestic trusts, due to the fact that business trusts and charitable trusts have been expressly stipulated in laws and regulations, have undergone trust registration, and are highly supervised by the competent authorities, the possibility of being abused for ML and TF risks is relatively low. In contrast, apart from the fact that certain objects of the civil trusts should be registered in accordance with the law, due to the limited information on the actual beneficial ownership of the trust property, the possibility of it being abused for the ML and TF is relatively high.

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51.A private trusts is established for the benefit of oneself or a specific other person. The trusts,business trusts and civil trusts established are all private trusts.

## Chapter 9 Risk Assessment Results: Non-Profit Organizations

Non-Profit Organizations, hereinafter referred to as the NPOs, in Taiwan can be categorized as civil associations and foundations according to their attributes. The competent authorities are the Ministry of the Interior, the Ministry of Health and Welfare, the Ministry of Education, the Ministry of Culture, and municipal governments. NPOs are classified according to Recommendation 8, and are classified into cultural, religious, social/fraternity/charitable, medical, and educational according to their nature. This risk assessment is mainly based on nationwide NPOs. Because their activities are nationwide, the scope of activities is relatively wide, and the degree and complexity of foreign-related activities are relatively high. As of the end of 2020, there were approximately 22,956 NPOs<sup>52</sup> whose organization area or activity scope was national, of which approximately 80% were social/fraternity/ charitable organizations.

NPOs are at risk of being used for TF, but the risk of TF in Taiwan is relatively low. Therefore, for the 6 categories of NPOs that are specified in the FATF 40 Recommendations, Taiwan adopted a simpler method to evaluate the risk ratings of NPOs. The methods are divided into two categories: "higher risk" and "no or low risk". Those with higher risk rating results include civil associations, nationwide Religious Foundations, and social welfare and charity foundations. The rating and analysis are as follows.

Type Rating \ Rating	Civil associations	National Religious Foundations	Social welfare and charity foundations	Medical foundations	Educational Foundations	Cultural foundations
Previous risk assessment	At risk	At risk	At risk	No risk or Low risk	No risk or Low risk	No risk or Low risk
Current risk assessment	Higher risk	Higher risk	Higher risk	Lower risk	Lower risk	Lower risk

### Section 1 Higher Risk Non-Profit Organizations

#### 1. Civil Associations

Taiwanese people like to associate and associate freely, so there are numerous groups, such as nationwide social organizations (associations) and professional organizations (associations). As of the end of December 2020, 20,836 nationwide social organizations and 367 nationwide professional organizations have registered. The nature and scope of most business activities of

civil associations are mainly in Taiwan. Civil associations can be divided into social organizations and professional organizations. Social organizations include 12 categories such as academic and cultural organizations, medical and health organizations, religious organizations, sports organizations, social service and charitable organizations, international organizations, economic organizations, environmental protection organizations, genealogical society associations, townsmen associations, alumni associations and other public welfare organizations, and so on. Professional organizations are divided into 3 categories: industrial organizations, business organizations and freelance organizations.

In the scope of activities, NPOs that have a greater degree of participation in international affairs are "Junior Chamber International Taiwan", "MD300, Lions Clubs International", "Taiwan District of Kiwanis International", "Taiwan Rotary Club Association", "the Red Cross Society of the Republic of China (Taiwan)", and so on.

At the beginning of each year, civil associations need to report their work plans and event expense to the competent authority. At the end of each year, they need to provide a financial report on the activities and expenditures they have spent, and submit it to the competent authority for future reference, so that the competent authority can grasp the overview of their activities. The nature and scope of most business activities are mainly in Taiwan. To engage in foreign exchange activities, it depends on the country of exchange. At present, in practice, some groups engaged in exchanges in Mainland China mainly exchange with Mainland China. In addition, individual sports associations participate in competition activities in member states of the International Olympic Games (IOC), but do not participate in activities in high-risk jurisdictions. The main types of activities can be divided into the promotion of academic culture, medical care, health, religion, charity, sports, social services, friendship and other public welfare purposes. If there is a need for overseas humanitarian assistance, besides reporting to the competent authority for approval, the competent authority will also consult with the Ministry of Foreign Affairs for approval or rejection depending on the situation.

The operation of business and the use of funds of civil associations need to be approved by the general meeting or the board of directors and supervisors, and it is a collective collegial system with a high threshold. In addition, the laws and regulations in Taiwan stipulate that donors can use donations for tax exemption, so it is more common for donors to make donations by their names.

To sum up, although such NPOs include the well-known Lions Clubs and Kiwanis International, and the overall number is the highest among all types of non-profit organizations. However, since NPOs are required to report their annual work plans and financial reports to the competent authority each year, the competent authority may have an overview of their activities. In addition, most of the activities are concentrated in Taiwan or between Taiwan and Mainland China, and no high-risk jurisdictions have been involved so far. For anonymous donations, due to information gaps in the competent authorities notwithstanding, it is impossible to fully obtain the identity or country details of overseas donors requested by civil associations. Therefore, there are still potential risks of anonymous donations, and those non-profit organizations are generally rated as a higher risk.

## 2. Nationwide Religious Foundations

Nationwide Religious Foundations refer to foundations that promote religious beliefs, social and human values, and engage in related public welfare, charity, social education. As of December 31, 2020, 198 Nationwide Religious Foundations were established and operated, with a total registered assets of NT\$140.66 billion, including 90 Christian foundations, 39 Catholic foundations, 39 Buddhist foundations, 6 Taoist foundations, and 24 other religions foundations. The religious population is mainly Buddhism and Taoism with moderate religious attributes, and the religious opposition is relatively low. Although there are a small number of Islamic beliefs, its scale and finances are not large.

With regard to the composition of assets of foundations, most of the Religious Foundations use real estate in the form of churches or temples for missionary use to apply for registration, so most of the assets are real estate properties that cannot be sold, and the ratio of cash assets is relatively low. Only 65 of the 198 Nationwide Religious Foundations are established in cash, which means that only a few operate in the form of foundation cash.

The scope of activities of Religious Foundations is mainly within Taiwan, and the service channels include handling missionary speeches, emergency assistance, tutoring for disadvantaged children, accompanying studying for young people, and caring and counseling for the elderly. There are only 16 Nationwide Religious Foundations providing overseas, including Mainland China, Hong Kong, and Macao, plans and services, mainly for aid work in major international disasters and overseas missionary activities. The most frequent ones involved in international affairs are "Dharma Drum Mountain Buddhist Foundation", "Christian Morrison Association", "Jehovah's Witnesses of

Taiwan". Some foundations have more foreigners participating in the gathering, for example, the Catholic Church has more Filipino believers, and the mosque has more Malaysian and Indonesian believers.

The donations of Religious Foundations come from believers all over the world, even some of them are anonymous, but the sources are scattered and there is no consideration relationship. The sources of donations are mainly natural persons, believers, and a few are from the public, private enterprises and other domestic and offshore legal persons, usually the parent legal person established by the donation. Since the national Religious Foundations which have become legal persons are audited by professional accountants appointed by the competent authority, invoices and receipts must be issued for its income and expenditure, and the proportion of anonymous donations is relatively low.

In summary, the numbers of Nationwide Religious Foundations are small, their foreign-related activities are limited, and no high-risk jurisdictions have been identified. They report their annual work plans and financial reports to the competent authorities every year, therefore, the competent authority may have an overview of its activities. However, there are no laws that authorize the competent authority to request the identity or country details of overseas donors from the nationwide religious foundation, there are still potential risks for anonymous donations, and it is generally rated NPOs as a higher risk.

### 3. Social Welfare and Charity Foundations

"Social Welfare Charity Foundations" refers to a foundation that engaging in women's welfare, child and adolescent welfare, welfare of the disability, welfare of the elderly, family support, social assistance, social work, volunteer service, domestic violence prevention and treatment, sexual assault prevention and sexual harassment prevention. As of December 31, 2020, 328 social welfare charity foundations have been established and operated, with a total registered assets of approximately NT\$183.2 billion, of which only 2 foundations have established overseas branch offices. One of them has 7 branch offices and the other has 8 branch offices.

Social Welfare Charity Foundations that provide overseas, including Mainland China, Hong Kong, and Macao, plans and services are mainly engaged in service-providing activities. For example, aid for major international disasters, assistance to needy families, child support

programs, including education adoption, financial assistance, care services, COVID-19 assistance programs, disabled children assistance programs, gender-based violence assistance programs, including prevention, strengthening and recovery, and other services. The countries with the most cooperation with Social Welfare Charity Foundations are the United States, Vietnam and India.

The scope of activities of Social Welfare Charity Foundations is mainly domestic, and few of them will contact overseas institutions or make overseas donations. Their overseas activities are initiated and carried out by a single foundation, or directly set up offshore branches, and the donations are remitted to the global headquarters, which will coordinate and support aid programs around the world. Among them, the three foundations that participate in international affairs with a larger proportion are the "World Vision Taiwan", "Buddhist Tzu Chi Charity Foundation" and "Taiwan Fund for Children and Families".

To sum up, Social Welfare Charity Foundations are involved in complex activities including women, children and adolescent welfare, welfare of the elderly and family support. In addition, the scope of activities may be in contact with offshore institutions, or related overseas donations, and the risk is relatively high. For the anonymous donation, owing to there are still information gaps in the competent authority, and currently there are no laws that authorize the competent authority to request the social Welfare Charity Foundations to provide the identity or country details of the overseas donor, a potential risk of anonymous donations still exists. Therefore, the risk of non-profit organization is generally rated as higher.

## Section 2 Lower Risk Non-Profit Organizations

### 1. Medical Foundations

Medical Foundations refer to foundations that have been approved by the central competent authority and registered with the court for the purpose of engaging in medical business and managing medical care institutions. In addition, nursing institutions, psychiatric rehabilitation institutions, institutions related to medical research, and relevant welfare institutions stipulated by social welfare regulations such as the Senior Citizens Welfare Act may be attached. As of December 31, 2020, there were 56 Medical foundations, which equaled to the total court-registered assets totaling NT\$196,484,579,742. The operating location is mainly with in Taiwan, and there is no activity in high-risk jurisdictions.

The purpose of the Medical foundations is to establish medical institutions, so most of the funds are used for the construction of medical institutions, the purchase of medical equipment, and the recruitment of employees. Among them, the NPOs with more financial resources are "Chang Gung Medical Foundation" and "Buddhist Tzu Chi Medical Foundation". The characteristics of this type of foundations are that it can only establish a medical business in Taiwan, and cannot invest abroad.

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 adopt a calendar year system and an accrual system. The legal documents for its financial income and expenditure shall conform to generally accepted accounting principles, and shall be preserved. Paragraph 2, the Medical foundations shall report to the central competent authority the annual financial report approved by the board of directors and approved by the supervisor within 5 months of the end of the year, so there are no rare or anonymous donations. Most of its funding sources are donated by cash, stocks and real estate, and more than 90% of its income sources are national health insurance, and the proportion of donors from high-risk jurisdictions are extremely low.

## 2. Educational Foundations

The Educational Foundations consist college, universities, high schools and vocational schools at all levels of school foundations, meaning private schools, and foundations for educational affairs, youth development affairs, sports affairs and academic research institutions. Until December 31, 2020, among the NPOs in charge of the Ministry of Education, there were 202 private schools, with total registered assets of approximately NT\$713.6 billion. There were 695 for educational affairs, 34 for youth development affairs, 30 for sports affairs, and 16 for academic research institutions affairs. The total registered assets of NT\$86.9 billion. The majority of these corporations are purely educational institutions or corporations engaged in educational and public welfare activities in Taiwan, and both are "type of service providing" and "type of performance activity".

Among them, the top two Educational Foundations with the total registered property of private schools are "China Medical University" and "Chang Gung University". The top two Educational Foundations with the total registered property of the them over the educational affairs, youth development affairs, sports affairs and academic research institutions are "Chang Rong-Fa Foundation" and "Chiang Ching-Kuo Foundation for International Scholarly Exchange".

The geographic scope of Educational Foundations is mostly within Taiwan. Only some NPOs have branch campuses in other countries, such as the United States. Some private school foundations have established sister schools with foreign or Mainland China universities.

The Ministry of Education is in charge of the business of private school foundations, which are mainly engaged in the operation of schools. The source of donations from the Educational Foundations includes donations from public, alumni, and enterprises. The donations received should be published in the relevant accounts. There is no anonymous donation. For education affairs, youth development affairs, sports affairs and academic research institutions to perform public welfare business, if it is necessary to have donated by individuals or other public welfare organizations, it should be handled in the name of the legal person, and the accounts should be recorded in accordance with relevant financial accounting principles.

### 3. Cultural Foundations

The main mission of Cultural Foundations is to promote the development of arts and cultural environment and activities in Taiwan. As of December 31, 2020, among the 194 foundations supervised by the Ministry of Culture, including those foundations established by government donations and private donations, there are 11 foundations whose government donations account for more than 50% of government donations. The total registered property is approximately NT\$16,861,764,318. After investigation, the total registered property of the 194 foundations affiliated to the Ministry of Culture is approximately NT\$35,031,430,002.

The nature of the main activity is "type of performance activity", but it also provides arts and cultural services. The scope of activities is mainly in Taiwan, and the foreign regions involved are mainly Japan, Europe and the United States. Among them, only 7% of foundations accept payments from abroad, and the most sources are from the United States, Mainland China and Singapore. Only 5.6% of legal persons provided funds overseas, and with the United States, Japan and Mainland China being the most common countries of outflow. Only 5.1% of foundations provide overseas plans and services, and the countries with the most cooperation are the United States, Japan and Mainland China. The top 3 foundations involved in international affairs are "the Cultural Taiwan Foundation", "Asian Cultural Council Taiwan Foundation", and "Sheen Chuen-Chi Cultural and Educational Foundation". These corporations are mainly engaged in promoting the development of the arts and cultural environment in Taiwan and organizing arts and cultural

## Chapter 9 Risk Assessment Results: Non-Profit Organizations

activities. Their service channels are mainly conducted in an open and transparent manner, such as online or physical announcements, and there are no rare complex and anonymous service channels. The main sources of donations are from the public and companies, including anonymous donations, which account for about 0.16% of the total donation amount.

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52. This data is limited to NPOs whose activity location is nation-wide, and does not include non-profit organizations whose activity location is regional.

## Chapter 10 Risk Assessment Results: Proliferation Financing

### Section 1 Introduction

In October 2020, FATF amended Recommendation 1 and its Interpretive Notes to require countries and private sector entities<sup>53</sup> to identify, assess, understand and mitigate the risks of PF. In the context of Recommendation 1 and FATF "Guidelines on the Proliferation Financing Risk Assessment and Mitigation"<sup>54</sup> released in June 2021, the risk of proliferation financing is strictly limited to the potential breach, non-implementation or evasion of the targeted financial obligations referred to in Recommendation 7<sup>55</sup>. Since the content of Recommendation 7 applies to all UN Security Council resolutions and subsequent resolutions related to weapons of mass destruction proliferation, and adopts a country-specific approach, for North Korea, UN Security Council Resolutions 1718 (2006) and its subsequent related resolutions<sup>56</sup> are applied. For Iran, the UN has terminated the provisions of the previous relevant resolutions through Security Council Resolution 2231 (2015) in 2015<sup>57</sup>, and applied the Joint Comprehensive Plan of Action (JCPOA) approved by the resolution, which retains targeted financial sanctions such as relevant designated individuals and entities. On this basis, Recommendation 7 requires countries to freeze their funds or other assets without delay and to ensure that no funds or assets are made available, directly or indirectly, to or for the benefit of (a) any person or entity designated by the UN, (b) persons or entities acting on their behalf or at their direction, (c) those owned or controlled by them.

This risk assessment is based on the requirements of FATF, mainly assessing PF risk involving North Korea and Iran, while at the same time taking into account other broader PF risks, so as to have a more in-depth and comprehensive understanding and identification of the full picture of PF risk in Taiwan.

### Section 2 Threat of Proliferation Financing

In the five years from 2017 to 2021, law enforcement agencies in Taiwan had investigated 10 cases involving illegal transactions with North Korea, of which 8 were exporting oil products to ships suspected of being related to North Korea, while only one involved direct trading with North Korea's sanctioned ships. In 2018, Taiwan imposed targeted financial sanctions on Taiwanese citizens in 2 of these cases, one of which was voluntarily reported by law enforcement agencies following an investigation.

and designated sanctions after the resolution of the Taiwan TF review Committee, while in the other case, the sanctions were designated in accordance with the UN Security Council Resolution 1718. The total amount of assets frozen in these two cases had exceeded US\$3.96 million. As for Iran, the law enforcement authorities investigated 8 cases involving illegal transactions with Iran, all of which were cases of violation of trade laws by illegally exporting goods to Iran without applying for an export license in accordance with regulations. There are no targeted financial sanctions cases related to Iran.

### 1. North Korea

International literature<sup>58</sup> has pointed out that North Korea's activities in order to develop weapons of mass destruction include purchasing high-tech goods, selling coal, iron and other minerals, import above-quota petroleum products in excess of the limits imposed by the UN sanctions regime through "ship-to-ship" transfer, assigning North Korean laborers to work overseas to earn foreign exchange, attracting foreign investment to North Korea, hacking to steal funds, and selling fishery products and fishing rights. In the analysis of the existing investigation cases in Taiwan, the nature of activities that finance North Korea's proliferation is most commonly the delivery of oil by Taiwanese oil merchants to North Korean ships on the high seas.

Observations after 2018 show that petroleum products were the most common commodity traded by Taiwanese who committed PF. The most frequent actors were responsible individuals or the actual controlling company that submitted customs requests for export, which contained false export information. Examples include falsely listing non-sanctioned countries such as Hong Kong (relatively common), South Korea, Ishigaki Island in Japan, and Vladivostok in Russia. In reality, they delivered the petroleum products to the high seas, and then moved the products to ships registered in a third country, but liked to North Korea via ship-to-ship transfers. Most of these transactions were brokered by third parties, such as persons from Mainland China and Russia as intermediaries. According to the investigations, most of the actors involved in PF were traders or oil traders engaged in cross-border transactions. In addition to operating domestically established companies, they usually set up or substantially control at least one offshore company, e.g., registered in Hong Kong, British Virgin Islands, Marshall Islands and Samoa Islands, so their business structure has a certain degree of complexity. Moreover, the registered business of companies owned by actors is usually related to the retail or wholesale of coal, machinery, petroleum, metals, chemicals, fisheries, and oil, and it is usually easier than the average person

to obtain energy or other raw materials. As well, the actors often use their daily activities, such as the appearance of legitimate trade, to cover up their illegal trade behavior, and most actors have conducted more than one transaction with North Korea before being caught. And there are cases in which offshore accounts are used to transfer payment for goods. It was estimated that the perpetrators had obtained at least NT\$10 million in illegal proceeds from the expansion of their trading activities.

#### Case 1

Chen O-hsien is the actual person in charge of O Bunker Group in Taiwan. After purchasing oil, he commissioned an unsuspecting customs broker to make an export declaration, falsely filling in the export destination as Hong Kong, and then transported the petroleum products that should be unloaded in Hong Kong to the high seas near the East China Sea on two tankers. They were contacted by oil broker. After confirming that the ship that wanted to purchase oil remitted to the designated account of O Bunker Group, they delivered oil to North Korean ships, which were suspected of violating the UN Security Council, Resolution No. 2375 on sanctions against North Korea. The whole case was submitted to the Taiwan Kaohsiung District Prosecutors Office in Taiwan in April 2018 on the grounds that Chen O-hsien and others were suspected of violating articles 216 and 215 of the Criminal Code for circulating their business false making entry. The case was prosecuted in June 2018 and was convicted in April 2019 by the judgment of the Taiwan Kaohsiung District Court. This case was reported to the Ministry of Justice by the investigation agency to hold a "Taiwan TF review Committee" on January 12, 2018, and it was decided to announce that Chen O-hsien and others were targeted for sanctions. This case is the first time that the Ministry of Justice initiated targeted financial sanctions in response to the UN Security Council resolution on strengthening sanctions against North Korea after Taiwan has implemented the Counter-Terrorism Financing Act since July 2016.

Source: Ministry of Justice Announcement <sup>59</sup> and Taiwan Kaohsiung District Court 107 Year Jian Zi No. 4289 Criminal Summary Judgment

#### Case 2

Huang O gen, Wen O rong, Wu O bin and Liu O hong, knew that North Korea was subject to a series of sanctions by the UN Security Council for violating UN Security Council Resolution 1718 on the non-proliferation of nuclear weapons. In order to increase the profit of offshore oil transfer, regardless of the violation the resolution of the UN sanctions and Counter-Terrorism Financing Act of Taiwan, a joint agreement has been made to allow the Panamanian "Shang O Bao" tanker to trade with the North Korean sanctioned ships. After Wen O rong purchased oil products from Company A, on May 6, 2018, the oil tanker "Jin O Tai" declared to export 1,350 metric tons of oil, and registered the destination of the export declaration as Hong Kong, and then the cargo should be unloaded in Hong Kong. The oil products were transferred on the high seas to the tanker "Shang O Bao" whose actual owner was Huang O gen. On May 8 of the same year, Wen O rong instructed Wu O bin, the representative of the tanker owner of the "Shang O Bao" hired by him, to deal with the transfer of oil from the "Shang O Bao" tanker to the sanctioned North Korean tanker B. Wu O bin assigned the "Shang O Bao" oil tanker to transfer 1,317.5 metric tons of oil to the sanctioned North Korean national tanker B. Later, Huang O gen and others used the same method to transfer 1,479 tons of oil products to the North Korean tanker C, and the illegal profits totaled NT\$56.34 million. In October 2020, the Taiwan Kaohsiung District Court Prosecutor's Office directly provided the sanctioned list objects with the violation of Articles 216 and 215 of the Criminal Code for circulating their business false making entry and violating Article 9, paragraph 1, paragraph 1 of the Counter-Terrorism Financing Act.3 offshore companies registered in Hong Kong under the name of Huang O gen, the actor of PF in this case, opened different OBU accounts in several financial institutions. When reporting, the financial institutions provided the complete registration certificate of the offshore company, the register of shareholders and directors, which will help law enforcement agencies to clarify the establishment and capital transactions of offshore companies under Huang O gen's name. It can be seen that financial institutions' performance of customer due diligence and reporting complete information is crucial for public-private cooperation in combating capital expansion.

Source: Investigation Bureau, Ministry of Justice <sup>60</sup>

## 2.Iran

According to international intelligence, in order to develop weapons of mass destruction, Iran mainly purchases dual-use items and common military goods from third-country manufacturers through Iran or third-place middlemen and front companies through a complex proliferation procurement network. In order to fulfill its international social responsibilities and protect the import and export interests of manufacturers for Taiwan, in accordance with the UN Security Council and other relevant sanctions resolutions, has designated areas involved in proliferation and frequent terrorist activities, including Iran, as controlled areas<sup>61</sup>, and cooperated with the implementation of specific industries, goods, and related financial services.

The current cases in Taiwan related to Iran mainly involve Taiwanese manufacturers exporting unlicensed strategic high-tech goods<sup>62</sup> to Iran. These cases are purely violations of foreign trade act, and have not been found any case involve financing the proliferation of Iranian weapons, or there are no relevant targeted financial sanctions cases have been linked to Iran. In practice, the actors in such cases of violations of the foreign trade act are mainly traders of parts suppliers, electronic manufacturers, processing machine manufacturers, chemical manufacturers, and their business personnel who engage in transactions through supporters including domestic and foreign manufacturers and agents. By filling in false export declarations or exporting through third places to avoid foreign trade act control measures, most of the traded goods are the company's own products, for example: Chemical Oxygen Demand, referred to as the COD analysis, total suspended solids monitor, O<sub>2</sub> Sensor, Water Purifier or filter equipment and the parts, vertical machining center, Vertical Turning Lathe, CNC Horizontal machining lathe<sup>63</sup>, Electronic Control Unit, or other equipment and parts of filter element of liquid and air filtration are used as export goods. Common ways to circumvent foreign trade act are: (1) Transactions in secondary goods that do not meet the criteria of the export control list for dual-use and technologies common military list; (2) Declare the export under a non-controlled tariff code and attempt to clear the customs; (3) Change to use others name to declare export, change buyer's information to evade the inspection of the exporter's watch list; (4) evading customs inspection by disassemble machines and repacking them for export; (5) Circumventing control and exporting to Iran via a third place, for example, the goods are delivered to Dubai by sea, sent to Iran in the original container and delivered to Iran by another ship, or picked up by a local agent for customs clearance, and then the transport route is arranged to be transported to Iran; In practice, there are also cases of transactions using Singapore, Turkey, Iraq, Hong Kong, and Thailand as third places<sup>64</sup>. Although

there is no actual case of Taiwan PF of Iran, we cannot rule out the possibility that the perpetrators may have used the above methods to PF of Iran.

#### Case

Company A knew that vertical machining center, Vertical Turning Lathe, CNC Horizontal machining lathe, and other items are strategic high-tech commodities that Taiwan has explicitly controlled to export to Iran. However, they still conspired with Iranian company BCo.,Ltd to circumvent Taiwan's export control measures. From 2016 to 2019, it used false buyer information in the United Arab Emirates to declare for export, and then forwarded the sales of the previously disclosed commodities to Iran. The case is true after investigation, in August 2020, Lin O Peng was transferred to the Taichung District Prosecutor's Office of Taiwan for the crime of illegal export of strategic high-tech goods under the trade law, which was committed by the deputy manager of Company A. In August 2020, the prosecutors applied for summary judgment and sentencing to defendant Lin O Peng and others for violating foreign trade act. In January 2021, the Taichung District Court in Taiwan sentenced Lin O Peng to 6 months in prison.

Source: Taiwan Taichung District Court 109 Year Zhong Jian Zi No. 2777, Criminal Summary Judgment

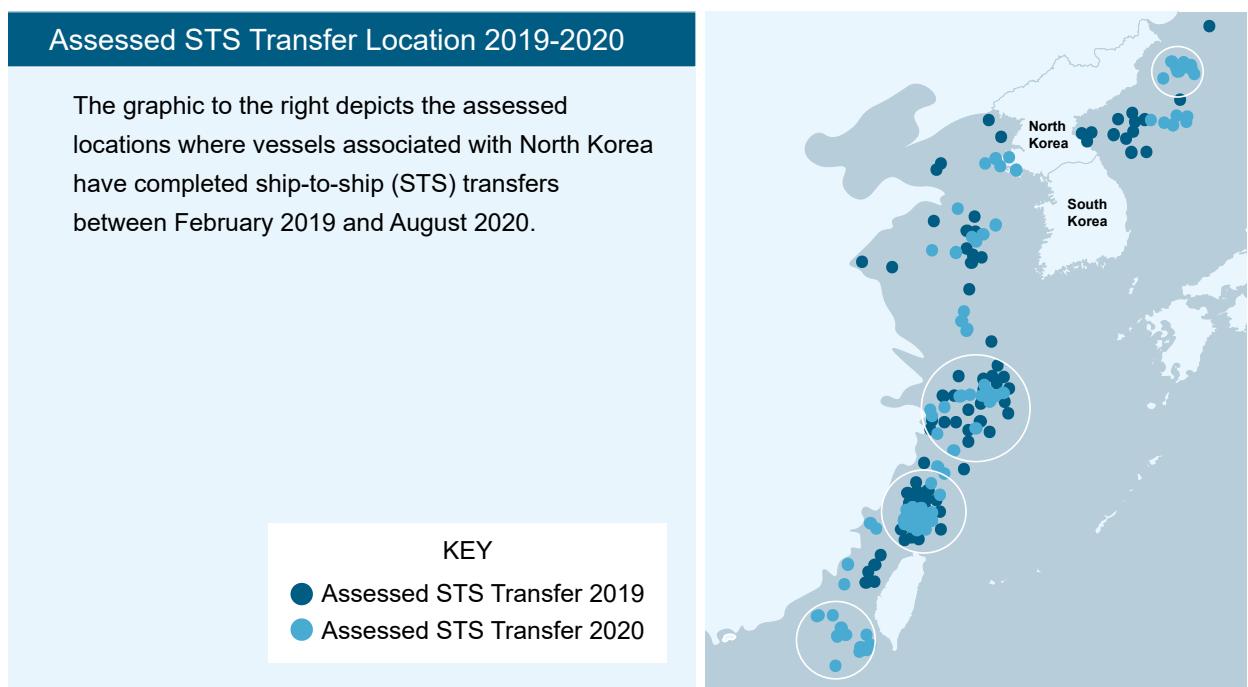
## Section 3 Vulnerabilities of Proliferation Financing

### 1. Geographical Factors

#### (1) North Korea

Taiwan is surrounded by sea on all sides, with the Pacific Ocean to the east, the Taiwan Strait to the west, and the Bashi Channel to the south. It is located in the center of the East Asian island arc. It is the main route of sea and air transportation in the Asia-Pacific region. The U.S. Department of State, Treasury and Coast Guard's March 21, 2019 announcement on North Korea sanctions "Updated Guidance on Addressing North Korea's Illicit Shipping Practice<sup>65</sup>" stated: "North Korea's ship-to-ship oil transfer at sea mainly occurs in the East China Sea, the Yellow Sea, and the Korean Gulf. In addition, the ports that ship-to-ship transfers of refined petroleum have called before and after include Taiwan's Taipei Port, Keelung Port, Taichung Port and Kaohsiung Port." This and RUSI's March 2021 "Black Gold: Exposing North Korea's Oil Procurement Networks<sup>66</sup>" research report states: "The Economic Zone (EEZ) adjacent to Taiwan's territorial waters is a key area where relevant actors transfer smuggled petroleum products to North Korea by means of ship-to-ship fuel transfer". The September 2021 UN experts report of the UN Security Council Security Council Sanctions Committee (1718 Committee) also shows that, from 2019 to 2020, there have been many illegal ship-to-ship fuel transactions related to North Korea in the western waters of Taiwan. And some nationals may be involved in the case, refer to the ship-to-ship transaction location map below. It can be seen from this that geographical location of Taiwan is just in the important connection area of North Korea's foreign shipping, and because Taiwan is a trade-oriented economy, the marine

fuel industry and related industries of strategic high-tech commodities are well developed. Furthermore, Taiwan is surrounded by sea on all sides, and its geographical area is located in the shipping hub of Northeast Asia, Southeast Asia, and Mainland China, proximity to a proliferating country, such as North Korea, or a country or region of its neighboring jurisdiction, such as Mainland China. Moreover, The oil prices in Taiwan are known for their cheapness in East Asia, therefore, it is more conducive for actors to use Taiwan's geographical location as a transshipment point for participating in related illegal activities.



Source: September 2021 UN Security Council Resolution 1718 Sanctions Committee Panel of Experts report  
The September 8, 2021 UN Security Council Resolution 1718 Sanctions Committee Panel Report (S/2021/777) pinpoints the location of North Korea-related ship-to-ship oil transactions.

### (2) Iran

Since Iran is located in the Middle East, it is relatively distant from Taiwan. Taiwan has found that most of the controlled goods intended to be exported to Iran are still exported by sea, and are carried to the destination port by other vessels via a third place or a transit port. Since some countries in the Middle East are more open to controlling the flow of Iranian commodities. At a time when Iran was subject to US economic sanctions and international express shipments to Iran were suspended, there are still some countries that offer private mailing services by way of bulk carriers to Iran. For the commodities exported from Taiwan to the Middle East, although the export terminal is reported to other Middle East countries other than Iran, it is difficult to trace whether the subsequent flow of cargos to Iran.

### (3) Mainland China

According to data from the Global Information Network<sup>67</sup> of the Taiwan External Trade Development Council, referred to as the TAITRA, Mainland China was North Korea and Iran's largest trading partner from 2018 to 2019. The border between Mainland China and North Korea is 1,420 kilometers long. Both countries are under the rule of the Communist Party. The border control is strict, and outsiders cannot easily access the border area between Mainland China and North Korea, resulting in extremely low transparency of related transactions. The relevant report of the UN Security Council Resolution 1718 Sanctions Committee Panel of Experts from 2018 to 2021 pointed out that, Mainland China has a relatively negative attitude towards dealing with illegal activities in violation of UN Security Council sanctions; In addition, the FATF released the Mainland China Mutual Assessment Report<sup>68</sup> in April 2019, which included targeted financial sanctions on proliferation, technical compliance was rated as "non-compliant", performance evaluation was rated as "low-level of effectiveness", indicates that Mainland China is relatively conservative in its attitude toward combating TF and PF.

Taiwan is geographically close to Mainland China, and has frequent economic and trade exchanges with Mainland China. Observing that from 2021, Taiwan's top 5 exporting countries are Mainland China (28.1%), the United States (16%), the ASEAN (15.2%), Hong Kong (13.2%) and the 27 EU countries (7.3%). Also refer to gross export value of Taiwan was US\$41.6 billion in November 2021, of which exports to Mainland China and Hong Kong were US\$17.139 billion, accounting for 41% of the total export value. And the export integrated circuit products account for 51.2%, or 8.78 billion US dollars, which are the majority<sup>69</sup>. In the financial cooperation with Mainland China, as of the end of December 2020, in the banking sector, Taiwan has approved 16 domestic banks to set up branches, or sub-branches, and subsidiaries in Mainland China, including 24 branches, 8 sub-branches and 5 subsidiary banks have opened and 4 offices have been established. The China-funded bank in the Taiwan, 3 branches have been opened and 2 offices have been set up. As of the end of December 2020, in the currency management section, the number of domestic banking units and offshore banking units conducting RMB business is 65 branches and 57 branches respectively. The balance of RMB deposits (including negotiable time deposit certificates, NCDs) totaled RMB 244.489 billion (approximately USD 38.413 billion). In December 2020, the total amount of RMB settlement handled by all banks through the Bank of China Taipei Branch was RMB 473.2 billion, approximately US\$ 74.348 billion<sup>70</sup>. All of this shows that Taiwan has close economic and trade exchanges with Mainland China, and we should pay special attention to the problems faced by the PF related issues to Mainland China.

## 2. The Political and Social Factors

Taiwan has a high political will to crack down on PF and has made it a political priority. In order to actively cooperate with international actions, the specific actions Taiwan to countering PF include first formulating and promulgating the Counter-Terrorism Financing Act on July 27, 2016, regulating targeted financial sanctions against terrorist, terrorism and proliferation. Subsequently, in order to implement the relevant resolutions of the UN Security Council, the Fisheries Agency, Council of Agriculture, Executive Yuan announced on May 12, 2017 that the employment of North Korean crew members was completely prohibited. Implement the strictest control measures.

Therefore, since 2018, the import and export trade volume between Taiwan and North Korea has been zero, and there has been no trade exchange. In addition, in order to jointly prevent the proliferation of weapons of mass destruction with the international community. Furthermore, Taiwan referring to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Good and Technologies (WA), Missile Technology Control Regime(MTCR), Nuclear Suppliers Group (NSG) and the Australia Group (AG) four major to made the "Taiwan's the export control list for dual-use and technologies common military list and Common Military List" established by the Export Control Organization, It also formulated a "Sensitive Commodities List" for North Korea and Iran to strengthen export management of goods<sup>71</sup>.

As for exchanges with North Korean, Taiwan classifies North Korea as a second-category border control country. For North Koreans who plan to visit Taiwan, they must apply for a visa at our foreign embassy, and they can only be issued with the approval of the Ministry of Foreign Affairs, Republic of China (Taiwan). Moreover, Taiwan has taken the initiative to cooperate with the relevant resolutions of the UN Security Council, and usually strictly scrutinizes North Koreans who come to Taiwan for the purpose of participating in sports events. In addition, Taiwan currently does not have a representative office or related exchange authority established by North Korea. According to statistics from the Ministry of Foreign Affairs, no North Korean students have come to Taiwan or studied in fields such as nuclear energy engineering for Taiwan scholarships, visiting scholars and business delegations.

As for Iran, Taiwan is currently moving Iran from a third-category border control country to a second-category country. Currently, it has suspended the acceptance of Iranian business online electronic visas. Iranian citizens entering Taiwan are limited to foreign spouses, foreign students,

recipients of Taiwan Scholarship and Huayu Enrichment Scholarship Program and other special cases approved under the "Strict Border Control" measures to apply for a special entry permit. Entry applications are still suspended. Also, although there are currently Iranian international students studying in Taiwan, there is no Iranian studying in the fields such as nuclear energy engineering.

### 3. Legal and Institutional Factors

(1) Legislation and related measures <sup>72</sup> on combating the PF, and the implementation of targeted financial sanctions and FATF standards (especially Recommendation 7 and Immediate Outcome 11) of the UN Security Council resolutions

With reference to the UN International Convention for the Suppression of the Financing of Terrorism <sup>73</sup> and FATF Recommendations 6 and 7, countries should follow the Security Council resolutions on Suppressing the Financing of Terrorists, Terrorism and related prevention and stop the proliferation of weapons of mass destruction, and implement targeted financial sanctions to freeze the assets of the sanctioned objects designated by the relevant resolutions. Based on this, the implementation of targeted financial sanctions against TF and the PF in Taiwan is regulated in the Counter-Terrorism Financing Act, and the competent authority is the Ministry of Justice. Relevant regulations include designated sanctions procedures, announcement procedures, asset and economic resource restrictions, notification and related remedies for sanctioned targets. Regarding the types of sanctions, according to Articles 4 and 5 of the Counter-Terrorism Financing Act, sanction can be divided into two categories: "approval sanctions" and "designated sanctions". The resolution of Taiwan TF review Committee, which announced sanctions for the UN Security Council resolution

1."Approval sanctions": In accordance with Article 4, Paragraph1 of the Counter-Terrorism Financing Act, for crimes involving terrorist activities and the requirements of international treaties or agreements related to the prevention and control of terrorism, or the implementation of international cooperation or relevant UN resolutions. If it is deemed necessary to designate sanctions for an individual, legal person or entity, the Ministry of Justice may request to convene a review committee according to the report of the Investigation Bureau or under its own authority. The review committee adopts the mechanism of joint research and discussion between ministries and committees. The minister of the

Ministry of Justice serves as the convener, and the rest of the committee members are the National Security Agency, the Ministry of the Interior, the Ministry of Foreign Affairs, the Ministry of National Defense, the Ministry of Economic Affairs, the Central Bank of the Republic of China (Taiwan), the Financial Supervision Commission and other economic authorities' deputy chief of the authority designated by the Executive Yuan. Any individuals, legal persons or entity may only be designated on the sanction list and published<sup>74</sup> after the resolution of the review committee; if they are designated as the sanctions list according to the resolution of the review committee, their delisting must also be approved by the resolution of the review committee.

2."Designated sanctions": According to Article 5 Paragraph 1 of the Counter-Terrorism Financing Act, regarding the UN Security Council Resolutions related to terrorism and any successor resolutions on TF, or as designated by the resolution on the prevention and suppression of the proliferation of weapons of mass destruction, the Ministry of Justice shall immediately designate sanctions<sup>75</sup> upon reporting to the Investigation Bureau or under its own authority. The delisting of such sanctions must be announced by the delisting procedures of UN Security Council, and then Ministry of Justice can proceed with the follow-up delisting procedure of our country.

In accordance with Article 7 Paragraph1 of the Counter-Terrorism Financing Act, the legal effects of the sanction list include: It is prohibited to carry out any financial transactions, transfer or change their property and property interests with the sanctioned objects designated by Articles 4, Approval Sanctions, and 5, Designated Sanctions, of the same Act, and prohibit third parties from sponsoring the sanctioned objects. With reference to FATF Recommendation 7, paragraph 2(b), the scope of the targeted financial sanctions freezing obligation includes: (1) All funds or other assets owned or controlled by a designated person or group, not limited to those involved in a specific proliferation operation, conspiracy, or threat; (2) Funds or other assets directly or indirectly, wholly or jointly owned or controlled by the designated person or group; (3) Funds or other assets derived from funds or other assets directly or indirectly owned or controlled by the designated person or group; (4) Funds or other assets executed on behalf of or at the direction of a designated person or group, which demonstrates the wide scope of the frozen assets. Based on this, Article 7, Paragraph 2 of the Counter-Terrorism Financing Act, amendment passed on November 7, 2018 provides that the scope of frozen assets shall also include property or interests in property held or managed for a

designated sanctioned individual, legal entity or body by a third party by appointment, commission, trust or other reason. In addition, financial institutions and designated nonfinancial businesses or professions shall, in accordance with Article 7, Paragraph 3 of the Counter-Terrorism Financing Act, know that they own or manage the property or property of individuals, legal persons or groups subject to designated sanctions due to business relationships, paragraph 1, and the property or property of an individual, legal person or group designated for sanctions, paragraph 2, shall immediately report to the Investigation Bureau, Ministry of Justice, which means that it is obliged to report the property subject to sanctions.

In addition, in accordance with Article 11 Paragraph 1 of the Money Laundering Control Act, when financial institutions and designated nonfinancial businesses or professions handle transactions involving high-risk ML/TF countries or regions, the competent authority may order them to strengthen the measures for confirming customers' identification for relevant transactions (paragraph 1); Restricting or prohibiting financial institutions, designated non-financial undertakings or persons from high-risk ML/TF countries or regions to remittances or other transactions (paragraph 2); Take other necessary preventive measures that are commensurate with the risk and effective (paragraph 3), for the corresponding review or other necessary measures. In addition, for suspicious transactions suspected of ML/TF/PF, according to Article 10 of the Money Laundering Control Act, financial institutions and designated non-financial enterprises or persons are obliged to report to the Anti-Money Laundering Division, AMLD, of Investigation Bureau of the Ministry of Justice, which is the Financial Intelligence Center, FIU, of Taiwan.

In summary, Taiwan currently has formulated relevant legislation and supporting measures in place to combating the TP. In identifying and designating domestic personnel and entities that may be involved in evading the sanctions, the requirements of the FATF that targeted financial sanctions should be implemented without delay have been met. In view of the fact that after the implementation of the Counter-Terrorism Financing Act, there have been 2 targeted financial sanctions cases involving TF. In practical operation, financial institutions and designated nonfinancial business or professionals have a certain level of familiarity with freezing and reporting sanctioned property in accordance with the Counter-Terrorism Financing Act. With respect to the two targeted financial sanctions cases, Taiwan has taken more than 80 freezing actions related to PF in 2018, freezing the assets of the sanctioned objects, including 2 designated persons and 6 designated, entities equivalent to approximately US\$3.96 million, indicating that Taiwan has

established a proper operational and coordination mechanism at the policy and enforcement level combating PF.

At present, although Taiwan has targeted financial sanctions and criminal penalties for acts of PF in violation of UN resolutions (Article 9 of the Counter-Terrorism Financing Act), however, whether the requirements for criminal punishment are too strict in application is still open for discussion. Furthermore, in terms of publicity and private sectors' publicity, although financial institutions and designated nonfinancial business or professionals supervising authorities continue to provide education and training on ML, TF, and PF every year, compared with ML and TF in terms of risk awareness, the feedback provided by the supervised departments on the actual crackdown on PF is relatively limited. The main reason is that Taiwan still focuses on ML in relevant publicity.

### Case

On March 30, 2018, the UN Security Council designated 1 individual and 21 companies pursuant to Resolution 1718. The list of other individuals and legal persons identified by the Investigation Bureau, Ministry of Justice include offshore companies Pro-Gain Group Corporation (registered in the Samoa Islands) and Kingly Won International Co., Ltd. (registered in the Marshall Islands) owned by Taiwanese whose name Tsang O Yuan have. The Investigation Bureau, Ministry of Justice also found that Tsang O Yuan was suspected of assisting North Korea in illegally obtaining coal and crude oil. The new UN list entered into force in Taiwan within 6 hours. The Ministry of Justice also issued official documents to financial institutions and designated non-financial business or person competent authorities, and issued a press release on the Ministry of Justice website urging the implementation of targeted financial sanctions. Following the announcement of the sanctions list, financial institutions declared frozen assets of sanctioned persons and entities, with approximately 30 freezing actions estimated to be worth approximately \$1.08 million. This case shows that my country's implementation of targeted financial sanctions on capital and arms expansion has reached the requirements of the FATF to implement the UN's new designation list and conduct asset freeze actions without delay.

Source: 2019 Chinese Taipei Mutual Evaluation Report<sup>76</sup>

### (2) International cooperation

Since PF cases are often accompanied by the transfer of cargo and cash flows, and some transaction patterns often occur in ship-to-ship transfers on the high seas, with the characteristics of transnational criminal acts, multiple jurisdictions make criminal investigations more difficult. Since the ship-to-ship transaction at sea or the export of goods to a third place is different from general crimes, evidence can be collected in domestic, and most of these cases rely on international cooperation for investigation. However, due to limited diplomatic and political factors, Taiwan has not been able to participate in international organizations such as the UN and related international conferences. In addition to having few formal interaction

platforms with other countries, Taiwan has relatively few opportunities to have a good knowledge and exchange with emerging types of crimes. Taiwan has no diplomatic relations with most countries and has failed to sign agreements on mutual legal assistance, resulting in limited channels for international cooperation. Even so, Taiwan is still striving to cooperate and share intelligence with international alliances in other ways, and to introduce international resources to enhance and build the expertise of domestic law enforcement authorities in investigating and handling such cases, so as to jointly combating PF. The current status of international cooperation it is still possible to obtain assistance and appropriate responses from international alliances.

### (3) Law enforcement capability

In order to combat transnational crimes, countries usually establish close cooperation with the "source country" or "demand country" of the crime. However, in contrast to traditional criminal types, in the illegal WMD trade with North Korea, no country has the opportunity to obtain relevant information from North Korea, regardless of whether North Korea is acting as a "source country" or a "demand country" for sanctioned commodities. This is a common challenge that countries must face in dealing with North Korea's illicit trade in weapons of mass destruction.

Since 2018, Taiwan's law enforcement authorities have had experience in cooperating with international alliances to investigate cases of financing North Korea's proliferation, and they have also learned about some North Korean cyberattacks. But, when Taiwan's law enforcement agencies were investigating some cases of PF, they found that if the North Korean ships receiving oil transfer were not included in the sanctions list announced by the UN Security Council, there is a challenge to how to prove that the perpetrator has the intention to terrorist proliferation knowingly in violation of the relevant resolutions of the UN sanctions. In addition, it is more difficult to investigate and collect relevant facts and evidence in such cases, so it may be more difficult to apply the Taiwan's Counter-Terrorism Financing Act. In practice, it is often reported on the crime of violating the Business Entity Accounting Act and filling in false accounting documents and the to apply the act of make in documents an entry which such a person knows to be false in Criminal code, resulting in limited deterrence. Furthermore, regarding the case type between Taiwan and Iran, since no case has been found to be directly related to the financing of Iran's terrorist proliferation, also there are no targeted financial sanctions cases related to Iran. Most of the cases are still

mainly about Taiwanese manufacturers exporting unlicensed strategic high-tech goods to Iran, so they are all investigated as violations of foreign trade laws.

### Case

Qiu O Tang and others have long-term joint ventures in the marine fuel station business, instruct employees, captains and representatives of ship owners to falsely fill in the export destination port as Hong Kong or Ishigaki Island port in Japan in the export declaration, vessel voyage direction list, commercial invoice and other documents. In fact, petroleum products were loaded from Taichung Port through ships such as the "POLARIS", and after leaving the port, the diesel oil was transferred on the high seas and sold to North Korean ships and ships of other nationality. On May 24, 2018, the UN Security Council discovered and seized a photo of the vessel "POLARIS" transferring oil to North Korea-registered ship A in the East China Sea, suspected of violating the UN Security Council Resolutions 2375 and 2397 on the oil embargo against North Korea. The case was reported to Taiwan for investigation by international alliances, and was transferred to the Taichung District Prosecutor's Office in Taiwan in February 2019 for investigation. During the investigation, Qiu O Tang and others argued that they had never transferred oil to North Korean ships, nor did the relevant customs declaration documents require that the destination be "high seas". The target of its oil product transaction was a person from Mainland China who claimed to be "Xie O Qing" and the other buyer whose identity was unknown. Qiu O Tang and others claimed that after comparing the photos of the oil transfer at sea in this case, the ship was similar to the oil transfer of the North Korean ship. The appearance features of the tanker do not match the "POLARIS". The case was prosecuted by the prosecutor for forging documents and violating the Business Entity Accounting Law in August 2019, and the judgment of not guilty by the Taichung District Court in Taiwan in May 2020.

Analyzing this case, because the North Korean-registered ship A that accepted the oil transfer was not included in the sanctions list announced by the UN Security Council, it was difficult to prove that the defendant and others had the subjective intention of violating the Counter-Terrorism Financing act. In addition, the investigation and trial process also highlights that it is not easy to collect evidence in high seas ship-to-ship oil transfer cases, and whether my country's administrative controls on high seas transactions are complete is still worth studying.

Source: Supreme Court 110 Year Taishang Zi No. 3206 Criminal Judgment

## 4. Economic and Technical Factors

### (1) Economic and trade status

As of November 2021, the number of registered import and export manufacturers in Taiwan was 326,816. In the global export section, according to the International Trade Bureau of the Ministry of Economic Affairs <sup>77</sup>, the export value in November 2021 was 41.576 billion US dollars. Among them, integrated circuits accounted for 34.7% or 14.42 billion US dollars, petroleum, excluding crude oil, and oils derived from bituminous minerals accounted for approximately 2.6% or US\$1.06 billion.

#### 1. North Korea

Taiwan and North Korea have no formal diplomatic relations all the time, but still keep the trade relations. According to the statistics of the Korea Trade and Investment Promotion Corporation (KOTRA) quoted by the Taiwan External Trade Development Council <sup>78</sup>, Taiwan was North

Korea's sixth largest trading partner from 2011 to 2015. In 2016, it was the 8th largest trading partner. On September 25, 2017, Taiwan announced a total ban on bilateral trade with North Korea, citing North Korea's successive missile launches and nuclear weapons tests as a serious threat to international order and national security, and in line with the international community's joint efforts to maintain regional stability and order, led by the UN. Therefore, since 2018, the import and export volume between Taiwan and North Korea has been zero, and there has been no trade between the two sides.

## 2. Iran

In order to assist Taiwanese manufacturers in trading with Iran legitimately, Taiwan established the "Taiwan-Iran payment clearing mechanism" in 2011 to help Taiwanese manufacturers to obtain payment for goods. However, on October 16, 2018, the US Treasury Department placed Parsian Bank, an Iranian management bank in Taiwan's "Taiwan-Iran payment clearing mechanism", on the designated sanctions list on the grounds of financing terrorism. Furthermore, the aforementioned mechanism has ceased to operate. In addition, after the United States withdrew from the UN Comprehensive Joint Plan of Action on November 4, 2018, it has resumed all sanctions against Iran. The lack of financial service channels has made it almost impossible for Taiwanese traders to obtain payment for goods. Therefore, the trade between Taiwan and Iran came from 2018. Since the end of the year, the trade volume has dropped sharply to 1/10 of the previous trade volume, and the trade volume accounts for a relatively small proportion of Taiwan's total trade volume. In addition, the export licenses issued to Iran by the International Trade Bureau of the Ministry of Economic Affairs are not up to the level of dual-use controlled goods, mainly low-sensitivity goods (such as computer panels, network connectors). After obtaining the license, the export of Iranian goods accounted for a very low proportion of Taiwan's total exports.

### (2) Virtual asset service provider industry

The report of the Panel of Experts of the UN Security Council Resolution 1718 Sanctions Committee (S/2019/691)<sup>79</sup> observed that, North Korea's extensive and increasingly sophisticated use of cyber means to steal funds, launder stolen proceeds and generate revenue from financial institutions and virtual asset exchanges around the world. It is also used to circumvent financial sanctions. The number, sophistication and scope of such tactics have increased since 2008, including a clear shift in 2016 to a revenue-generating focus on attacks

against network/virtual asset service providers. The shift has allowed North Korea to generate revenue that is often harder to track and less supervised than the traditional banking sector. According to the 2021 report of the UN Security Council Panel of Experts (S/2021/211)<sup>80</sup>, from 2019 to November 2020, the total value of virtual assets stolen by North Korea has reached as high as 316.4 million US dollars.

The top two exchanges in Taiwan of the virtual asset service provider industry are MaiCoin and BitoPro. According to the statistics of Taiwan's law enforcement authorities, in recent years, this industry has been more frequently used for ML (for details, please refer to Chapter 6, Section 2, Industry/sector Money Laundering and Financial Terrorism Vulnerability Assessment Results). Although no specific cases of criminals using Taiwan's virtual asset service provider industry to provide the PF have not yet been found, however, in view of the fact that the industry has not yet established a legal competent authority, the relevant regulatory framework and supervision intensity have not reached international standards, and at this stage, it has not been able to fully grasp its exact scale and the scale and type of user groups domestically. Moreover, it has also been confirmed internationally that designated persons and entities, including North Korea, use virtual assets as a means of evading sanctions. Therefore, there is still a potential risk of being exploited in this industry.

### (3) Marine or cargo insurance or reinsurance industry

After investigation, the insurance industry in Taiwan has not underwritten marine, cargo insurance or reinsurance services of North Korean and Iranian companies. No funds have flowed to sanctioned entities for cases currently covered by insurance companies. Property insurance companies will check whether they are sanctioned objects before underwriting ship or aircraft. In the case of a sanctioned person, underwriting is not granted. At the time of underwriting, the insurance company agrees with the additional clauses for the exclusion of international sanctions. Because the insurance company must start the claim settlement only when it meets the agreed insured event, and the property insurance is of the nature of compensation for damage, the insurance period is usually one year, so the risk of terrorist PF expansion of the domestic insurance industry in Taiwan is relatively low.

### (4) Other financial services institutions

Accounts held by foreigners in Taiwan may be at risk of being used for illicit cash flows. Due

to the difficulty of conducting due diligence on such account holders or imposing criminal sanctions on individuals outside our jurisdiction, it also increases the risk of such accounts being used for illegal financing. Therefore, financial institutions and designated non-financial enterprises or persons conduct customer due diligence and related risk deduction measures are very important. And appropriate measures should be considered, to identify risks in foreign accounts held by foreigners, nationals of high-risk jurisdictions, and diplomatic and embassy staff.

In addition, Correspondent bank makes it easier to move money internationally, it is relatively difficult to obtain customer due diligence information. Therefore, there is a high risk of illegal financial activities in the relationship between Correspondent banks. It has been found that the proliferation network abuses the complex relationship of Correspondent banks to undermine the financial acts and regulations of various countries internationally. Therefore, Taiwanese financial institutions should also pay special attention to the risks in this part.

#### (5) Free trade zone

Taiwan currently has 6 seaports and 1 airport free port zone. There are Port of Keelung free trade zone, Port of Taipei free trade zone, Port of Suao free trade zone, Port of Taichung free trade zone, Port of Anping free trade zone, Port of Kaohsiung free trade zone and Taoyuan international airport free trade zone. According to the analysis of investigation cases by law enforcement authorities in recent years, it was found that there were at least 5 cases where the actors in the case of terrorist PF used the free trade zone to conduct fuel oil transactions. Therefore, we should also pay more attention to and deal with the vulnerabilities of this part.

### 5. Legal Persons and Legal Agreements

In 2018, Taiwan carried out a series of reforms to the Company Act, mainly in the areas of substantial Beneficial Ownership of Legal Persons, control rights, governance and transparency. In order to improve the situation in which financial institutions and designated non-financial enterprises or persons can obtain and hold information on substantive beneficial ownership, Taiwan has established a "Company Transparency Platform" to improve corporate transparency and provide stakeholders people to inquire about the information of major shareholders. In addition, through mechanisms such as financial institutions and designated non-financial institutions or personnel inquiries and troubleshooting, the correctness of relevant information can be timely reflected.

In addition, according to the results of Taiwan's third round of mutual evaluation of the APG, the 2019 Mutual Evaluation Report of Chinese Taipei has pointed out that Taiwan's norms of transparency in civil trusts are limited. In order to improve this deficiency, the Ministry of Justice is currently considering adding relevant provisions to the draft amendment to the Money Laundering Control Act.

In recent years, law enforcement authorities in Taiwan have investigated cases involving illegal transactions with North Korea. It has not been clearly found that Taiwanese perpetrators have used shell companies or front companies to carry out PF. However, cases of PF often involve offshore legal persons, such as paper companies, intermediary legal person institution of the third country or the cash flow from the legal person of the third country. Such situations make financial institutions and designated non-financial business or professionals still face some challenges in conducting customer due diligence on foreign legal entity customers and identifying whether the transaction objects and cash flows are related to sanctioned objects.

## Section 4 Risk Assessment Results of Proliferation Financing

The PF is a threat to regional security and social and economic stability. Although Taiwan is closely related to its geographical environment and economic and trade conditions, conducive to actors engaging in PF activities, especially PF activities against North Korea, however, the Taiwanese government has long been aware and foresee of this. Not only is it committed to improving relevant regulations and systems internally, but also externally, it is also striving to cooperate to combat PF activities internationally.

This risk assessment process has identified that the threat of PF in Taiwan is mainly from related activities involving North Korea. Other specific industries that may be involved or potentially utilized, such as vessel carriers, vessel rental, customs brokers, commodity suppliers, banker oil industry, and virtual asset service industries. Except for the virtual asset service provider industry, these industries are not currently the first line of defense against PF. Therefore, the awareness of combating the PF still needs to be improved, and we should continue to pay attention to the potential risks involved in the PF. In addition, the transparency of legal persons and legal agreements still has some challenges in identifying the beneficial ownership, and the feedback provided by the relevant public and private sectors is relatively limited. Therefore, financial institutions, designated non-financial business or professionals, and other industries that need

to implement targeted financial sanctions should continue to strengthen their understanding of relevant obligations. In addition, some regulations and measures related to the PF are still subject to discussion and revision. In view of this, the overall risk of PF in Taiwan is rated as "moderate" for North Korea and "low" for Iran.

## Chapter 10 Risk Assessment Results: Proliferation Financing

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53. This private sector entity system refers to financial institutions, designated non-financial enterprises or persons, and virtual asset service providers.
54. Source: Guidance on Proliferation Financing Risk Assessment and Mitigation, <https://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Proliferation-Financing-Risk-Assessment-Mitigation.pdf> (Last visited Date: 13 December 2021).
55. Note 1.  
Paragraph 1 of the updated recommendation does not cover the broader risk of PF, this is "risk of proliferation of weapons of mass destruction" and "risk of proliferation financing". "Risk of proliferation of weapons of mass destruction" refers to the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use goods used for non-legitimate purposes)."Proliferation financing" refers to the act of providing funds or financial services which are used, and their means of delivery and related materials (including both technologies and dual use goods used for non-legitimate purposes). Although not required by the FATF International Standard, an understanding of the risks of WMD proliferation and its possible financing may be helpful in understanding the violation, non-enforcement or evasion of targeted financial sanctions for PF, i.e. covered by the FATF International Standard arrow definition of risk of PF, and assist in the implementation of risk-based measures and targeted financial sanctions.
- Note 2.  
Risk of possible breach or non-enforcement of targeted financial sanctions: Refers to the risks that may arise from the acquisition of financial services and/or funds or other assets by named persons and entities. For example, these risks may arise from delays in notifying named information at the national level, lack of clear obligations by private sector entities, and failure by some private sector entities to adopt appropriate policies and procedures to deal with the risk of proliferation financing (For example, loose customer relationship building processes and Continuous Monitoring procedures, lack of employee education and training, ineffective risk management procedures, lack of adequate sanctions review systems, or irregular or inflexible review procedures, and a general lack of a culture of compliance). Risk of Avoiding Targeted Financial Sanctions: When named persons and entities work together to avoid targeted financial sanctions (for example, through the use of shell or front companies, joint ventures, nominee accounts, middlemen and other fraudulent/false intermediaries), the risks that may arise.
56. As of the publication of this report, the United Nations Security Council has followed up on North Korea-related resolutions, including resolutions 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016), 2321 (2016), 2356 (2017), 2371 (2017), 2375 (2017) and 2397 (2017).
57. The United Nations Security Council, through Resolution 2231 (2015), suspends previous resolutions on Iran, namely No. 1696 (2006), No. 1737 (2006), No. 1747 (2007), No. 1803 (2008), No. 1835 (2008), 1929 (2010) and 2224 (2015).
58. UNSCR 1718 Sanctions Committee Panel of Experts Report (UNSCR 1718 PoE Report).
59. Source: <https://www.aml-cft.moj.gov.tw/media/166629/> Ministry of Justice Fa Jin Zi Announcement No. 10700057550 on March 31, 107-1.pdf?-mediaDL=true (Last visited: December 11, 2021).
60. Source: Investigation Bureau, Ministry of Justice Annual Report 2020, p. 49, [https://www.mjib.gov.tw/FileUploads/eBooks/c395efda8e-6345c3bf43f423cd804989/Book\\_file/a89126cf4ea40c2aacadff43ae7e1f6.pdf](https://www.mjib.gov.tw/FileUploads/eBooks/c395efda8e-6345c3bf43f423cd804989/Book_file/a89126cf4ea40c2aacadff43ae7e1f6.pdf) (Last visited: December 11, 2021).
61. The restricted regions in Taiwan include: Iran, Iraq, North Korea, Sudan, Syria and some goods from Mainland China.
62. Strategic high-tech Commodities are roughly divided into 10 categories, including: Nuclear materials, facilities and equipment, Special materials and related equipment, Materials processing, electronics, computers, Telecommunications and information security, sensors and lasers, navigation and avionics, Marine, Aerospace and propulsion.
63. Computer Numerical Control (CNC for short).
64. Source: <https://www.trade.gov.tw/Files/PageFile/725771/109> Briefing material of briefing session on international sanctions and export control regulations.pdf (Last visited: December 10, 2021).
65. Source: [https://home.treasury.gov/system/files/126/dprk\\_vessel\\_advisory\\_03212019.pdf](https://home.treasury.gov/system/files/126/dprk_vessel_advisory_03212019.pdf) (Last visited: December 9, 2021).
66. Source: [https://static.rusi.org/project-sandstone-black-gold-web\\_0.pdf](https://static.rusi.org/project-sandstone-black-gold-web_0.pdf) (Last visited: 9 December 2021).
67. Source: <https://www.taitraesource.com/total01.asp> (Last visited: 9 December 2021).
68. Source: <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-China-2019.pdf> (Last visited: 9 December 2021).
69. Source: <https://cuswebo.trade.gov.tw/> (Last visited: December 10, 2021).
70. Source: Mainland Addairs Council Annual Report 2020, <https://www.mac.gov.tw/public/MMO/RPIR/book649.pdf> (Last visited: December 10, 2021).
71. For details of the relevant list, please refer to the website of the Bureau of Foreign Trade, Ministry of Economic affairs (website: <http://www.trade.gov.tw>).
72. Source: Investigation Bureau, Ministry of Justice Annual Report2019, p.50-72.
73. Source: Fifty-fourth session (mjib.gov.tw) (Last visited: 14 December 2021).
74. The sanction case against Taiwanese nationals by Chen Shih-Hsien was designated as a sanctions list and announced in accordance with the resolution of this mechanism.
75. The sanction case against Tsang O Yuan, a Taiwanese, refers to those who imposed sanctions in accordance with Article 5 of the Terrorism Prevention and Control Law.
76. Source: <https://www.amlo.moj.gov.tw/1506/1507/15239/post> (Last visited: 11 December 2021).
77. Source: <https://cuswebo.trade.gov.tw/> (Last visited: 9 December 2021).
78. Source: The website of Taiwan External Trade Development Council, <https://www.taitraesource.com/total01.asp> (Last visited: December 9, 2021).
79. Source: UNSCR 1718 PoE Report (S/2019/691), <https://undocs.org/S/2019/691> (Last visited: 13 December 2021).
80. Source: UNSCR 1718 PoE Report (S/2021/211), p.56, <https://undocs.org/S/2021/211> (Last visited: 13 December 2021).

## Chapter 11 Future Planning

With the efforts of various public and private sectors to AML and combat TF, in October 2019, the APG announced the third round of mutual evaluation results as a "Regular Follow-Up List" level. This is the best result in the Asia Pacific region. Premier Su Tseng-chang of the Executive Yuan has repeatedly instructed Taiwan to continue to improve on the basis of this evaluation, ameliorate the lack of legal system, law enforcement and supervision, and optimize the system of AML, combating TF and the PF, in line with international standards. In line with the standards, Taiwan will be recognized by the international community in the fourth round of mutual evaluation of APG in the future.

However, since the outbreak COVID-19 pandemic at the end of 2019, it brings new challenges to Taiwan to against ML, combating TF and the PF. The current online transaction model increases the flow of capital across the borders, which in turn has led to the development of emerging technologies in financial payment tools and trading commodities. This change makes global transactions faster and easier. In response to this trend, for Taiwan to develop of new technologies and the use of new technologies, in order to achieved the goal of the AML and the fight against terrorism. In addition to encouraging the application of financial technology and setting up innovation parks to demonstrate Taiwan's emphasis on, and investment in the development of the financial technology industry, also actively establish relevant legal system.

After the previous national ML and TF risk assessment, Taiwan has continued to promote risk mitigation measures for the identified risks. For example, the supervisory agencies of designated non-financial business or professionals (six industries including attorneys, accountants, notaries, land administration agents and real estate brokers, bookkeepers and tax return filing agents, and jeweler shop) has successively completed the revision of relevant laws and regulations on the AML and the fight against financing terrorism. Make domestic laws and regulations consistent with the FATF international standards, and complete the supervision manuals and guidance manuals for AML and combating TF in various industries, so that industry sector and supervision agencies can follow. Furthermore, in order to strengthen the supervision of the third-party payment service provider, the Executive Yuan issued an order on August 18, 2021 to include the industry as a non-financial enterprise or person designated by the Money Laundering Control Act. Furthermore, in view of the fact that virtual assets are easily used by criminals as a ML channel, the Financial

Supervisory Commission also issued the "Regulations Governing Anti-Money Laundering and Countering the Financing of Terrorism for Enterprises Handling Virtual Currency Platform or Transaction" to strengthen the prevention and control of ML for virtual asset businesses and supervision of combating TF.

In addition to the previous assessment items, this national risk assessment report adds one threat assessment item and evaluates underground exchange independently from the third-party ML, and adds five new vulnerability assessments. A comprehensive review of the risks of ML, TF and PF can provide greatly help in the prioritization and resource allocation of risk mitigation measures. After the completion of this risk assessment, each public and private sector should plan sector and institutional risk assessments based on the results of this assessment, and provide individual assessment results and relevant feedback to complete national risk assessments. In the future, the Anti-Money Laundering Office of the Executive Yuan will continue to plan to assess the remaining risks of ML and TF, and formulate a national action plan for combating the PF. And in response to changes in domestic and foreign situations, it will be updated on a regular basis every 3 years, and the next risk assessment schedule will be in 2024. It is hoped that through the risk assessment process, our country will be able to make AML, combat TF, and the PF to keep improving, to truly implement the goal of "transparency in cash flows and eulogize in the world".

## Annex 1: Legal Framework for Anti-Money Laundering of Combating Terrorist financing and the proliferation financing of Taiwan

### Money LaunderingControl Related legislation

#### Acts

1.Money Laundering Control Act ( amended date: 2018-11-07 )

#### [Acts related to international cooperation]

- 2.Law of Extradition ( amended date: 1980-07-04 )
- 3.Act to Implement United Nations Convention against Corruption ( announced date: 2015-05-20 )
- 4.The Law In Supporting Foreign Courts on Consigned Cases (announced date: 1963-04-25 )
- 5.Mutual Legal Assistance in Criminal Matters Act ( amended date: 2018-05-02 )
- 6.Act Governing Relations between the People of the Taiwan Area and the Mainland Area ( amended date: 2019-07-24 )
- 7.Laws and Regulations Regarding Hong Kong & Macao Affairs( amended date: 2017-12-13 )
- 8.Tax Collection Act ( amended date: 2020-05-13 )

#### [Acts related to law enforcement]

- 9.Criminal Code of the Republic of China ( amended date: 2021-06-16 )
- 10.Code of Criminal Procedure ( amended date: 2021-06-16 )
- 11.Human Trafficking Prevention Act ( amended date: 2016-05-25 )
- 12.Trademark Act ( amended date: 2016-11-30 )
- 13.Waste Disposal Act ( amended date: 2017-06-14 )
- 14.Anti-Corruption Act ( amended date: 2016-06-22 )
- 15.Child and Youth Sexual Exploitation Prevention Act ( amended date: 2018-01-03 )
- 16.Controlling Guns, Ammunition and Knives Act ( amended date: 2020-06-10 )
- 17.Customs Anti-smuggling Act ( amended date: 2018-05-09 )
- 18.Narcotics Hazard Prevention Act ( amended date: 2020-01-15 )
- 19.The Smuggling Penalty Act ( amended date: 2012-06-13 )
- 20.Administrative Penalty Act ( amended date: 2011-11-23 )
- 21.Customs Act ( amended date: 2018-05-09 )
- 22.Police Power Exercise Act ( amended date: 2011-04-27 )
- 23.The Administrative Execution Act ( amended date: 2010-02-03 )
- 24.The Compulsory Enforcement Act ( amended date: 2019-05-29 )
- 25.The Communication Security and Surveillance Act ( amended date: 2018-05-23 )

#### [Acts related to law enforcement-Financial]

- 26.The Banking Act of The Republic of China ( amended date: 2019-04-17 )
- 27.Agricultural Finance Act ( amended date: 2017-01-18 )
- 28.The Act Governing Bills Finance Business ( amended date: 2018-12-05 )
- 29.The Credit Cooperatives Act Of The Republic Of China ( amended date: 2018-01-31 )
- 30.Act Governing Issuance of Electronic Stored Value Cards ( amended date: 2018-01-31 )
- 31.The Act Governing Electronic Payment Institutions ( amended date: 2021-01-27 )
- 32.Offshore Banking Act ( amended date: 2016-12-28 )
- 33.Foreign Exchange Regulation Act ( amended date: 2009-04-29 )
- 34.Financial Technology Development and Innovative Experimentation Act ( amended date: 2018-01-31 )
- 35.Postal Remittances and Savings Act ( amended date: 2014-01-29 )
- 36.Securities and Exchange Act ( amended date: 2021-01-27 )

## Annex 1: Taiwan's AML/CFT/PF Legal Framework

- 37.Futures Trading Act ( amended date: 2019-01-16 )
- 38.Securities Investment Trust and Consulting Act ( amended date: 2011-01-31 )
- 39.Insurance Act ( amended date: 2021-05-26 )
- 40.The Central Bank of the Republic of China (Taiwan) Act ( amended date: 2014-01-08 )
- 41.Trust Enterprise Act ( amended date: 2018-01-31 )

### **[Acts related to law enforcement-Non-Financial]**

- 42.Attorney Regulation Act ( amended date: 2020-01-15 )
- 43.Certified Public Accountant Act ( amended date: 2018-01-31 )
- 44.The Notary Act ( amended date: 2019-04-03 )
- 45.Land Administration Agent Act ( amended date: 2021-01-27 )
- 46.Real Estate Broking Management Act ( amended date: 2021-01-27 )
- 47.Certified Public Bookkeepers Act ( amended date: 2016-11-09 )

### **[Acts Related to Transparency of Legal Persons, Trusts, and Not Profit Organizations]**

- 48.Civil Code ( amended date: 2021-01-20 )
- 49.Company Act ( amended date: 2018-08-01 )
- 50.Trust Law ( amended date: 2009-12-30 )
- 51.Civil Associations Act ( amended date: 2021-01-27 )
- 52.Limited Partnership Act ( announced date: 2015-06-24 )
- 53.Medical Care Act ( amended date: 2020-01-15 )
- 54.Private School Law ( amended date: 2014-06-18 )
- 55.Charity Donations Destined For Social Welfare Funds Implementation Regulations ( amended date: 2020-01-15 )
- 56.Act of Supervising Temples ( amended date: 1929-12-07 )
- 57.Foundations Act ( amended date: 2018-08-01 )

### **Regulations and Directions**

#### **[Regulation related to international cooperation]**

- 58.Cross-Strait Joint Crime-Fighting and Judicial Mutual Assistance Agreement ( announced date: 2009-04-26 )

#### **[Acts related to law enforcement]**

- 59.Anti-Money Laundering Regulations for Cross-border Declaration and Reporting ( amended date: 2017-06-22 )
- 60.Regulations Governing Management and the Use of the Confiscated Property of Money Laundering Offenses ( announced date: 2004-07-28 )
- 61.Guideline for customs of delivery operations under drug control ( amended date: 2013-06-14 )

#### **[Acts related to law enforcement-Financial]**

- 62.Regulations Governing Anti-Money Laundering of Financial Institutions ( amended date: 2021-12-14 )
- 63.Regulations Governing Anti-money Laundering of Agricultural Financial Institutions ( amended date: 2018-12-27 )
- 64.Regulations Governing the Deposit Accounts and Suspicious or Unusual Transactions ( amended date: 2014-08-20 )
- 65.Directions Governing Banking Enterprises for Operating Foreign Exchange Business ( amended date: 2018-11-13 )
- 66.Regulations Governing Foreign Exchange Business of Banking Enterprises ( amended date: 2021-01-28 )
- 67.Regulations Governing Postal Remittances and Savings Operations ( amended date: 2019-01-28 )
- 68.Regulations Governing the Establishment and Administration of Foreign Currency Exchange Counters ( amended date: 2018-06-28 )
- 69.Rules Governing Offshore Banking Branches ( amended date: 2017-05-22 )
- 70.Regulations Governing Identity Verification Mechanism and Transaction Amount Limits of Electronic Payment Institutions ( amended date: 2021-06-30 )
- 71.Regulations Governing Anti-Money Laundering of Financial Leasing Enterprises ( announced date: 2018-06-20 )

#### **[Acts related to law enforcement-Non-Financial]**

- 72.Regulations on Anti-Money Laundering & Countering the Financing of Terrorism Operations Matters Conducted by Attorneys ( amended date: 2021-10-15 )

- 73.Guideline for Money Laundering Control Industry conducted by Attorneys ( announced date: 2017-06-28 )
- 74.Regulations Governing Anti-Money Laundering and Countering the Financing of Terrorism for Certified Public Accountants ( amended date: 2020-12-24 )
- 75.Regulations Governing Anti-Money Laundering and Counter-Terrorism Financing for Land Administration Agents and Real Estate Brokerages ( amended date: 2021-06-21 )
- 76.Regulations Governing Anti-Money Laundering and Counter-Terrorist Financing for Certified Public Bookkeepers and Bookkeeping and Tax Return Filing Agents ( amended date: 2021-01-11 )
- 77.Regulations Governing Anti-Money Laundering and Countering the Financing of Terrorism for Jewelry Businesses ( amended date: 2021-04-26 )
- 78.Regulations Governing Anti-Money Laundering and Counter-Terrorism Financing for Notaries ( amended date: 2021-01-25 )
- 79.Standards for Determining the Scope of Politically Exposed Persons Entrusted with Prominent Public Function, Their Family Members and Close Associates ( amended date: 2018-10-16 )
- 80.Regulations Governing Anti-Money Laundering and Countering the Financing of Terrorism for Enterprises Handling Virtual Currency Platform or Transaction ( announced date: 2021-10-15 )
- 81.Regulations Governing the Implementation and Report of Anti-Money Laundering and Countering the Financing of Terrorism for the Third-Party Payment Enterprises (draft) ( public comment period on 2021-11-29 )

#### [Acts Related to Transparency of Legal Persons, Trusts, and Not Profit Organizations]

- 82.Regulations on Disposal of the Financial Affairs of Social Associations ( amended date: 2020-12-29 )
- 83.Working guideline of social organization licensing ( amended date: 2020-05-22 )

## Terrorist Financing and Proliferation Financing Related legislation

### Acts

- 1.Counter-Terrorism Financing Act ( amended date: 2018-11-07 )
- 2.National Intelligence Service Law ( amended date: 2020-01-15 )
- 3.Immigration Act ( amended date: 2021-01-27 )
- 4.Civil Aviation Act ( amended date: 2018-04-25 )
- 5.Statute Governing Issuance of R.O.C. Visas in Foreign Passports ( amended date: 2003-01-22 )

### Regulations and Directions

- 6.Regulations Governing the Operation of Terrorism Financing Prevention Review Committee and the Sanction Measures and Restrictions ( announced date: 2017-09-14 )
- 7.Regulations Governing Reporting on the Properties or Property Interests and Locations of Designated Sanctioned Individuals or Entities by Financial Institutions ( amended date: 2018-11-14 )
- 8.Regulations Governing Agricultural Financial Institutions' Reporting on the Property, Property Interests and Location of the Property and Property Interests of the Designated Individual, Legal Person or Entity ( amended date: 2018-12-27 )

## Annex 2: Taiwan's AML/CFT/PF Competent Authorities

Agency name	Tasks related to anti-money laundering and combating terrorism financing and the proliferation financing	Total budget (Unit: 1,000 New Taiwan Dollars)
Anti-Money Laundering office, Executive Yuan	Coordinate Taiwan's AML, TF and PF policies and implementation strategies. Implement risk assessments for Taiwan's AML, TF and PF, and supervise and coordinate the national report of the Asia-Pacific Anti-Money Laundering Organization's mutual evaluation, local Evaluation and external coordination matters.	2018 : 27,698 2019 : 26,598 2020 : 22,525
Ministry of Justice	It is responsible for the formulation of policies and laws for Taiwan's AML, TF, and PF, the formulation of procuratorial policies for law enforcement agencies, and international criminal judicial cooperation. It is also the competent authority for the legal profession. The relevant internal units include the Prosecutors Department, the International and Cross-Strait Legal Department. The procuratorial offices at all levels are the main body of our country's criminal investigation and have the right to direct all judicial police agencies to investigate all predicate Crimes, ML crimes and TF crimes.	2018 : 1,272,880 2019 : 1,678,852 2020 : 1,819,285
Judicial Yuan	As the highest judicial authority in Taiwan, it is responsible for judicial policy, statistics on trial data of courts at all levels, and directly supervises the judicial administration of the Supreme Court, various high courts, intellectual property courts, and so on, as well as the supervision of notaries. The relevant internal units are civil Office and Criminal Office. All court officials at all levels Trials of predicate crimes, ML crimes and TF crimes.	2018 : 2,941,370 2019 : 3,090,573 2020 : 3,182,875
Investigation Bureau, Ministry of Justice	As a crime investigation and intelligence agency in Taiwan, it is responsible for maintaining national security and crime prevention, and is responsible for investigating major crimes, economic crimes, ML crimes and TF crimes. The relevant responsible internal units are the Economic Crime Prevention Division, the Integrity Division, the Drug Control Division and the International Affairs Division. In addition, the National Security Maintenance Division is in charge of the planning, guidance, coordination, investigation and assessment of counter-terrorism activities and counter-proliferation of weapons.	2018 : 5,566,435 2019 : 5,897,599 2020 : 5,655,462
Anti-Money Laundering Division, Investigation Bureau , Ministry of Justice	For Taiwan's Financial Intelligence unit, it is responsible for the research on strategies and regulations related to ML and TF; and implementation of STRs, large-value currency transactions, entry and leave of passengers or personnel serving on vehicles, and cargo delivery, courier, mail or other acceptance, analysis, processing and application of ML prevention articles delivered by similar methods; assisting in the investigation of ML cases by other domestic agencies and coordination and liaison with anti-ML business; and participating in international organizations and conferences, information exchange and transnational ML cases cooperative investigation and other international cooperation affairs.	Consolidated budgeting with the Ministry of Justice Bureau of Investigation
Agency Against Corruption, Ministry of Justice	ACC responsible for the implementation of anti-corruption and anti-corruption business, and to investigate corruption crimes and related ML activities.	2018 : 419,738 2019 : 464,216 2020 : 438,596
Administrative Enforcement Agency, Ministry of Justice	Compulsory enforcement of monetary payment obligations under public act.	2018 : 1,545,429 2019 : 1,456,921 2020 : 1,478,183

Agency name	Tasks related to anti-money laundering and combating terrorism financing and the proliferation financing	Total budget(Unit: 1,000 New Taiwan Dollars)
National Police Agency, Ministry of the Interior	As one of the main law enforcement authorities in Taiwan, its core mission is to maintain national security, social order and protection of important infrastructure, and has the authority to investigate all predicate crimes, ML crimes and TF crimes. The Criminal Police Bureau under its jurisdiction is my country's main contact unit with Interpol. The Criminal Police Bureau also has the Investigation Division, the Anti-Underworld Division, the Drug Investigation Center, the Fraud Prevention Center, the Economic Division and the International Division, which are responsible for maintaining social order. Work policy formulation and international cooperation. In addition, the security team and the security team under the jurisdiction of the Police Administration are responsible for the collection of information on TF cases.	2018 : 21,428,304 2019 : 21,195,460 2020 : 21,127,815
National Immigration Agency, Ministry of the Interior	In charge of Taiwan's entry and exit people flow control, cross-border security and immigration data collection, integration and investigation of incidents. It is also responsible for information exchange and cooperation in investigating and investigating human trafficking cases, ML crimes and transnational human trafficking.	2018 : 4,254,502 2019 : 4,078,583 2020 : 4,466,283
Coast Guard Administration, Ocean Affairs Council	Responsible for maintaining the security of the waters and coasts of the Taiwan region; investigation of smuggling cases in sea areas, coasts, estuaries and non-commercial ports, investigations of ML crimes involving smuggling and other criminal investigations.	2018 : 16,480,562 2019 : 16,709,136 2020 : 20,220,633
Ministry of Finance	The Ministry of Finance is in charge of national finance, and is responsible for the treasury and payment business, taxation, customs affairs, state-owned property, financial information, promotion of private participation in public construction, and supervision of subordinate financial personnel training institutions. In addition, the head of the International Finance Department under the agency signs tax agreements with foreign tax authorities and implements cross-border tax information exchange.	2018 : 24,854,917 2019 : 18,212,078 2020 : 16,837,878
Taxation Administration, Ministry of Finance	In charge of the formulation and revision of tax laws and regulations; Planning, commanding, supervising and evaluating the national tax collection business; Planning, supervision and assessment of local tax collection business; Command, supervise and evaluate the supervision business of the IRS in each region; Audit and transfer of major tax evasion cases; It is also the competent authority for bookkeepers, bookkeepers and tax return filing agents.	2018 : 12,886,498 2019 : 13,808,289 2020 : 13,886,784
Customs Administration, Ministry of Finance	Four customs of Keelung, Taipei, Taichung and Kaohsiung under its jurisdiction are responsible for the management of passengers or personnel accompanying the transportation services. A declaration and notification system for the entry and exit of goods and the transportation of large amounts of cash, negotiable securities, gold and other used goods by cargo, express, post or other similar methods subject to ML risk. It is also responsible for international customs cooperation, including co-organizing border drug and smuggling cases.	2018 : 6,255,168 2019 : 5,708,716 2020 : 5,858,739

## Annex 2: Taiwan's AML/CFT/PF Competent Authorities

Agency name	Tasks related to anti-money laundering and combating terrorism financing and the proliferation financing	Total budget(Unit: 1,000 New Taiwan Dollars)
Financial Supervisory Commission	<p>The Financial Supervisory Commission is the supervisory authority of Taiwan's financial market and financial service industry to AML and CFT. The financial market includes the banking market, bill market, securities market, futures and financial derivatives market, insurance market and its clearing system. The financial services industry includes financial holding companies, financial reconstruction funds, central deposit insurance companies, banking, securities, futures, insurance, electronic financial transactions and other financial services. The Banking Bureau, The Securities and Futures Bureau, The Insurance Bureau, and The Inspection Bureau, and Inspection Bureau are responsible for the development, supervision, management and inspection of the financial market and financial service industry. In addition, the Securities and Futures Bureau is responsible for accountants' ML prevention and related services.</p>	<p>2018:  The Banking Bureau: 332,285  The Securities and Futures Bureau: 317,824  The Financial examination Bureau: 425,949  The Insurance Bureau: 142,224</p> <p>2019:  The Banking Bureau: 350,267  The Securities and Futures Bureau: 334,483  The Financial examination Bureau: 445,542  The Insurance Bureau: 147,557</p> <p>2020:  The Banking Bureau: 344,843  The Securities and Futures Bureau: 334,205  The Financial examination Bureau: 449,969  The Insurance Bureau: 149,748</p>
Bureau of Agricultural Finance, Council of Agriculture, Executive Yuan	<p>It is the supervisory authority of agricultural financial institutions, including the National Agricultural Treasury, the Credit Department of the Farmers' Association and Fisheries Association.</p>	2018 : 171,321 2019 : 164,330 2020 : 147,662
Central Bank of the Republic of China (Taiwan)	<p>The Central Bank is Taiwan's monetary authority, responsible for issuing currency, formulating monetary policy and managing foreign exchange reserves. In addition, the Central Bank is responsible for the management of foreign exchange business and is also the competent authority for foreign currency exchange offices.</p>	2018 : 2,063,704 (operating expense) 2019 : 2,063,004 (operating expense) 2020 : 2,163,524 (operating expense)
Ministry of the Interior	<p>In charge of the internal administrative affairs, the police and immigration bureaus under its jurisdiction are responsible for the investigation of predicate crimes, ML crimes and TF crimes. In the supervisory department, it is the competent authority for real estate brokerage and land administration agency, and is responsible for laws and regulations on the management of real estate brokerage. The formulation, amendment and interpretation matters, and the management and guidance of the real estate brokerage industry and brokers; the formulation, amendment and interpretation of the Landlord Administration Act, the issuance of certificates, the record of business licenses, and the management and guidance matters. In addition, the Department of Civil Affairs and the Preparatory Office of the Department of Cooperation and Mass Organizations are responsible for supervising the establishment and operation of relevant non-profit organizations, conference counseling and management.</p>	2018 : 24,871,451 2019 : 3,766,942 2020 : 4,136,362

Agency name	Tasks related to anti-money laundering and combating terrorism financing and the proliferation financing	Total budget(Unit: 1,000 New Taiwan Dollars)
Ministry of Economic Affairs	In charge of the formulation of Taiwan's commercial policies and regulations, commercial planning, management, guidance, supervision, and coordination. The business department of the affiliated business department is responsible for the registration management and supervision of companies and businesses, and the formulation (amended) of business group division standards. It is also the competent authority for the AML and countering the TF for the jewelry shop business.	2018 : 19,039,606 2019 : 18,025,207 2020 : 18,733,18
Ministry of Foreign Affairs	In charge of Taiwan's foreign affairs and related masters.	2018 : 24,871,451 2019 : 24,555,665 2020 : 26,709,526
Mainland Affairs Council	In charge of communication between Taiwan and Mainland China, Hong Kong and Macau.	2018 : 878,532 2019 : 934,878 2020 : 923,441
Office of Homeland Security, Executive Yuan	Coordinate and integrate relevant government agencies to prevent and respond to terrorist attacks and major man-made security incidents, promote the protection of critical infrastructure, and ensure the continued operational effectiveness of the public and private sectors.	2018 : 4,709 2019 : 4,709 2020 : 4,709
National Security Bureau	In charge of international intelligence gathering, Mainland China work and national security intelligence work, and integrate, guide and coordinate the national intelligence work in charge of the Coast Guard Administration, Ocean Affairs Council, the National Police Agency, Ministry of the Interior, the National Immigration Agency, Ministry of the Interior, and the Investigation Bureau, Ministry of Justice, the responsibility of support. It is also responsible for the collection and distribution of terrorist information.	classified
Bureau of Foreign Trade, Ministry of Economic Affairs	Responsible for the development of our country's international trade policy, trade promotion and import and export management, as well as strategic high-tech goods and export control affairs. The trade security and control group of the trade service group of the bureau is responsible for the import and export management of strategic high-tech commodities (SHTC), the Taiwan-US and Taiwan-Japan export control talks, the implementation of bilateral export control training programs, and the promotion of manufacturers to establish Internal Compliance Program (ICP), promoting bilateral and multilateral international organizations export control cooperation business, SHTC strategy promotion group and appraisal audit group meeting, SHTC audit business, SHTC (suspected) violation punishment, holding seminars and industry (manufacturer) publicity meetings, and so on.	2018 : 1,508,714 2019 : 957,455 2020 : 1,736,681
Ministry of Health and Welfare	It is the central solicitation authority for medical foundations, social welfare and charitable foundations, and non-profit organizations in Taiwan. The relevant agencies and units under its jurisdiction are the Department of Medical Affairs, the Social and Family Affairs administration, and the Department of Social Assistance and Social Work.	2018 : 182,297,102 2019 : 182,845,177 2020 : 192,351,841
Ministry of Education	It is in charge of educational policies of Taiwan and is the competent authority for Educational Foundations. The types of supervision are divided into school foundations (private schools) for colleges and vocational schools at all levels, and foundations (associations) for educational affairs, youth development affairs and sports affairs.	2018 : 132,428,987 2019 : 129,836,519 2020 : 131,098,983

## Annex 2: Taiwan's AML/CFT/PF Competent Authorities

Agency name	Tasks related to anti-money laundering and combating terrorism financing and the proliferation financing	Total budget(Unit: 1,000 New Taiwan Dollars)
Ministry of Culture	It is the competent authority of Taiwan's cultural foundations, responsible for supervising cultural foundations (including those established by government donations and private donations), with the main task of promoting the development of Taiwanese arts and cultural environment and supporting Taiwanese arts and cultural activities.	2018 : 12,241,554 2019 : 13,776,939 2020 : 11,920,467

Note: The amounts listed in every column of total budget numbers are from the statutory budget numbers in the public information on the official websites of each agency. If there is any difference, the announcement of each agency shall prevail.

## Annex 3: Factors and Classification Definitions of Money Laundering Crime Threat Analysis

Definition of Money Laundering Threat Rating Factors					
Selected rating factors	Definition	Very High	High	Medium	Low
Criminals' Capacity	The criminals have demonstrated criminal knowledge, skills, expertise, networks and resources and for ML specifically in areas such as finance, trade, law, IT and are aware of AML measures and controls, and therefore can use that knowledge and skills to avoid detection by authorities.	The criminals are complex, have well-established networks, and the criminals have many resources to support complex, long-term, and large-scale ML operations.	The criminals have many elements of sophistication and important resources to engage in long-term or non-permanent ML operations.	The criminals have some sophistication and limited resources to engage in simple ML operations	Criminals' sophistication to conduct ML operations is very limited. Criminal's ML activity focuses on immediate placement or integration of proceed of criminals for personal use. Actors rely mostly on their personal resources and network is nonexistent.
Scope of ML activities	This measures the extent to which criminals are using financial institutions, designated non-financial businesses or professions and other sectors to launder proceed of criminal.	Criminals use multiple sectors domestically and abroad, ensuring they maintain a high ability to move funds and distance proceed of crime from its source.	Criminals use a limited number of major domestic or international sectors thereby ensuring they maintain a certain ability to move funds and distance proceed of crime from its source.	Criminals use a limited number of sectors domestically with limited ability to move funds and distance proceed of crime from its source (such as, sectors of limited size, offering limited products, correspondents and so on).	Criminals use one sector domestically.
Estimated of proceed of criminal annually.	The value of illegal gains arising from a single pre-existing crime or professional ML.	Over billion dollars	Hundreds of million dollars	Under tens of millions dollars	Under million dollars

## Annex 4: Factors and Classification Definitions for Money Laundering and Terrorist Financing Vulnerability Analysis

Definition of Industry Vulnerability (Financial Institutions and Designated Non-Financial Enterprises or Persons) Rating Factors					
Selected rating factors	Definition	Very High	High	Medium	Low
Sector's inherent characteristics	<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"> <li>• Size of the sector: total volume of transactions and assets</li> <li>• Complexity of sector's business structure</li> <li>• Integration with other sectors need to report</li> <li>• Location of operations of the sector: This criterion refers to the extent of customers' ability to access the sector's products and services</li> </ul>	<p>The sector is considered large in terms of transaction volume and asset size.</p> <p>Its industry structure is complex and well integrated with other industries.</p> <p>Its operating locations are widespread domestically and internationally.</p> <p>Given the above, the industry can be widely used by many clients and offers significant fund transfer capabilities.</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 sector is considered small in terms of trading volume and assets.</p> <p>Its structure is less complex and limits integration with other industries.</p> <p>Operating locations are 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, the industry is only used by one client in specific circumstances, and there is little ability to move funds within and outside the industry.</p>
Nature of products and services provided by the sector	<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"> <li>• Nature and scope of products and services offered: This criterion focuses on products and services which have generally been assessed as vulnerable products for ML and TF, including:</li> </ul>	<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 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 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>Products and services in this sector are limited to non-deposit taking operations with a limited number of cash transactions.</p> <p>These transactions involve smaller amounts.</p> <p>Products and services offered can also come with conditions restricting access to funds.</p>

Definition of Industry Vulnerability (Financial Institutions and Designated Non-Financial Enterprises or Persons) Rating Factors

Selected rating factors	Definition	Very High	High	Medium	Low
	<ul style="list-style-type: none"> <li>► Products and services with the possibility of cash payment and monetary instruments</li> <li>► Private Banking</li> <li>► Trade finance services for example letters of credit for exports.</li> <li>► Products and services using new and emerging technologies</li> <li>► Services or products with possibility of cross-border movements of funds including electronic fund transfers</li> <li>► High value commodities (for example gold, precious metal and stones, cars)</li> <li>► Other products or services found in investigations</li> </ul>	The transactions could be found in many investigative cases.	The transactions could be found in some investigative cases.	These transactions can be found in a handful of investigative cases.	There are no investigation cases for these transactions.
The nature of the business relationship with the customer	<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"> <li>• The nature of the business relationship: Identify whether the majority of customers are involved in ongoing or transactional relationships; direct or indirect</li> <li>• Customer status: When appreciating this criterion, the following should be examined: the importance of foreign or domestic or international politically exposed persons among the sector's client profile.</li> <li>• Client's occupation/business: Some clients' activities are considered to be vulnerable to ML/TF. When considering clients in this industry, the following will be examined: proportion of high net worth individuals; cash-intensive business; ease of identifying the actual beneficiaries of most clients (for example complex business structures or individual)</li> </ul>	The composition of clients in this sector shows a combination of many of the combining multiple vulnerabilities including transactional and/or indirect business relationships; PEPs; Clients with occupations/ businesses that are vulnerable to weakness.	The sector's clients profile includes a combination of transactional and/or third party business relationships; PEPs; clients with vulnerable occupations/ businesses	The sector's clients profile, includes limited interactions with transactional and/or third party business relationships; PEPs; clients with vulnerable occupations/ businesses	The sector's clients profile either does not include or to every limited extent vulnerable clients. When it does involve vulnerable clients, operations are occasional and limited.

## Annex 4: Factors and Classification Definitions for Money Laundering and Terrorist Financing Vulnerability Analysis

Definition of Industry Vulnerability (Financial Institutions and Designated Non-Financial Enterprises or Persons) Rating Factors					
Selected rating factors	Definition	Very High	High	Medium	Low
Geographical Scope of Industry Activities	<p>In considering the level of vulnerabilities attached to this factor, one will consider the extent to which sector's activities involve the following:</p> <ul style="list-style-type: none"> <li>• High risk jurisdictions: Jurisdiction identified by the FATF or a FSRB.</li> <li>• Countries of concern 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 :</li> <li>Corruption ( refer to 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(easy to exploit) states.</li> <li>• Jurisdictions or locations of concern according to the country's security interests.</li> </ul>	<p>The sector's activities involve high risk jurisdictions or countries where there is an important informal banking sector or a jurisdiction of concern.</p> <p>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>The sector's activities involve high risk jurisdictions or countries where there is an important informal banking sector or a jurisdiction of concern.</p> <p>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>The sector's activities can involve high risk jurisdictions or countries where there is an important informal banking sector or a jurisdiction of concern.</p> <p>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>Activities of the sector are conducted exclusively domestically and do not involve locations of concern.</p>

Definition of Industry Vulnerability (Financial Institutions and Designated Non-Financial Enterprises or Persons) Rating Factors

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

## Annex 5: Factors and Classification Definitions for Proliferation Financing Threat Analysis

Definition of the threat of Proliferation Financing Rating Factors					
Selected rating factors	Definition	Very High	High	Medium	Low
Criminals' Capacity	The criminals have demonstrated criminal knowledge, skills, expertise, networks and resources and for PF specifically in areas such as finance, trade, law, IT and are aware of PF measures and controls, and therefore can use that knowledge and skills to avoid detection by authorities.	The perpetrators are complex, have well-established networks, and the perpetrators have many resources to support complex, long-term, and large-scale PF operations.	The criminals have many elements of sophistication and important resources to engage in long-term or non-permanent PF operations.	Criminals have some sophistication and limited resources to engage in simple PF operations	Criminals' sophistication to conduct PF operations is very limited, mostly on their personal resources and network is nonexistent.
Scope of ML activities	This measures the extent to which criminals are using financial institutions, designated non-financial businesses or professions and other sector to conduct PF.	Criminals use a variety of domestic and foreign industries to ensure that they maintain a high level of capability for the purpose of PF.	Criminals use a limited number of domestic or international industries to ensure that they maintain sufficient capacity to achieve the purpose of PF.	Criminals take advantage of a limited number of domestic industries with limited capabilities (i.e., those with limited size, product availability, or limited partners).	Criminals exploit domestic single industries.
Estimated of proceed of criminal annually.	The value of illegal gains arising from the act of PF.	Over billion dollars	Hundreds of million dollars	Under tens of millions dollars	Under million dollars

## Annex 6: Factors and Classification Definitions of Proliferation Financing vulnerability Analysis

Definition of the threat of Proliferation Financing Rating Factors				
Selected rating factors	Definition	Very High	High	Medium
political and social factors	The political determination and social factors of the state in combating PF.	The country lacks the political determination to crack down on the PF, and there are related social factors.	Although the country has the political determination to crack down on the PF, it is only affected by relevant social factors.	The country has a strong political determination to crack down on the PF, and there are no related social factors.
Geographical factors	Geographical background of the country.	The geographical background of the country is extremely favorable for actors to engage in PF.	The geographical background of the country only has some areas or conditions that are conducive to actors engaging in PF.	The geographical environment of the country is obviously unfavorable to the actors to engage in the PF.
Legal and Institutional Factors	1. The law enforcement capability of combating the PF. 2. Current status of international cooperation (including difficulties.) 3. The state's legislation and related measures to combat the expansion of armed arms, as well as the implementation of targeted financial sanctions and FATF standards (especially Recommendation 7 and Immediate Outcome 11) related to the UN Security Council resolutions.	The legal framework/supervision mechanism is not regulated or has major omissions, and the communication between the public and private sectors is weak. In practice (law enforcement/supervision), a large number of cases cannot or are difficult to investigate or deal with.  (may include the following: 1. There are major deficiencies in relevant laws and systems, and the implementation and capacity are limited. 2. The implementation of international cooperation is limited and an appropriate response cannot be obtained.	The legal framework/regulatory mechanism has generally been standardized, and the public and private sectors have regular exchanges and interactions. The dilemma of practical implementation (enforcement/supervision) can be resolved through the existing mechanism, and there is no obvious obstacle to implementation.  (may include the following: 1. There are a few gaps in the relevant laws and systems, and the implementation and ability are good. 2. The implementation of international cooperation is acceptable, and an appropriate response can still be obtained.	The legal framework/regulatory mechanism has been clearly regulated, and the public and private sectors have been closely interacting with each other, and practical implementation (enforcement/supervision) is not hindered.  (may include the following: 1. The relevant laws and systems are perfect, and the implementation and ability are good. 2. The implementation of international cooperation is good, and appropriate and timely responses can be obtained. 3. Law enforcement agencies have a good ability to investigate cases of capital and military expansion, and can initiate investigations and collect evidence on their own. Only in a few cases, they must rely on international intelligence.

## Annex 6: Factors and Classification Definitions of Proliferation Financing vulnerability Analysis

Definition of the threat of Proliferation Financing Rating Factors				
Selected rating factors	Definition	Very High	High	Medium
	<p>4. The country's implementation of UN sanctions, embargoes or other measures.</p> <p>5. The implementation of the country's export control and/or regulatory mechanisms.</p> <p>6. Public and private sector propaganda, guidance or awareness-raising actions related to combating the PF, including the sharing of red flag indicators for capital expansion and the type of PF.</p> <p>7. Shipping registration, including record keeping of convenient flags ships' flag.</p>	<p>3. Law enforcement agencies have limited ability to investigate cases of capital and military expansion, and it is difficult to collect evidence, and there are situations where they are highly dependent on international intelligence.</p> <p>4. The sanctioned countries and other cyberattacks are unable to obtain relevant evidence and have insufficient capacity to investigate.</p> <p>5. All relevant departments have difficulties in implementing targeted financial sanctions, and lack of horizontal communication, resulting in delayed implementation or failure to fully implement targeted financial sanctions.</p>	<p>3. The law enforcement agencies' ability to investigate cases of capital and military expansion is acceptable, and they can still conduct evidence collection, but only some cases must rely on international intelligence.</p> <p>4. For cyber attacks by sanctioned countries, and so on, we can still have some evidence and have the ability to investigate.</p> <p>5. There are still some difficulties in the implementation of targeted financial sanctions by relevant departments, and the situation of horizontal communication is acceptable. Although targeted financial sanctions can be implemented, the actual implementation situation has not yet been reached.</p>	<p>4. For the cyber attack incidents of the sanctioned countries, and so on, the relevant facts and evidence are available and the ability to investigate.</p> <p>5. All relevant departments can quickly implement targeted financial sanctions and have good communication, so that they can implement targeted financial sanctions in a true and complete manner.</p>

Definition of the threat of Proliferation Financing Rating Factors

Selected rating factors	Definition	Very High	High	Medium
		<p>6. Each industry has not implemented relevant preventive measures against the PF, and it is impossible to identify situations such as evasion of sanctions on PF.</p> <p>7. The supervision of various industries is loose, and the relevant publicity and awareness are weak. )</p>	<p>6. Some industries have already implemented relevant measures to combat the PF, and some situations such as evasion of sanctions on PF. can still be identified.</p> <p>7. There are some deficiencies in the supervision of various industries, but the relevant publicity and awareness are acceptable. )</p>	<p>6. Various industries have implemented relevant measures to combat the PF, which are sufficient to identify situations such as evasion of sanctions for PF.</p> <p>7. The supervision of each industry is sound, and the relevant publicity and awareness are sufficient. )</p>
Economic and Technical Factors	<p>1. The current status of virtual currency service providers (such as virtual currency exchanges, OTC platforms and custodial wallet providers, but not limited to those registered in Taiwan) (such as establishment registration, quantity, scale, and so on), as well as the current status of supervision and promotion.</p> <p>2. The current status of the control and inspection mechanism of trade or transshipment-related cash flow and cargo flow.</p> <p>3. Analysis of the current situation of the dual-use or controlled goods industry and/or trade, high-tech industry and/or trade.</p>	<p>Various related industries account for a very high proportion of the domestic economy, and the awareness of legal compliance is weak. In practice, there are many cases of illegal transactions with North Korea/Iran.</p> <p>(may include the following:</p> <p>1. It can be found in many investigation cases that various industries have been abused for the expansion of capital and arms.</p> <p>2. The dual-use industries, marine fuel industry and trade are frequent and account for an important part of the overall trade.</p>	<p>Various related industries account for a certain economic scale in the country, and despite the awareness of legal compliance, there are still cases of illegal transactions with North Korea/Iran.</p> <p>(may include the following:</p> <p>1. It can be found in some investigation cases that various industries have been abused for the expansion of capital and arms.</p> <p>2. The dual-use industries, marine fuel industry and trade are moderate and are only part of the overall trade.</p>	<p>The relative industries account for a very low proportion of the domestic economy, and they have a high awareness of legal compliance. Cases of illegal transactions with North Korea/Iran are rare.</p> <p>(may include the following:</p> <p>1. In the investigation case, it was not found that various industries were abused for capital and military expansion.</p> <p>2. The dual-use industry, marine fuel industry and trade are sporadic, accounting for only a small amount of the overall trade.</p>

## Annex 6: Factors and Classification Definitions of Proliferation Financing vulnerability Analysis

Definition of the threat of Proliferation Financing Rating Factors				
Selected rating factors	Definition	Very High	High	Medium
	<p>4. The current situation of international capital transfer and entry into the international market.</p> <p>5. Analysis of the current situation of the marine or cargo insurance or reinsurance industry.</p> <p>6. Analysis of the current situation of marine fuel oil industry.</p> <p>7. Analysis of the current situation of the trade finance industry.</p>	<p>3. Financial institutions provide certain financial services related to trade with countries sanctioned by ARMY, and they account for a high proportion of the overall services. )</p>	<p>3. Financial institutions provide trade financial services related to the countries sanctioned by the military expansion, which only accounts for the proportion of the overall services. )</p>	<p>3. Financial institutions provide sporadic trade financial services related to the countries sanctioned by the military expansion, and the proportion of the overall services is very low. )</p>
Legal person and legal agreements	<p>Status of transparency of legal entities and legal agreements (such as trusts), including the company's substantial beneficial ownership structure.</p>	<p>The legal framework/supervision mechanism is obviously lacking, and it is difficult to identify the structure and beneficial ownership of legal entities and legal agreements. (may include the following: 1. Various industries cannot obtain the information of the beneficial ownership in identifying the evasion of the sanctions against the PF, and the ability to confirm the identity of the actual beneficiary is limited.</p>	<p>The existing legal framework/supervision mechanism is still insufficient, and it is difficult to identify the structure and beneficial ownership of legal persons and legal agreements, but other mechanisms can be used to assist in the identification. (may include the following:</p>	<p>The existing legal framework/supervision mechanism is complete, which can fully and effectively identify the structure and beneficial ownership of legal persons and legal agreements. (may include the following: 1. All industries can fully obtain and understand the relevant information of the beneficial ownership and confirm the relevant identities in the identification of the evasion of the sanctions against the PF.</p>

Definition of the threat of Proliferation Financing Rating Factors

Selected rating factors	Definition	Very High	High	Medium
		2. There is no relevant legal person transparency regulation, and there is no relevant confirmation mechanism.)	1. Various industries can still obtain some information on the beneficial ownership in identifying and evading the sanction of PF, and the ability to confirm the identity of the actual beneficiaries is acceptable. 2. Some relevant legal person transparency regulations have been enacted and some regulations have been implemented.)	2. Relevant legal person transparency regulations have been formulated and fully implemented.)

## The First National ML/TF/PF Risk Assessment Meeting (2021.10.6)



## The Second National ML/TF/PF Risk Assessment Meeting (2021.10.12)



## The Third National ML/TF/PF Risk Assessment Meeting (2021.11.8)



## The Fourth National ML/TF/PF Risk Assessment Meeting (2021.11.8)



