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CHAPTER 2. NATIONAL AML/CFT POLICIES AND COORDINATION

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Key Findings and Recommended Actions

Key Findings

- 1) Chinese Taipei generally demonstrated a generally sound understanding of ML/TF risks. The 2018 NRA process was well coordinated and supported by a wide range of public and private sector representatives. The NRA adopted a reasonable methodology and process, but some scope gaps are noted with risks from cross border movement of cash and domestic trusts. The FSC conducted a sectoral risk assessment in 2015 and the FIU has conducted some strategic assessments. Further assessments of risk were undertaken in relation to legal persons and the NPO sector. Generally, FIs and DNFBPs appear to understand their risk as framed in the NRA and use it to inform their own risk assessments.
- 2) Chinese Taipei has not yet issued a national AML/CFT strategy, but authorities have pursued AML/CFT policies and programs in many areas that reflect risk assessment findings. Strong policy coordination has resulted in a significant shift in the culture and priority of AML/CFT efforts.
- 3) There has been a large increase in the allocation of resources to AML/CFT implementation across all relevant agencies, which has contributed significantly to the shift to risk-based approaches and priority implementation of AML/CFT reforms. Objectives and activities of the competent authorities and SRBs have been adjusted to be largely consistent with the identified ML/TF risks. Operational outcomes and relevant international cooperation approaches reflect a risk based approach by LEAs.
- 4) Enhanced measures have been applied for high vulnerability areas, though they may not sufficiently reflect trends in each sector. Mitigating measures for cash transaction risks (threshold reporting) are positive, but were not applied to higher risks identified in the real estate sector.
- 5) Coordination at the AML/CFT policy level is very strong, particularly since the creation of the AMLO. The AMLO has supported coordination and cooperation to finalize the NRA, and to adjust policy priorities across sectors and agencies. Policy cooperation and coordination is strong in the area of combating PF. While there are many strengths in operational coordination, some areas require further improvement, including between LEAs and supervisors on emerging ML/TF risks.
- 6) Authorities have worked closely with FI and DNFBP sectors and their associations on the NRA and sharing assessment findings to develop a shared understanding of risk. Significant resources were allocated to deliver programs that have led to FI / DNFBP sectors increased understanding of risk.

Recommended Actions

- a) Finalise and implement a national AML/CFT strategy and updated agency-level strategies.
- b) The strong coordination structure that was put in place for the ME should be institutionalised to support ongoing priority actions to mitigate ML/TF/PF risk.

- c) Prioritise further comprehensive assessments of risk including: cash economy issues (including scope of the cash economy; cross-border movement of cash); ML risks with underground banking; foreign legal persons and arrangements in Chinese Taipei's offshore sector; organized crime involvement in third party ML; trusts and; emerging TF issues (including global trends on terrorism and TF). Pursue international cooperation to obtain inputs on such assessments.
- d) At a policy level, closer examination should be given to the application of enhanced measures for higher risk scenarios and simplified measures for lower risk (e.g. consider applying threshold transaction reporting obligations to real estate sector)
- e) Continue to enhance operational level cooperation, including between LEAs and supervisors on sharing information on emerging ML/TF risks.

Immediate Outcome 1 (Risk, Policy and Coordination)

Chinese Taipei's understanding of its ML/TF risks

89. Chinese Taipei is subject to a number of significant ML threats, but few TF threats. The authorities have undertaken a number of assessments of ML/TF risks that support a reasonable understanding of key areas of risk, albeit with some relative strengths and weaknesses amongst the assessments.

90. Chinese Taipei has demonstrated a generally sound understanding of ML/TF risks through the 2017/18 NRA process and other agency-level assessments. A wide range of government agencies and private sector actors participated in the NRA, which was published in May 2018.

91. Prior to the NRA, the FSC conducted a sectoral risk assessment (SRA) which looked at a number of vulnerabilities of the financial sector, but only relatively cursory information on threats (sources of proceeds of crime, methods of ML/TF, actors undertaking ML/TF). The SRA was a preliminary basis to commence a number of moves towards a risk-based approach by the FSC, but did not serve as a broad basis to support FI/DNFBPs' risk-based approach.

92. The NRA methodology focused on the assessment of ML threats and vulnerabilities and included an independent assessment of TF risks. The NRA considered sources of proceeds, ML techniques, vulnerabilities to ML, etc. Sources of data on criminal activities included the number of STRs, cases disclosed by the FIU, cases processed by LEAs, and estimates of predicate offence proceeds. Assessments of TF risks considered both domestic and cross-border risks, domestic and foreign threats, and the risks of movement of people and funds through the jurisdiction (including possible transit of foreign terrorist fighters). Close consideration was given to elements of TF risks with foreign workers within the jurisdiction.

93. A total of 23 ML threat areas (22 predicate offences and third party money laundering) were assessed based on three factors: "actors' capacity", "scope of ML activity" and "estimated of proceeds of crime annually". The NRA classified the threats of ML/TF associated predicate offences into four categories as set out in the table below:

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Table 1.1: List of ML/TF threat profiles' overall ratings according to Chinese Taipei

Low	Medium	High	Very High
Human Trafficking (migrant smuggling) Sexual exploitation Counterfeiting currency Murder, grievous bodily injury Robbery Extortion Piracy Terrorism (Terrorist Financing)	Illicit arms trafficking Illicit trafficking in stolen and other goods Theft Kidnapping, illegal restraint Environmental crime Forgery	Counterfeiting / product piracy, IPR crimes	Drug trafficking Fraud Smuggling Tax crimes Organised crime Securities crime Corruption / bribery Third-party ML

94. As for ML/TF vulnerabilities, the 2018 NRA assessed FIs and DNFBPs against five risk factors: sector's inherent characteristics; products and services; nature of business relationships; geographic reach, and delivery channels. Sources of data included the number and size of the sector, information on their product and service, geographical locations of clients and service activities.

95. The 2018 NRA gave overall vulnerability ratings for 31 sectors of FIs and DNFBPs. Two sectors were rated as very high (Offshore banking units and domestic banks). Twelve sectors were rated as high (Offshore securities units (OSU); branches of foreign banks; the post office; securities firms; offshore insurance units (OIU); jewellery businesses; accountants; lawyers; real estate brokers; credit depts. of agricultural & fisheries associations; ABT; Life insurance companies; securities investment trust enterprises). Twelve sectors were rated as medium and five as low (foreign exchange counters were notable amongst the low ratings). These assessments appear to be generally reasonable.

96. The earlier SRA and the NRA gave some consideration to ML techniques. The SRA noted dummy accounts as the main ML method from 2007 to 2013, accounting for a majority of all cases, followed by offshore remittances (8.8%) and use of relatives' accounts (7.5%). All other methods were below 5%. However, the 2018 NRA did not take into account such ML/TF techniques.

97. LEAs do not regularly produce written threat assessments of particular crime types. However joint agency sub-committees meet to share information on the risks of certain key crime types as trends change, including analysing crime statistics and sharing key cases. AMLD publishes various ML typologies reports and has produced a small number of high quality strategic analysis products on certain current and emerging risks. These are distributed to government and private sector stakeholders.

98. While the 2017/18 NRA covers ML risks associated with narcotics, fraud, human trafficking, corruption, tax, smuggling, gambling, more detailed assessments were not available on each crime type. Further assessments of corruption risks are needed to support authorities to follow the proceeds of corruption and bribery (proceeds from domestic and foreign corruption), particularly those that go offshore. A comprehensive understanding of threats of laundering proceeds of foreign offences was not sufficiently demonstrated.

99. The NRA included an assessment of legal persons and, to a lesser extent, legal arrangements. A more in-depth assessment of threats and vulnerabilities of legal persons was published in August 2018. The vulnerabilities included the ease of incorporation, professional engagement not being mandatory for company incorporation and no access to company beneficial ownership information. Data sources included companies under investigations, STRs and the geographic reach of legal persons. The NRA did not sufficiently assess the risk of foreign legal persons and arrangements and

how they are misused for ML or TF or the features of types of legal persons that make them vulnerable for ML or TF. The NRA and sectoral identified all relevant categories of legal persons and gave two ratings of their relative transparency and vulnerability. Non-public limited companies and those limited by shares were rated as having 'higher' vulnerability. Public companies limited by shares, limited partnerships and non-public unlimited partnerships were assessed as having 'lower' vulnerability. The NRA included an assessment of TF risks associated with NPOs. The assessment considered six categories of NPOs. The assessment found that TF risks were low overall. However, it identified three categories having some risks (civil associations, national religious foundations and social welfare charity foundations) and three having no or low risks (medical foundations, educational foundations and cultural foundations). ML/TF risk assessment of trusts and NPOs lacked details on risk factors, threats, vulnerabilities and data sources and processes used in assessing their risk.

100. The NRA considered risks from transnational movement of proceeds of crime. Authorities reasonably considered geographical risks including the main destination and source jurisdictions for illicit proceeds and identified China; Macao, China; Hong Kong, China and the Philippines as the common sources and destinations countries. The British Virgin Island, Samoa and Cayman Island were highlighted, given the threats arising from legal persons formed in those jurisdictions being active in Chinese Taipei's offshore financial sector and the sectors associated risks.

101. The authorities have not sufficiently considered the nature of risks associated with informal channels and cash. Consideration of cross border BNIs were not included in the NRA. Qualitative and quantitative data were used to assess ML/TF risks in most of the sectors; however, this was not the case in assessing trusts and NPOs. More in depth risk assessment is required of DNFBPs sectoral risks. Further, Chinese Taipei should continue to maintain an understanding of regional and global trends that might change the risk profile of Chinese Taipei for TF (refer to IO. 9).

102. The NRA did not assess the risk of virtual assets but did note that virtual currencies such as Bitcoins had been used for drug transaction payments that particularly involved marijuana trafficking. Virtual assets are intended to be included in future risk assessments.

103. In the period 2016-18 there was a significant policy focus on AML/CFT reforms, which included the formation of the AMLO as a leading body responsible for organizing, supervising and coordinating Chinese Taipei's AML/CFT efforts. This contrasts to the period of 2007 - 2016 in which there was very little progress with reforms, or implementation of Chinese Taipei's AML/CFT system.

104. Since 2017 Chinese Taipei has given a priority to policy reforms and a move to a risk based approach ahead of the ME, which has involved significant efforts of cooperation and coordination. The NRA sets out some policy directions and there is a clear plan to prepare a national strategy. AMLO and other agencies demonstrated work to prepare to adopt a strategy following the ME.

105. Authorities demonstrated their agency-level AML/CFT policies and activities that directly reflect risk assessment findings. Chinese Taipei has adopted some strategies and action plans relating to predicate threats, which include elements of AML/CFT. These include New-Generation Anti-Drug Strategy and the Strategic Anti-Drug Action Plans (July 2017); National Integrity Building Action Plan; and the Action Plan for Comprehensive Enforcement of Intellectual Property Rights Protection.

106. Sufficient resources and manpower are allocated for AML/CFT policies and activities. Significant additional resources were provided and other resources re-allocated to support priority policies and activities in response to the updated understanding of ML/TF risks.

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Exemptions, enhanced and simplified measures

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107. Results of assessments of risk have generally been used to support application of enhanced measures in higher risk scenarios. A risk based approach to the application of simplified measures for lower risk scenarios is generally well supported by available assessments. A reduced range of AML/CFT measures have been applied to foreign exchange counters. FIs and DNFBPs are only required to apply simplified measures to foreign government entities, domestic government-owned enterprises, domestic public companies, and foreign listed companies. However, this does not sufficiently consider PEP risks and other higher risk areas.

108. Taking into account the risks of a cash-based economy, Chinese Taipei has obliged FIs and most DNFBPs to report threshold transactions (CTRs) exceeding NT\$500,000 (USD 16700) to the MJIB. However despite the risks identified in the NRA, CTR obligations were not applied to transactions in the real estate sector.

Objectives and activities of competent authorities

109. Regulatory and supervisory authorities' demonstrated that their objectives and activities are increasingly consistent with the results of the NRA and other assessments of risk. Supervisors, following the SRA, tended to focus on a sub-set of key threat areas and had not comprehensively adjusted their objectives and activities to take account of the wider set of priority threat areas. Since late 2017, the FSC has adjusted its priorities and activities in response to the NRA process findings. FSC and other supervisors have begun to increase their engagement on risk with AMLD and other LEAs and have increased the focus, frequency, scope and depth of supervision taking into account the updated understanding of risk.

110. LEAs and the prosecutors have mostly aligned their investigative priorities to the eight very high threats identified in the ML/TF NRA prior to and since the completion of that assessment.

National coordination and cooperation

111. Coordination and cooperation on combating ML, TF and PF is strong overall at both policy and operational levels. There has been a significant shift in the culture of AML/CFT coordination. This area was previously viewed as a responsibility of specific competent authorities, but 'buy-in' has increased with greater awareness and priority evident across more relevant government agencies.

112. The EY has placed a strong priority on coordination and cooperation in the preparation of the NRA and for the ME process. The government has allocated significant resources to cooperation and coordination, both within the AMLO and through a wide range of joint agency processes. The establishment of the AMLO as the joint-agency coordination body for the NRA and ME preparation has seen contributions from different government departments and state owned corporations which has supported a much deeper whole-of-government approach to coordination.

113. A wide range of coordination and cooperation meetings and activities were held during the process of ML/TF NRA. Interagency cooperation and coordination meetings are periodically held and operationally on a case by case basis when necessary. For example in 2016, MOJ has collaborated with JY, MAC, MOFA, FSC, MOTC, NCC, CIB, MJIB, NIA, and HPO to establish the "Inter-Agency Platform against Cross-Border Fraud" to improve the effectiveness of combating cross-border fraud. Some competent authorities are responsible for coordinating national efforts relating to specific threats: NPA is coordinating cybercrime investigation; and NSB is responsible for coordinating TF efforts. Following the NRA, interagency communication meetings have been held among competent authorities and have led to increasingly coordinated efforts on most priority threats.

114. While there are examples of good cooperation leading to strong operational outcomes, the level of cooperation and coordination among LEAs, AMLD and prosecutors needs to be enhanced. Prosecutorial authorities expressed their interest in enhancing cooperation with AMLD in parallel financial investigations and in tracing illegal funds.

115. Structures and joint agency cooperation in relation to combating TF operate well at both policy and operational levels. The main CT and CFT coordination mechanism is the Homeland Security Policy Committee of the EY, which was established to formulate CT policies, review laws, approve plans and supervise operations. The members are generally at the level of ministers and heads of departments. The Committee meets at least annually. In addition, coordination meetings for Homeland Security Policy Committee are held every quarter. At the operational level, the Director of OHS organises regular working level meetings for specific issues with relevant agencies.

116. The NSB leads the coordination of TF efforts with MOJ, as the competent authority for TF investigations. While Chinese Taipei has generally low TF risks, there have been a number of cases where authorities have closely considered possible TF or terrorism matters and demonstrated good operational level cooperation. In these cases, national security and law enforcement agencies, including the FIU, were shown to coordinate well.

117. The central authority in charge of CT policy is the OHS which regularly exchanges information with national security, LEAs and administrative agencies through meetings of the EY Homeland Security Policy Committee. The level of information exchange is consistent with the TF risk profile.

118. Supervisory authorities demonstrate a degree of cooperation with LEAs and AMLD. However, there is a need for closer cooperation and information sharing to support supervisors to take a deeper approach to risk-based supervision and outreach.

119. Inter-agency processes have worked well to support the preparation and implementation of the legal framework and regulated implementation mechanisms for TFS to combat PF. Coordination on combating WMD, including PF, has involved a wider set of stakeholders than earlier AML/CFT coordination work. It is notable that Chinese Taipei has consulted closely with foreign partners and regional bodies when pursuing measures to give effect to UN and FATF obligations to combat the proliferation of WMD and PF. The additional measures to allow for additional PF-related domestic designations and TFS were supported by close coordination and an understanding of vulnerabilities.

Private sector's awareness of risks

120. FIs and DNFBPs, through their sectoral associations and individual firms, were closely involved in the conduct of the NRA and subsequent awareness raising on risk. The authorities included association representatives and senior managers of FIs and DNFBPs in the ML/TF NRA process. Results of risk assessments to related FIs, DNFBPs were shared through seminars, face-to-face meetings, and publication of guidelines.

121. AMLO played a vital role in the efforts to reach out to private sector and DNFBPs with the aim of raising their awareness on the results of ML/TF NRA. Significant resources (AMLD, FSC, AMLO, etc.) were allocated to help to ensure that respective FIs, DNFBPs and related sectors are aware of the results of risk assessments and increase their understanding of ML/TF risks. There was also widespread coverage of the NRA process and results in media and social media coverage.

122. Sectoral associations and private sector representatives demonstrated a reasonable understanding of findings contained in the NRA and an increasing understanding of risk. The private sector had lacked further specific details of key risks. Immediately prior to the ME onsite the FSC,

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AML/D and LEAs held a number of compliance events with the private sector which included more detailed sharing of information on current and emerging risks.

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Overall Conclusion on Immediate Outcome 1

123. Chinese Taipei demonstrated a reasonable assessment and generally sound understanding of ML/TF risks. Overall AML/CFT policies and activities largely seek to address the risks identified in the NRA and other assessments. National co-ordination and co-operation on AML/CFT issues at the policy and operational levels has improved significantly since the last evaluation. This is particularly evident in relation to policy level co-ordination among LEAs, however there are opportunities for deeper operational levels cooperation.

124. **Chinese Taipei has a substantial level of effectiveness for Immediate Outcome 1.**