ANTI-MONEY LAUNDERING ANNUAL REPORT, 2002

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Republic of China

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Preface

Looking back on the year just past, the sluggish global economy had again weakened the local economy in Taiwan, forcing migration of domestic industries and leaving the high rate of employment stagnant. Under such an unfavorable environment, security in the Taiwan area has no doubt been affected. According to statistics released by the Criminal Investigation Bureau of National Police Administration, the number of victims in criminal cases in Taiwan totaled 189,011 in 2000, increasing to 248,982 in 2001. With reference to the analysis made by the Ministry of Justice, the number of offenders convicted by the prosecutor's offices of various courts stood at 122,076 in 2000, increasing to 128,453 in 2001. Despite the fact that there is no direct evidence that links a sluggish economy will a raise in crime rates, it is nonetheless a fact that the general public does not feel comfortable with the state of security at the present time. It is a fact that simply can not be ignored.

the analysis shown in this Annual Report, we note that since the MLCA went into effect until December 2002 there have been 151 cases involving money laundering prosecuted by the court, of which 89 alone was in 2002. To look at it from the optimistic viewpoint, it reflects that a recognition of the problem has been formed among all domestic law enforcement agencies. It should help to a large extent the prevention of crimes related to money laundering in the future. Yet from another angle, we may ask whether or not criminals have further improved their approaches to concealment of ill-gained proceeds as a result of the rapid development of information transmission and popularity of "criminal self education". This is something which we need to pay particular attention to.

With respect to the 151 prosecuted cases of money laundering, by the account of the analysis shown in the Annual Report, there were 121 cases involving "major economic crimes", which constitute 81% of the total cases. From the fraudulent lottery tickets sent by postal mail a few years ago to the fraud schemes connected with cell phone messages in the recent one or two years, we come to know that victims have often been of the lower socio-economic groups. The ever-changing nature of criminal schemes reflects the basic human greed which drives organized crime syndicates to engage in fraudulent activities. The organized crime syndicates use shell accounts to conceal their illicitly gained income and, through the financial system, transfer the proceeds quickly to a desired location. That makes law enforcement agencies unable to seize the ill-gained proceeds at the first

available time, let alone confiscate and retrieve them latter on. Even if criminals have been punished by law afterwards, they nevertheless have retained the unlawful gains for their free use. This is why this sort of crime is committed, and why it has developed to become one of the major activities for organized crime.

A special feature of money laundering-related crime is its transnational character, and the success of combating it depends on international cooperation, be it any country or any region. Whether it is in the international organizations that the ROC has participated, in the supervision of financial institutions at home, amendments of law and policy, or the effectiveness of law enforcement; efforts made by the Republic of China have won the recognition of the international community. In the coming year, it is hoped that on the basis of the existing laws added by the newly amended MLCA, illicitly gained proceeds may be frozen. And sharing with foreign law enforcement agencies confiscated assets may not only provide our law enforcement agencies with enhanced means to strike down the crime of money laundering, but may also expand the ROC presence in international organizations to jointly prevent money-laundering activities in the international community.

Cherng - Maw YEH

Director General

Investigation Bureau

Ministry of Justice

May 2003

Editor's Note

I. Objective of this Edition

This Annual Report compiles the anti-money laundering prevention work enforced throughout the whole year in 2002. In light of the analyzed information and statistics and studied crime-committing methods related to money-laundering, Money Laundering Prevention Center (MLPC) of The Investigation Bureau, Ministry of Justice (MJIB) was able to grasp the trend in the commission of crime for the year in question. As a result, appropriate responsive measures concerning anti-money laundering had been drafted in a timely manner. In addition, there are two articles by our colleagues and one special contribution by a pundit published in this Edition, all concerning the subject of money laundering.

II. Contents of this Edition

A. The text of this Annual Report contains seven interrelated parts.

1. Organization Overview
2. Overview of Job Performance
3. Case Study
4. Review of the Past and Outlook for the Future
5. Essays

Appendix

B. Compilation of this Annual Report is based on related information and statistics available at the MLPC and prosecuted money-laundering cases released by district prosecutor's offices.

III. Explanatory notes for this Edition

Where for each unit used in this edition, the year shall be the calendar year, suspicious activity reports (SAR's) shall be the number of cases filed, money-laundering cases arraigned by district prosecutor's offices shall be the number of cases prosecuted, and dollar amount shall be in the New Taiwan Dollars. Where special circumstances are involved, notes are explained in respective tables (figures).

IV. Publication of the Annual Report this year is a bit of a rash work and we are in no position to expect the publication to be perfect in such a circumstance. We therefore welcome your comments, if any, so that we may improve it in our next edition.

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Part One

Organization Overview

I. Basis for establishment

By Article 8(1) of the Money Laundering Control Act (MLCA), for any transaction suspected to be money laundering, the financial institution concerned is required to report the transaction to the designated agency. In pursuance of Clause 3 of the same Article, "'The designated agency' and 'the scope and procedure of reports handled' referred to in Clause 1 above shall be determined by the Ministry of Finance (MOF), after having consulted with the Ministry of the Interior (MOI), the Ministry of Justice (MOJ) and the Central Bank of China (CBC)." Shortly after, on January 21, 1997, the Ministry of Finance convened a meeting of all concerned agencies, including the CBC, MOJ, MOI, Ministry of Transportation and Communications (MOTC), etc., to jointly discuss the MLCA authorizing the MOF to hold meetings with regards to the drafting of related matters. The meeting reached the following three conclusions:

A. The "certain amount of currency transaction" as referred to under Article 7 of the MLCA shall be over NT$1.5 million or its equivalent in foreign currency in cash receipt or payment, including the total amount transacted on the same business day, or exchanges of notes.

B. With respect to the procedure of customer's status identification and the method and duration of keeping on file the transaction record as referred to under Article 7 of the MLCA, it specifies that the financial institution must confirm the ID or passport that the customer presents for identification and enter in its book the information of the customer's name, date of birth, address, account number, amount of transaction, and ID number. However, if the financial institution is certain of the customer's identity and the customer conducts the transaction in person, the procedure of identity confirmation may be exempted. Should the transaction be done by an attorney in fact, the financial institution is required to confirm the identity of the attorney in fact and, if necessary, the customer also. The financial institution must keep the record of identity confirmation and transaction voucher on file for 5 years.

C. Article 8(1) of the MLCA specifies that the financial institution must confirm the customer identity and keep on file transaction vouchers of suspicious activity reports (SAR's) and report same to the designated agency. By law, the 'designated agency' referred to is the Investigation Bureau of MOJ, or MJIB. As to the 'the scope and procedure of reports handled', the financial institution must fill out the pre-printed form for SAR's and file the completed form with the MJIB in accordance with established rules. Whereas the primary function of the designated agency is to process the SAR's filed by financial institutions by establishing databases from whence to compile and analyze the information so collected. Should further action be required as a result of the analysis, all concerned regulatory agencies should naturally come to the assistance to the MJIB. Needless to say, the concerned regulatory agencies should offer their assistance in

the form of manpower and funding.

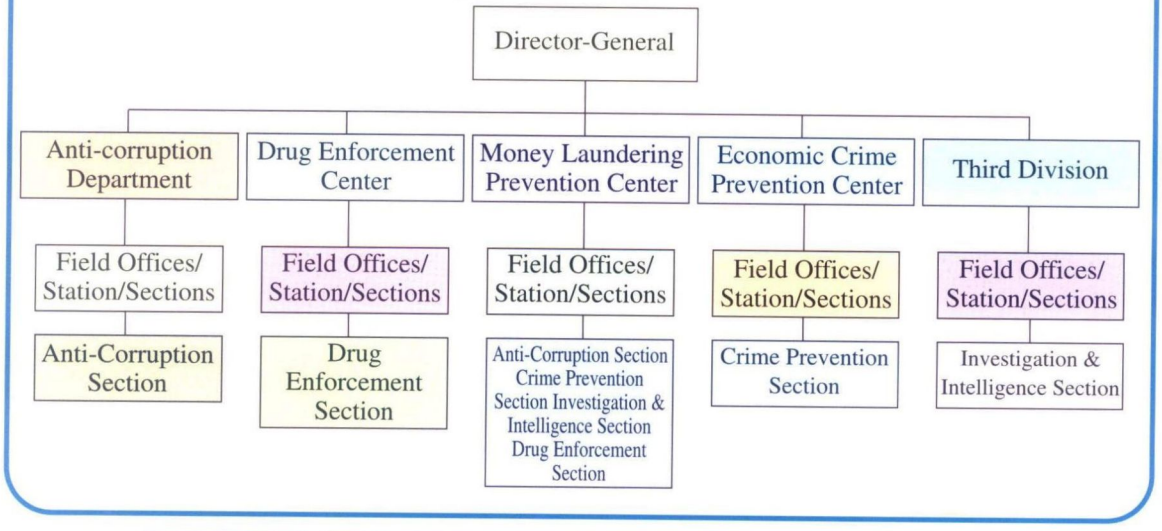
In response to the needs of related operations required by handling of SAR's filed by financial institutions following the enactment of the MLCA; the MJIB organized on April 29, 1997 the "Money Laundering Prevention Center" (MLPC). The MLPC is charged exclusively with the responsibility of processing matters related to SAR's filed by financial institutions. Under the MLPC, there are three sections: Sec. I, in charge of analysis, investigation and collection, analysis, processing and employment of information related to money laundering; Sec. II, in charge of general affairs, establishment and compilation of computer data base of money-laundering information, international cooperation as well as study of strategies to prevent money laundering; Sec. III, in charge of analysis, investigation and collection, analysis, processing and employment of information related to SAR's filed by the branch office of foreign banks in Taiwan and financial institutions other than the banking institutions as well as assistance in investigations involving other agencies at home and abroad.

II. Assigned mission

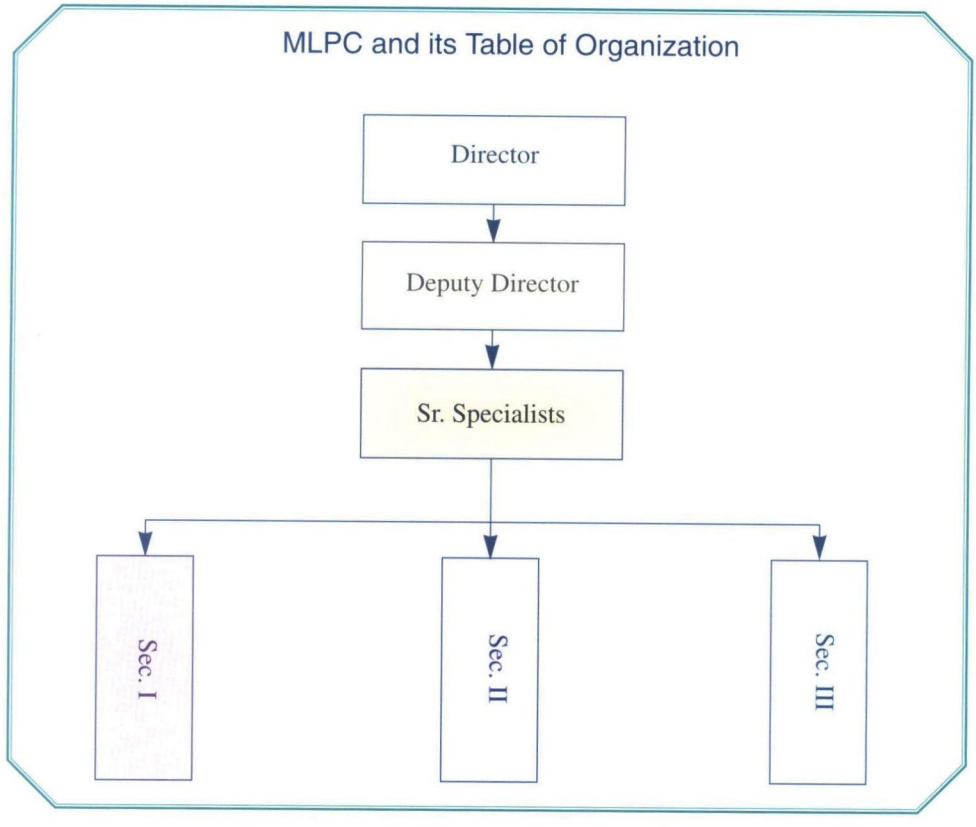
The assigned mission of the MLPC, according to Point 2 of the Guidelines for Establishment of MJIB's Money Laundering Prevention Center, are as follows:

A. To study strategies for money laundering prevention.
B. Handling and processing of Suspicious Activity Reports (SAR's) by financial institutions concerning suspicious transactions that might be intended for money laundering.
C. Collection, analysis, disposal and employment of money laundering information.
D. To provide assistance in investigation of money laundering cases conducted by domestic law enforcement agencies and coordination, as well as liaison concerning provisions set forth in the Money Laundering Control Act.
E. Information exchange, exchange of personnel training and joint investigation of money laundering cases with foreign counterpart agencies. The joint investigation involves contact, planning, coordination and implementation.
F. Establishment and compilation of databases concerning money-laundering intelligence.

Interactive Relations Between the MLPC and Other Units, Including Field Offices, within the MJIB



MLPC and its Table of Organization



Part Two

Overview of Job Performance

I. Strategic studies

Amendments to the Money Laundering Control Act (MLCA) passed the third reading in the second session of the 5th Term Legislative Yuan on January 13, 2003 and were signed into law by the President on February 6, 2003 to take effect six months following the promulgation. The amendments covered 10 articles and added two more. To a 15-article law, the amendments may be considered quite an "overhaul". Primary references used in drafting the amendments were the practical difficulties encountered in enforcement of the MLCA over its first six years of being in effect. Also used were regulations of foreign countries and the evaluation of the ROC's money prevention mechanism made by international organizations such as APG. The major features of the amended MLCA include enhancement of penalties imposed for money-laundering crimes, comprehensive containment of money-laundering channels drug traffickers have used, and strengthening of international cooperation, as well as changes in the imposition and execution of fines.

One important task of the MLPC in the ROC's money-laundering mechanism, apart from being the 'designated agency' as specified under Article 8 of the MLCA to handle SAR's filed by financial institutions, is collection and compilation of foreign laws and regulations to serve as references by the Ministry of Justice. As such, the MLPC has enlisted assistance from the two large international organizations, APG and Egmont Group, in collecting information pertaining to the filing systems for large amounts of transactions, freezing of bank accounts and sharing of confiscated property in foreign countries for reference in the drafting of the amendments. In conjunction with the trend of the international community to counteract international terrorism, the government also contemplates to enact related laws in the immediate future. The MLPC has begun to collect anti-terrorism laws in the US, France, etc. through said channels for the Ministry of Justice to use as reference.

One of the major factors that would make success or failure of money-laundering prevention work is the attitude of the front-line financial institutions. As such, the MLPC extended its invitation on March 14, 2002 to 42 domestic banks and 6 foreign banks for a second workshop on anti-money laundering procedures that involve the banking industry. The central theme was how to raise the number of filed SAR's and the banking industry responded by expressing the hope for strengthened feedback practice. Difficulties the banking industry encountered in anti-money laundering work and their recommendations were collected and compiled and forwarded to the Ministry of Justice for reference.

In the past year, the MLPC also published 100 Case Studies of Egmont Group which serves as the role of financial intelligence center, Money Laundering Case Studies Vol. II, Money Laundering Case Studies Vol. III, and Practical Laws and Regulations Pertaining to Anti-money Laundering.

The above-mentioned publications should be instrumental in domestic study of money-laundering crime. As a feedback to the community, the publications have also been distributed to financial institutions at home.

II. Handling of SAR's

A. Filing of SAR's by financial institutions and handling status:

For the year 2002, the total number of SAR's handled and processed were 1,140 cases, 1,085 of which were filed by domestic and foreign banking institutions. The breakdown is as follows:

Domestic banks:1,036 cases
Foreign banks:49 cases
Credit Unions:1 cases
Farming & Fishing Credit Associations:5 cases
Securities Dealers:18 cases
Directorate General of Postal Remittances & Savings Bank:28 cases
Other Financial Institutions: 3 cases
Total:1,140 cases (see Table 2.1 & Figs. 2.1 & 2.1-1)

Table 2.1 Comparative Statistics of SAR's Filed by Financial Institutions

Unit: In cases

Filed by \ Year			2000	2001	2002
Financial Institutions	Banks	Domestic Banks	459	703	1036
		Foreign Banks	71	67	49
	Cooperative Banks		10	55	1
	Credit Department of Farming & Fishing Associations		6	6	5
	Securities Dealers		3	2	18
	Insurance Companies		0	1	0
	DGP Remittances & Savings Banks		4	6	28
	Other Financial Institutions		0	1	3
Total			553	791	1140

Fig. 2.1 Analytical Chart of Handled SAR's filed by Financial Institutions in 2002

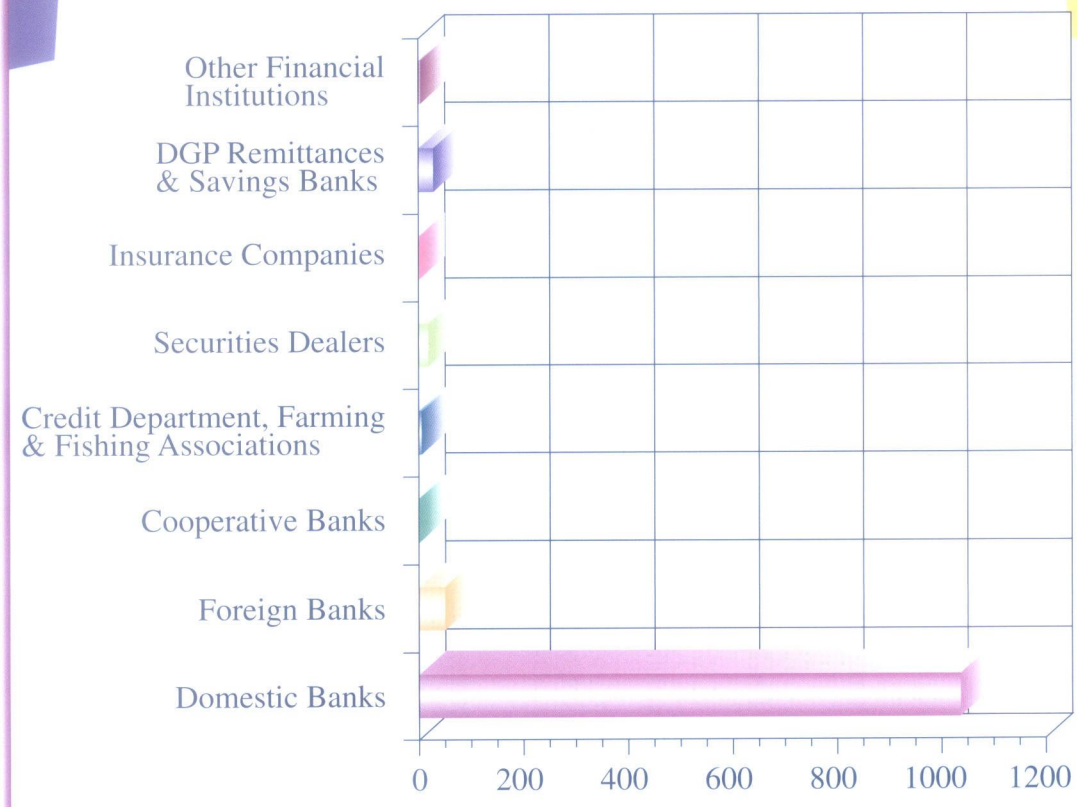
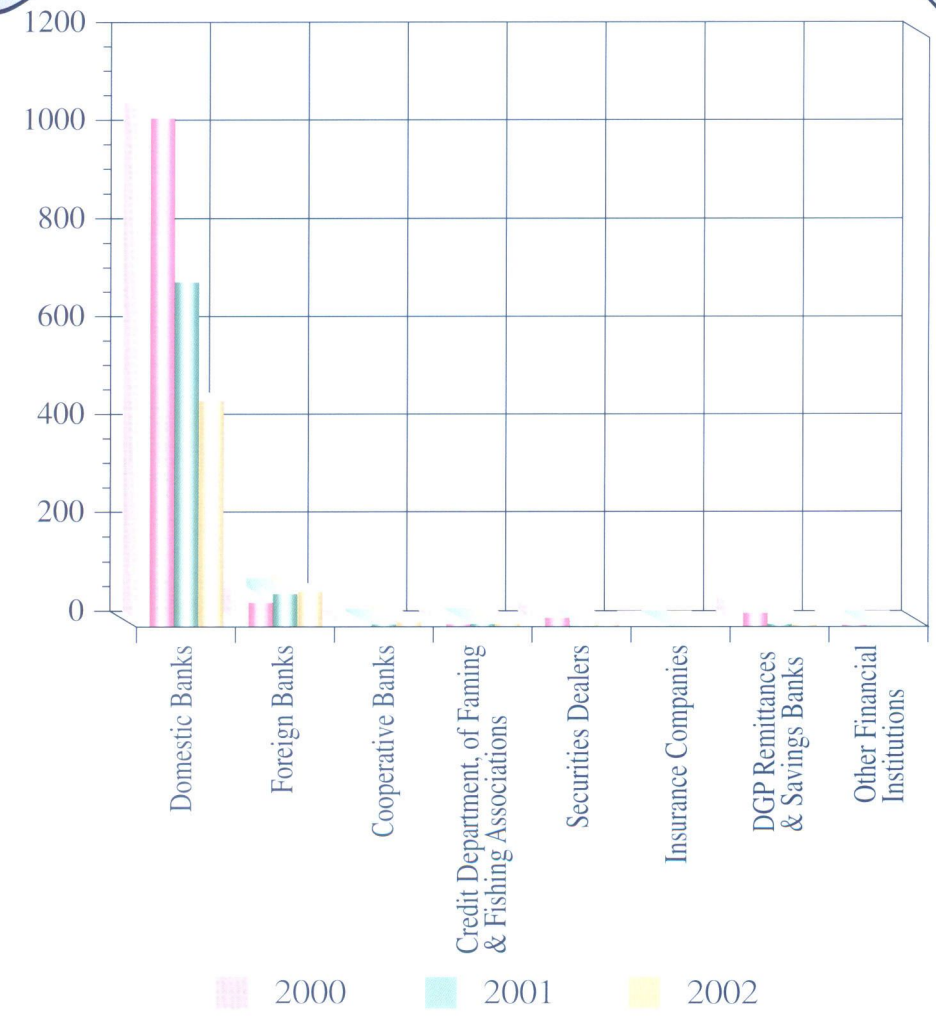


Fig. 2.1-1 Comparative Chart of SAR's Filed by Financial Institutions



Of the SAR's mentioned above, after analysis and investigation, violators were referred to concerned law enforcement agencies for action: 76 cases to the MJIB's field offices/stations; 132 cases to the police authority and other law enforcement agencies for reference and/or action. In addition, 768 cases were either suspended or closed after further investigation and filtration were conducted. By the year's end, there were 318 cases, including 154 cases carried over from the previous year, carried over requiring further analysis. For details, see Table 2.2 and Fig. 2.2).

B. Statistics and analysis of SAR's

On the basis of SAR's handled throughout the year in question, statistics was collected and analysis undertaken to include distribution of SAR transaction area, distribution of filed SAR's in each respective month, distribution of ages among offenders and the amount of the transactions involved.

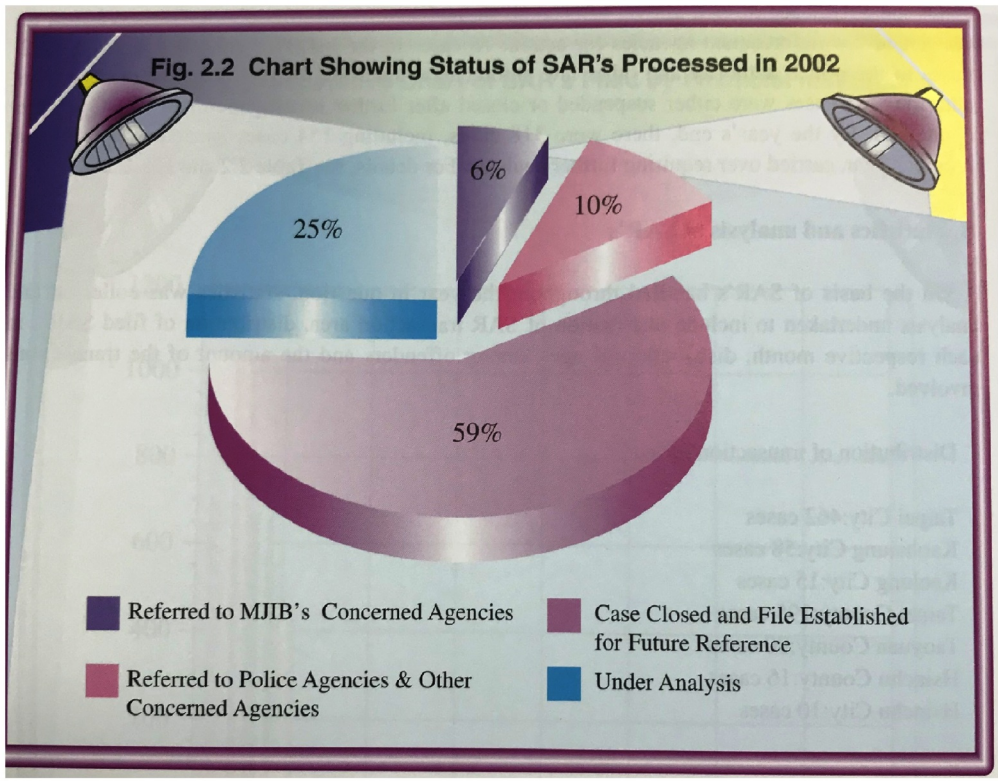
1. Distribution of transaction areas:

Taipei City:462 cases
Kaohsiung City:58 cases
Keelung City:15 cases
Taipei County:195 cases
Taoyuan County:80 cases
Hsinchu County:16 cases
Hsinchu City:10 cases

Table 2.2 Comparative Statistics of Processed SAR's in 2002

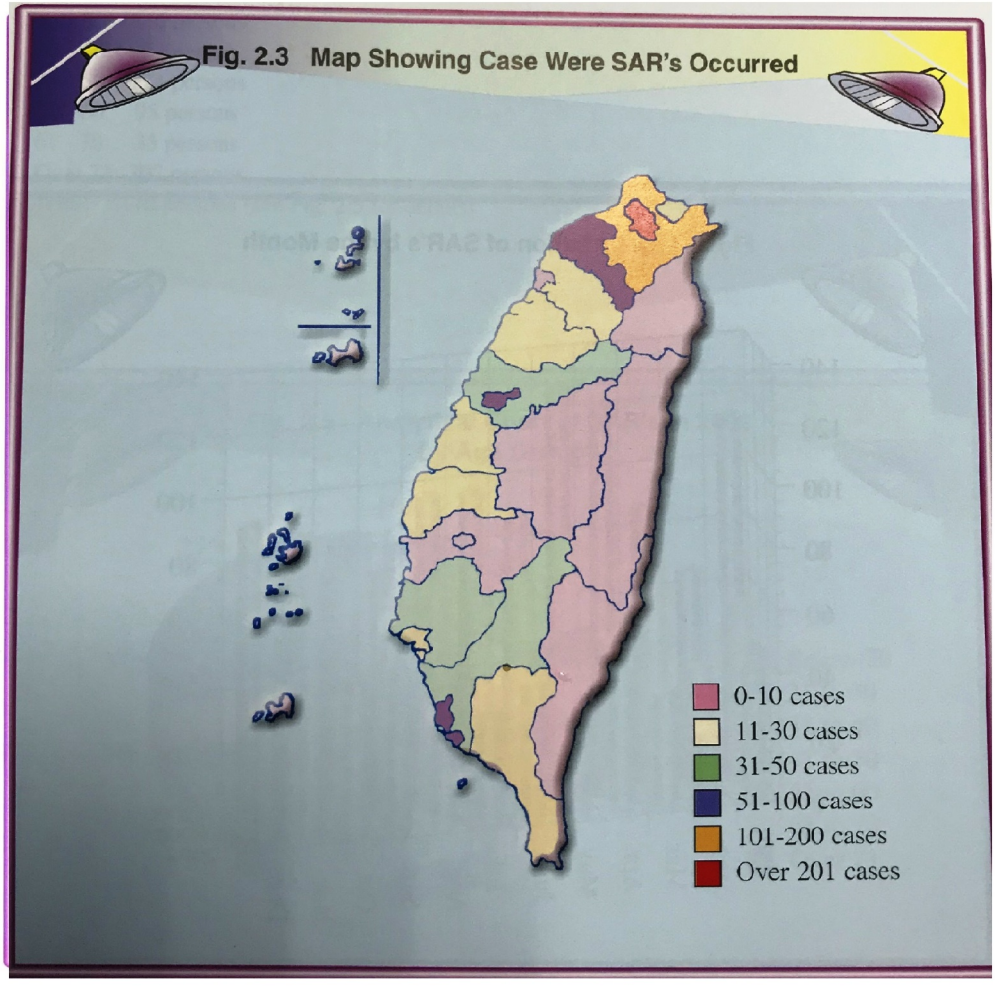
Unit: In cases

Status of Processing	No. of Cases
Referred to MJIB's Concerned Agencies	76
Referred to Police Agencies & Other Concerned Agencies	132
Cases Closed and File Established for Future Reference	768
Under Analysis	318



Miaoli County:13 cases
Taichung County:37 cases
Taichung City:54 cases
Nantou County:6 cases
Changhua County:18 cases
Yunlin County:14 cases
Chiayi County:9 cases
Chiayi City:4 cases
Tainan County:35 cases
Tainan City:16 cases
Kaohsiung County:40 cases
Pingtung County:17 cases
Taitung County:5 cases
Hualien County:6 cases

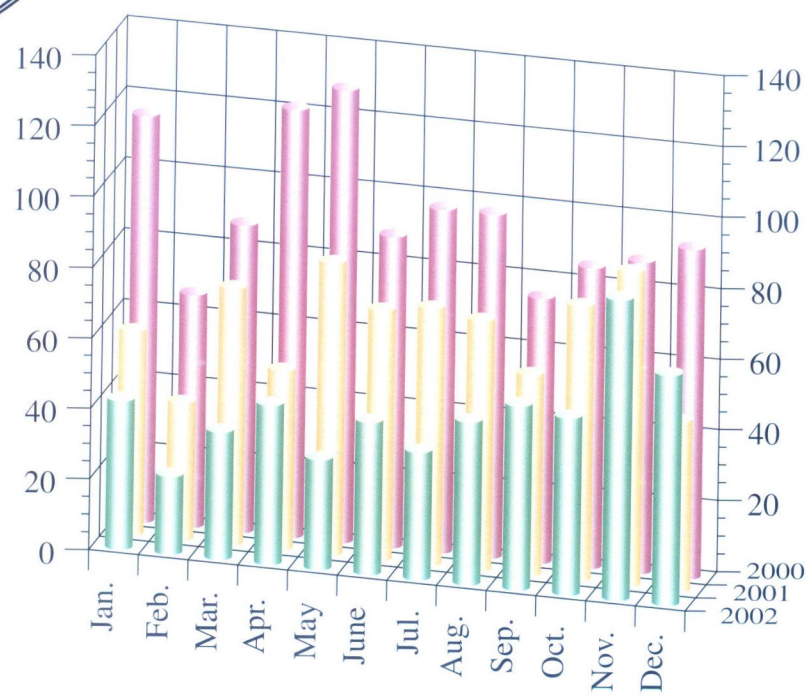
Ilan County:9 cases
Penghu County:0 case
Kinmen County:0 cases
Lienchiang County: 0 case
Foreign nationals:21 cases
Nationals:1,119 cases (see Fig. 2.3)
Total:1,140 cases, inclusive 21 cases involving foreign nationals



2. Distribution of SAR's filed by the month:

SAR's filed by financial institutions by the month were distributed as follows: 115 cases in January, 66 cases in February, 87 cases in March, 121 cases in April, 128 cases in May, 88 cases in June, 97 cases in July, 97 cases in August, 75 cases in September, 85 cases in October, 88 cases in November and 93 cases in December. All in all, there were 1,140 cases of SAR's for the whole year in question. For comparison with the number of SAR's in 2000 and 2001, please refer to Fig. 2.4.

Fig. 2.4 Distribution of SAR's by the Month

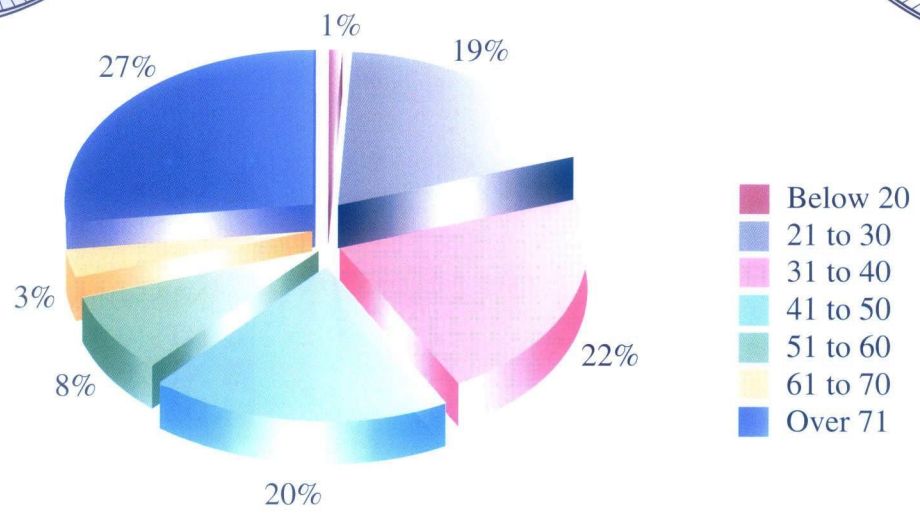


3. Distribution of age groups among offenders:

From the statistics, it shows that the majority of offenders range in age above 71, followed by the age groups of 31 to 40, 41 to 50 and 21 to 30. The latter four accounted for 88% of the total addicted population while dealings with addicts aged over 71 accounted for 27% of total transactions. That means in most cases elderly persons acted as be the 'shell.' The breakdown is shown below:

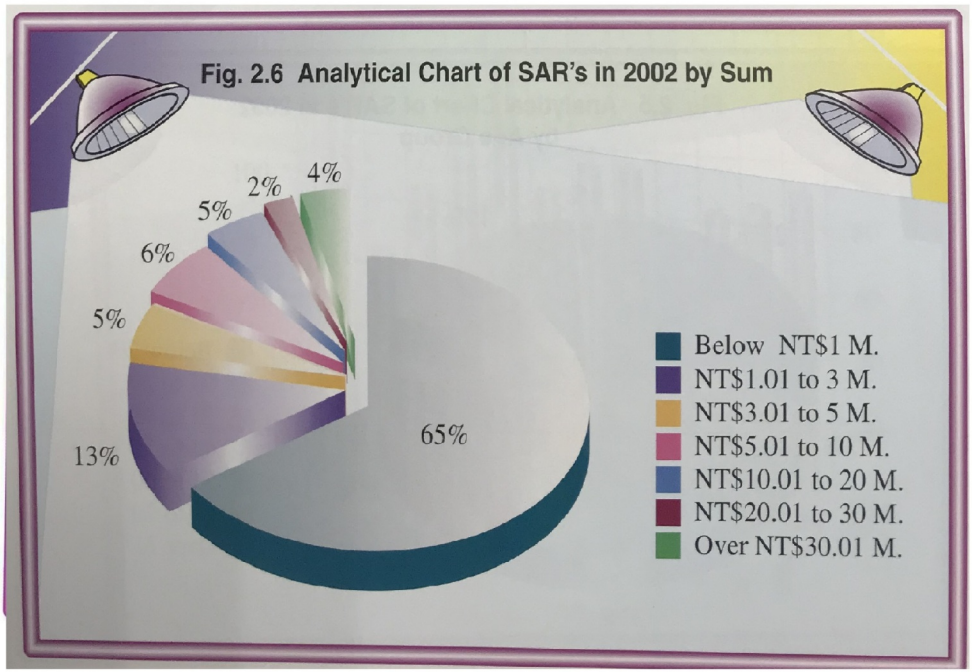
Under 20, inclusive: 1 0 persons
21 - 30: 216 persons
31 - 40: 253 persons
41 - 50: 224 persons
51 - 60: 95 persons
61 - 70: 35 persons
Over 71: 307 persons
Total: 1,140 persons (see Fig. 2.5 for details)

Fig. 2.5 Analytical Chart of SAR's in 2002 by Age Group



4. Statistics of transaction amount:

Under NT$1,000,000, inclusive:744 cases
NT$1,010,000 - NT$3,000,000:143 cases
NT$3,010,000 - NT$5,000,000: 58 cases
NT$5,010,000 - NT$10,000,000:73 cases
NT$10,010,000 - NT$20,000,000: 52 cases
NT$20,010,000 - NT$30,000,000: 25 cases
Over NT$30,000,000: 45 cases
Total: 1,140 cases
(See Fig. 2.6 for details)



III. Collection and analysis of money laundering information

According to the Ministry of Justice's inquiry system concerning cases of prosecution, the MJIB has compiled and analyzed cases prosecuted by prosecutor's office of various district courts under the MLCA since the act went into effect. To better understand the situation in recent years, the following details are presented herewith:

A. Money-laundering cases prosecuted by prosecutor's offices at local district courts and distribution in areas where money-laundering cases occurred:

From the statistics regarding prosecuted money laundering cases released by each district prosecutor's office, it showed there were 2 cases in 1997, 4 cases in 1998 and 14 cases in 1999, 19 cases in 2000, 23 cases in 2001 and 89 cases in 2002 or a total of 151 cases. The statistics shows that there was a significant increase in 2002. As to the distribution of the prosecuted cases, there were 65 cases by Panchiao Prosecutor's Office, 22 cases by Taipei Prosecutor's Office, 22 cases by Taichung Prosecutor's Office, 11 cases by Kaohsiung Prosecutor's Office, 8 cases by Tainan Prosecutor's Office, 7 cases by Yunlin Prosecutor's Office, 4 cases by Hsinchu Prosecutor's Office, 3 cases by Pingtung Prosecutor's Office, 2 cases each by Shihlin and Hualien Prosecutor's Office, and 1 case each by Keelung, Ilan, Nantou, and Kinmen Prosecutor's Office. (See Tables 3.1, 3.2 and Fig. 3.1 for details)

Table 3.1 Statistics of Money-laundering Cases Prosecuted by Local Prosecutor's Offices

Number of Cases

Name \ Year	1997-1999	2000	2001	2002	Total
Panchiao	5	1	5	54	65
Taipei	2	4	7	9	22
Taichung	4	4	2	12	22
Kaohsiung	4	3	1	3	11
Tainan	1	2	3	2	8
Yunlin	0	1	2	4	7
Hsinchu	0	1	0	3	4
Pingtung	1	0	1	1	3
Hualien	1	0	1	0	2
Shihlin	2	0	0	0	2
Changhua	0	0	0	1	1
Keelung	0	1	0	0	1
Nantou	0	1	0	0	1
Kinmen	0	0	1	0	1
I-lan	0	1	0	0	1
Total	20	19	23	89	151

Fig. 3.1 Chart Showing Distribution of Prosecuted Money-laundering Casesby Local Prosecutor's Office from 2000 to 2002

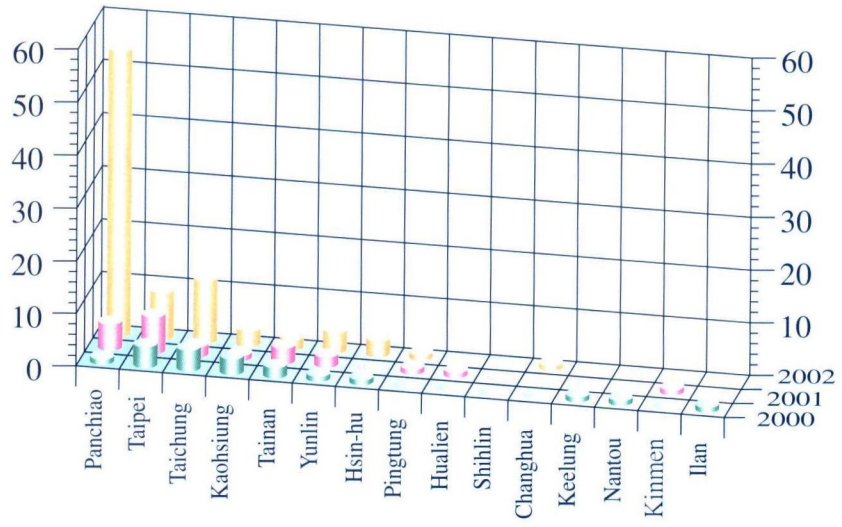


Table 3.2 Statistics of Major Money-laundering Cases by Type Prosecuted by Local Prosecutor's Office

(Period: 1997 to 2002) Unit: No. of Cases

Types of Committed Crime / Name of Offices	Economic	Corruption	Narcotic Drugs	Serious Offense	Total
Panchiao	61	4	0	0	65
Taipei	17	3	1	1	22
Taichung	17	1	2	2	22
Kaohsiung	7	3	1	0	11
Tainan	2	5	0	1	8
Yunlin	6	1	0	0	7
Hsinchu	4	0	0	0	4
Pintung	2	0	1	0	3
Shihlin	2	0	0	0	2
Hualien	1	1	0	0	2
Keelung	1	0	0	0	1
I-lan	0	0	0	1	1
Nantou	0	1	0	0	1
Kimmen	0	1	0	0	1
Changhua	1	0	0	0	1
Total	121	20	5	5	151

B. Major money-laundering cases prosecuted by type, charges and method used

The object of money laundering crime is limited to the interests in the form of proceeds or property generated from the crimes committed as described under Article 3 of the MLCA. The types of crimes can be defined as corruption, economic crime, narcotic drug crimes and "major crimes". Economic crime ranked the top with 121 cases, accounting for 81% of total crimes committed, followed by corruption with 20 cases, or 13%, major crime with 5 cases, or 3%, and crime of narcotic drugs with 5 cases, or 3%, in that order (see Fig. 3.2). As to the names of offenses, there were 102 cases of habitual fraud, followed by 12 cases of what Article 4(1)(1), (3) and (4) of the Statute for Punishment for Corruption and Embezzlement calls crimes, including embezzlement of public property, receipt of kickbacks through handling of public projects, or other corruption or acceptance of bribes in violation of professional ethics. As to other cases of crime, the distribution was fairly even. Cases referred to by police agencies were mostly economic crime; the majority of cases referred to by investigative agencies were corruption, followed by economic crime; cases referred to by Coast Guard Command involved one case of economic crime on charges of smuggling in pursuance of the Statute for Punishment of Smuggling. In addition, cases prosecuted on the initiative of local prosecutor's office included mostly economic crime involving habitual fraud. The increase in number of habitual or professional fraudulent cases reflects the fact that law enforcement agencies need watch the development and beef up investigations (see Table 3.3 and Fig. 3.3).

Fig. 3.2 Major Types of Money-laundering

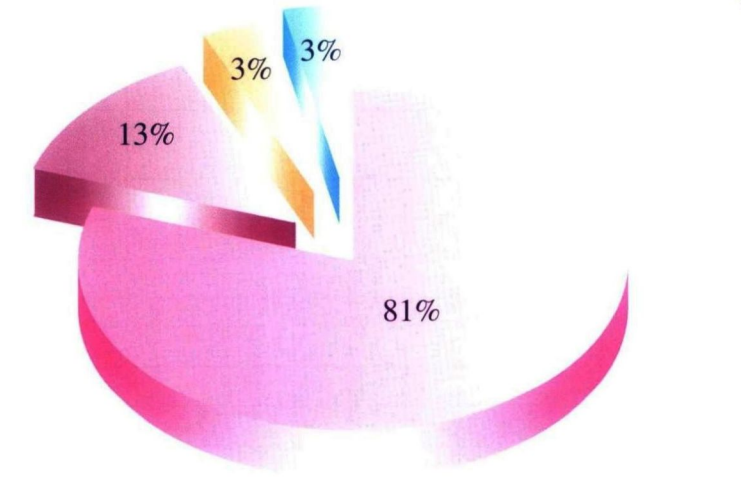
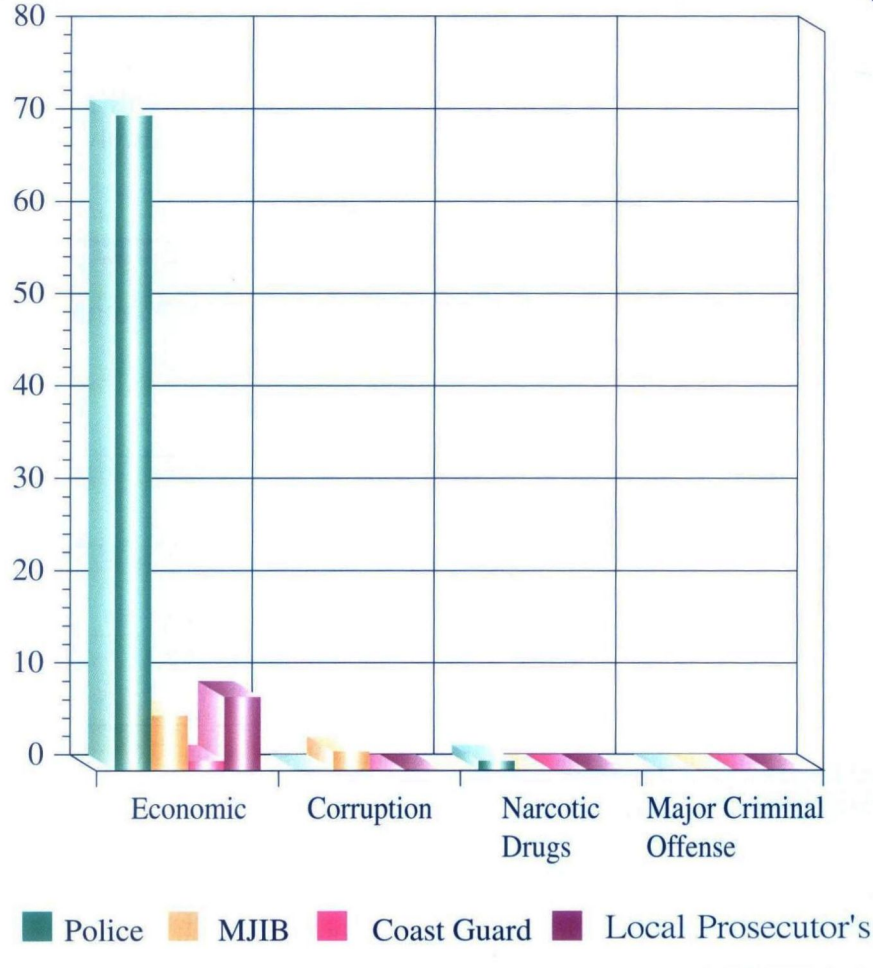


Table 3.3 Statistics of Money-laundering Cases Referred by Law Enforcement Agencies for Prosecution

Unit: Cases

Type of Crime \ Referred by / Year		Police				MJIB				Coast Guard Command	Local Prosecutor's office	Total
		86-88	89	90	91	86-88	89	90	91	91	91	
Economic	Professional fraud	4	6	11	69	2	1	0	2	0	7	102
	Stock market manipulation in violation of Securities Transaction Act	0	0	0	0	2	1	0	1	0	0	4
	Professional usury	0	1	1	1	0	1	0	0	0	0	4
	Counterfeiting of securities	1	1	0	1	1	0	0	1	0	0	5
	Violation of regulations concerning punishment for smuggling	0	0	0	0	0	0	0	0	1	0	1
	Violation of banking laws	0	0	0	0	0	0	0	1	0	0	1
	Violation of national currency regulation	0	0	2	0	0	0	0	1	0	1	4
	Sub-total	5	8	14	71	5	3	0	6	1	8	121
Corruption	Violation of Art. 4 of Regulations Concerning Punishment for Embezzlement	1	0	0	0	3	5	2	1	0	0	12
	Violation of Art. 5 of Regulations Concerning Punishment for Embezzlement	0	0	0	0	1	2	2	1	0	0	6
	Violation of Art. 6 of Regulations Concerning Punishment for Embezzlement	0	0	0	0	1	0	1	0	0	0	2
	Sub-total	1	0	0	0	5	7	5	2	0	0	20
Narcotic Drugs	Trafficking of Grade I narctic drug (heroin)	0	0	0	0	1	0	0	0	0	0	1
	Trafficking of Grade II nacotic drug (amphetamine)	1	0	1	1	1	0	0	0	0	0	4
	Sub-total	1	0	1	1	2	0	0	0	0	0	5
Major Criminal Offense	Robbery	1	0	1	0	0	0	0	0	0	0	2
	Kidnapping	0	1	1	0	0	0	0	0	0	0	2
	Violation of regulations concerning sex with children and juvenile	0	0	1	0	0	0	0	0	0	0	1
	Sub-total	1	1	3	0	0	0	0	0	0	0	5
Grand Total		8	9	18	72	12	10	5	8	1	8	151
		107				44						

Fig. 3.3 Comparison of Crime Types Interrogated by Law Enforcement Agencies



According to the column that lists the suspicious money laundering activities, it indicates that the banking industry financial institutions being used as a vehicle for money laundering accounted for most of the cases prosecuted. Money launderers, in an attempt to conceal their illicit gained income have used all sorts of financial institutions (a mono type or multiple varieties) as described under Article 5 of the MLCA. Statistics shows there were 113 cases, or the frequently used channel by domestic money laundering handlers, involving use of the banking institutions. Directorate General of Post Remittances & Savings Bank ranked the second with 62 cases, followed by securities dealers with 13 cases, credit unions with 6 cases, farming credit associations with 5 cases and fishing credit associations with 2 cases. No money laundering case has ever been reported through other types of financial institutions (see Fig. 3.4). Other than use of financial institutions for money laundering, there were 7 cases reported in transactions of real estate, 3 cases of auto purchase, 2 cases through pawnshops, 2 cases through bank safe boxes, 2 cases involving repayment of debt, 2 cases involving courier in person, 2 cases involving deposit in a friend's house, one case of underground remittance, one case of gold bullion purchase, one case involving acquisition of obligatory right, and 23 cases of alteration of National ID's (see Fig. 3.5).

Fig. 3.4 Statistics of Money-laundering Cases Channelled via Financial Institutions

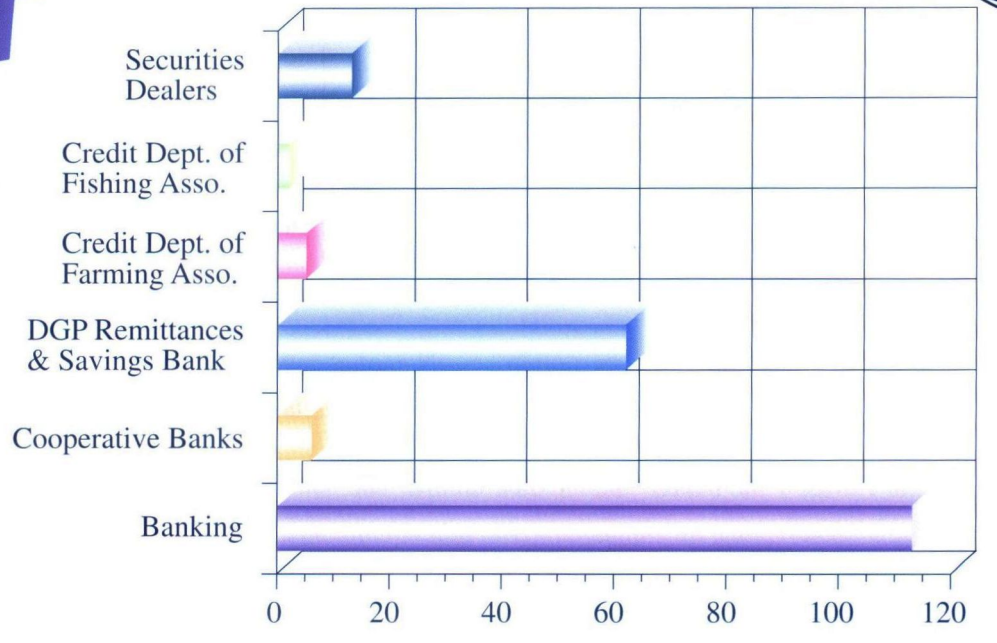
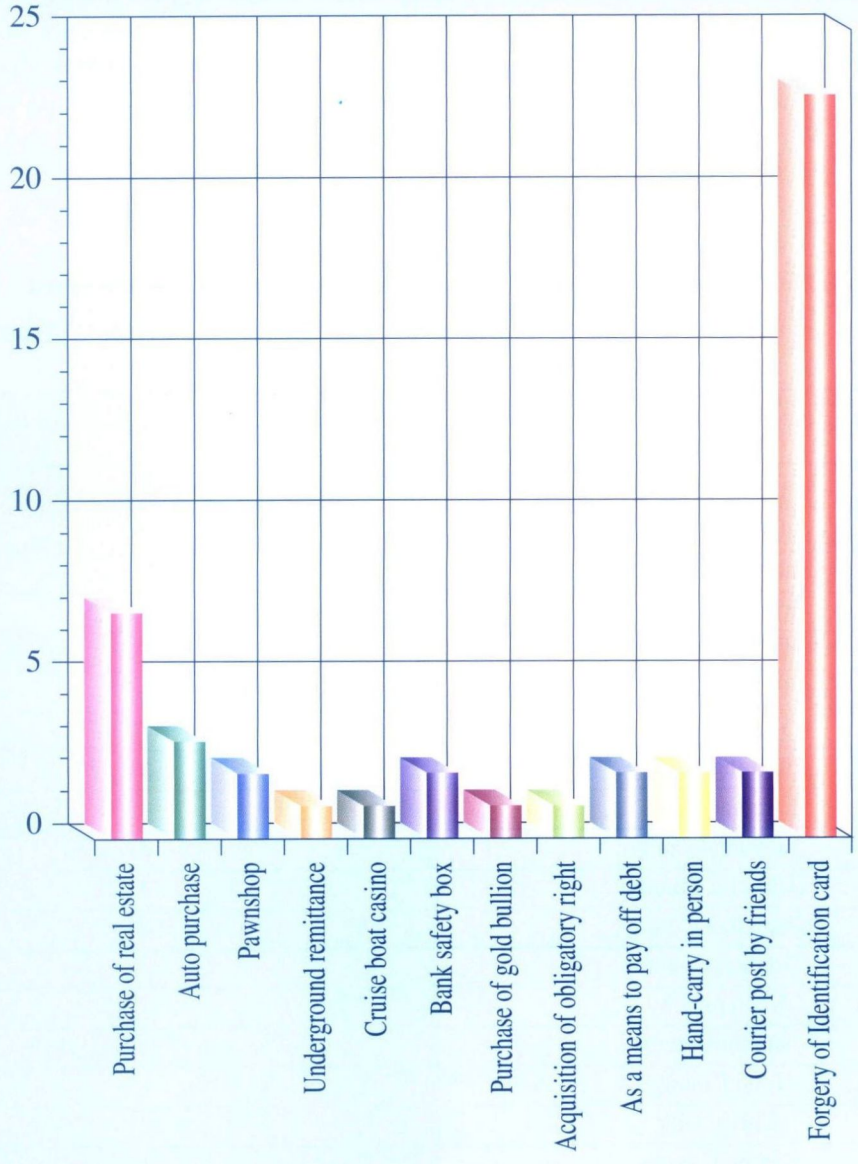


Fig. 3.5 Statistics of Money-laundering Cases Using Channels Other than Financial Institutions



C. Areas where prosecuted money laundering cases occurred

By statistics, Taipei County took the lead in all cities/counties with 77 cases prosecuted, followed by Taipei City with 37 cases, Taichung City with 18, Kaohsiung County with 11 cases, Kaohsiung City with 10 cases, Taichung County with 9 cases, Tainan County and Yunlin County with 7 cases each, Pingtung County with 5 cases, Tainan County with 4 cases, Taoyuan County and Hsinchu County with 3 cases each, Changhua County and Hualien County with 2 cases each, and Keelung City, Nantou County, Chiayi City, Chiayi County and Ilan County with 1 case each (see Table 3.4 and Fig. 3.6).

Table 3.4 Statistics of Areas Where Money-laundering Cases Occurred

Unit: No. of Cases

County/City	Total
Taipei County	77
Taipei City	37
Taichung City	18
Kaohsiung County	11
Kaohsiung City	10
Taichung County	9
Tainan County	7
Yunlin County	7
Pingtung County	5
Tainan City	4
Taoyuan County	3
Hsin-chu County	3
Changhua County	2
Hualien County	2
Keelung City	1
Nantou County	1
I-lan County	1
Chiayi City	1
Chiayi County	1
Total	200


Fig. 3.6 Distribution of Areas Where Money-laundering Cases Occurred
0-2 Times
3-5 Times
6-9 Times
10-15 Times
16-20 Times
21-50 Times
Over 51 Times

D. Statistics of number of defendants prosecuted under charges of money laundering

By statistics of types of crime, the number of defendants prosecuted under the MLCA showed there were 192 males and 47 females that also participated in the commission of major crimes. In addition, prosecuted under the MLCA alone included also 69 males and 23 females (see Table 3.5).

Table 3.5 Statistics of Defendants Prosecuted in Money-laundering Cases

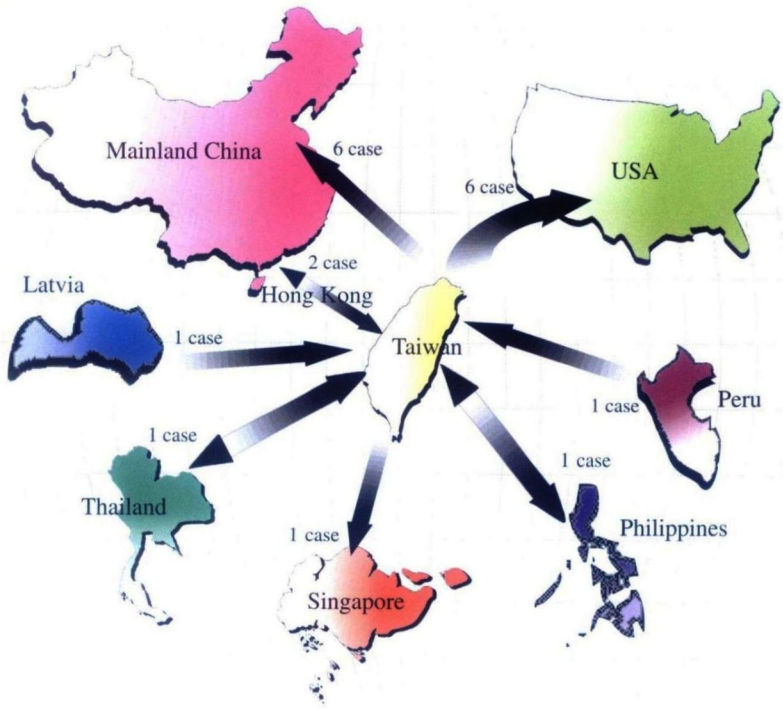
Unit: Cases

Crime charged / Sex / Crime type / Year			1997-99	2000	2001	2002	Total
Perpetrators of Serious Crimes Involve Money Laundering	Male	Economic	35	24	17	88	164
		Corruption	7	2	6	2	17
		Narcotic Drugs	2	0	0	2	4
		Major criminal offense	2	0	5	0	7
		Sub-total	46	26	28	92	192
	Female	Economic	17	1	5	18	41
		Corruption	1	4	3	1	9
		Narcotic Drugs	1	0	0	1	2
		Major criminal offense	0	0	1	0	1
		Sub-total	19	5	9	20	53
Crimes Merely Asaist in Money Laundering	Male	Economic	9	1	0	37	47
		Corruption	2	6	4	0	12
		Narcotic Drugs	0	0	1	0	1
		Major criminal offense	1	1	7	0	9
		Sub-total	12	8	12	37	69
	Female	Economic	2	1	2	9	14
		Corruption	1	1	1	0	3
		Narcotic Drugs	0	0	1	0	1
		Major criminal offense	1	1	3	0	5
		Sub-total	4	3	7	9	23
Grand Total			81	42	56	158	337
			337				

E. Distribution of areas where transnational money laundering cases were involved and prosecuted

Where it comes to transnational transactions of money laundering, Mainland China and the US are both on top of the list with 6 cases each, followed by Hong Kong with 2 cases, Singapore, the Philippines, Peru, Latvia and Thailand with 1 case each (see Fig. 3.7).

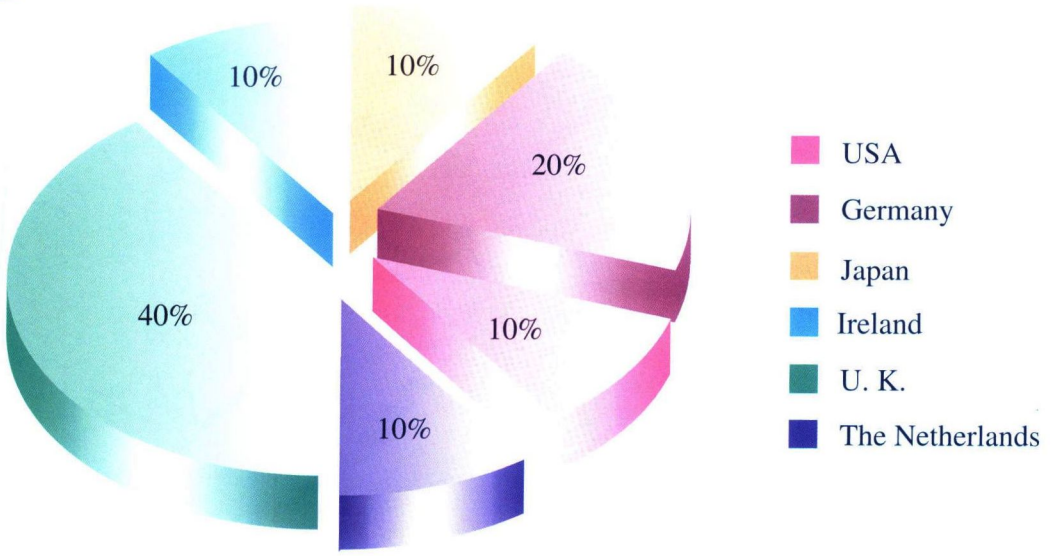
FIG. 3.7 Countries of Origins of Transnational Money-laundering Cases Prosecuted in Taiwan



F. Where the defendants prosecuted for money laundering were foreigners

Foreign nationals prosecuted under the MLCA involved 4 citizens of the United Kingdom, 2 citizens of Germany, and 1 each of the US, Japan, Ireland and the Netherlands (see Fig. 3.8).

FIG. 3.8 Statistics of Foreign Nationals Prosecuted in Money-laundering Cases



IV. Assistance made available to investigations

The MLPC offers its assistance not only in money laundering investigations by fellow units inside the MJIB, but also in investigations conducted by other domestic and foreign agencies as well. In 2002, there were a total of 30 cases that the MLPC had provided assistance in investigation, of which 10 cases were for prosecution and investigation agencies, 1 for police agencies, 5 for other agencies and 23 for information exchange with international agencies (see Table 4.1).

Table 4.1 Statistics Showing Number of Cases Assisted in Investigation in 2002

Name of Agency	No. of Cases
MJIB's Units	30
Prosecuting Agencies	10
Police Agencies	1
Other Agencies	5
Internalional Cooperation Exchange Programs	23
Total	69

V. International cooperation

Since the 9-11 attacks on New York and the Pentagon in 2001, international criminal and judicial systems have set their priority on dealing blows to terrorism as the primary mission. In this regard, international organizations, the UN included, have published related documents hoping all countries to enact laws against terrorism. To cut off the lifeline of international terrorism, the documents further urged money laundering activities should be combined with the laws to be enacted. As a member of the international community, the ROC simply can not stay idle. As such, the MJIB's MLPC continued to assist foreign law enforcement agencies, including countries such as the US, Canada, and Belgium, FinCEN of the US and domestic related agencies in providing over 200 bank accounts that might likely be used by international money laundering syndicate associated with terrorism.

At present, MLPC are members of APG[1] and Egmont Group[2], two of the 18 government organizations in which the ROC has joined. Taking part in the two international government organizations benefits substantially our presence in the international community, let alone participation in international cooperation programs to jointly fight against money-laundering crime. Both Mainland China and Taiwan are the founding members of APG. But Beijing had flatly refused the ROC's entry into the workshop on types of money-laundering crime held in Beijing in 1998. Ever since that incident, Beijing has refused to be present in any of the APG activities; nor has Beijing ever expressed its desire to withdraw from the organization. It went even further by not paying its dues. From 2001 onwards, however, People's Bank of China and related agencies have reverted to the usual pressure tactics and used every opportunity to put pressure on the APG Secretariat demanding withdrawal of the ROC membership or change of the ROC name in the roster. To prevent Mainland China from boycotting our membership in the 5th annual meeting held in June 2002 in Brisbane, Australia, the ROC delegation was led by Chief Secretary Chiang Ming-chang of the Ministry of Justice. Before the meeting was formerly opened, Chief Secretary Chiang and his entourage had visited the Secretariat and the joint chairs of Australia and Malaysia, expressing our desire to actively participate in the organization's activities to fulfill our obligations that members are required. The delegation also stated that the ROC would give up ideological arguments and would, instead, like to join hands with Mainland China in fighting against money-laundering crime seen on both sides of the Taiwan Strait, including exchange of information as a gesture of cooperation. The APG Secretariat highly praised the ROC's efforts and achievements in fighting against money-laundering crime. In addition the APG Secretariat had showed its willingness to convey our message to Mainland China, although we have as yet not received any positive response.

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1 Until June 30, 2002, members in the organization included 25 countries (regions); 15 country (region) observers and 13 international organizations.

2 Until June 30, 2002, there are 68 country (region) members.

On attendance to international conference, apart from the 5th Annual AGP Meeting mentioned above, Director-General Yeh Cherng-maw personally led our delegation to the 10th Annual Egmont Group Meeting held in June 2002 in Monaco to express our desire to join the international community in jointly fighting against terrorism and money laundering activities. At the meeting, the ROC delegation had exchanged views with fellow participants on the new trend of money-laundering crime and transnational transfer of illegal funds in the Legal Working Group, Outreach Working Group and Training Working Group.

In October APG held a working workshop on underground remittance and trend of money laundering in Asia-Pacific in Vancouver, Canada. MLPC staff were present at the Egmont Group sponsored working conference respectively in April in Washington D.C, US, and in November in Prague, Czech Republic. In addition, MJIB staff were also present as a full member in the workshop on investigation of funds flow held jointly by the Egmont Group and the UN in Mexico in August.

In response to anti-funds flow investigation, Financial Action Task Force on Money Laundering (FATF), the special organization established to fight against money laundering, has drafted 40 recommendations for which two workshops were held, one in Hong Kong, China in January and the other in Ottawa, Canada in April. As a member of APG, the ROC delegations were present in both meetings.

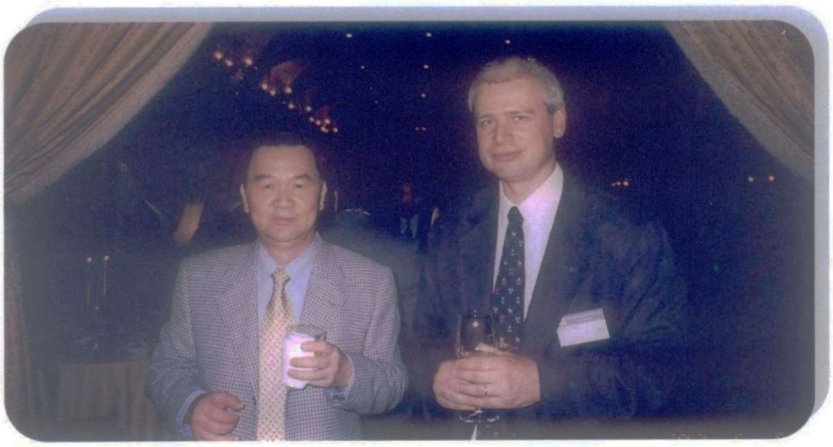


Photo of MJIB Director-General Yeh Cherng-maw with Mr. Igor Barac, Chairman of OWG, Egmont Group

VI. Establishment of databank

Cases of SAR's handled by the MLPC are filed in the computer system after having been verified, induced, compared and analyzed. For the year in question, there were 1,140 pieces of intelligence filed in the database. All in all, there are 3,171 pieces of intelligence on file.

VII. Promotion and training

In order to assist staff in financial institutions in identifying signs of money-laundering, and in observation of provisions of the Money Laundering Control Act, the Center, at the request of related financial institutions, has dispatched its agents to lecture on the subject of money laundering at various financial institutions. Details of the lecture tour are shown:

At Domestic Banks: 76 sessions with 5,552 attendees.
At Foreign Banks: 16 sessions with 643 attendees.
At Securities Investment Trust Firms: 2 sessions with 95 attendees
At Securities Dealers Firms: 110 sessions with 10,110 attendees.
At Insurance Business Development Center: 7 sessions with 648 attendees.
At Bills Financing Firms: 2 sessions with 85 attendees.
At Farming and Fishing Credit Associations: 2 sessions with 140 attendees.
All in all, 215 sessions were held and 17,264 attendees.
(For details, see Table 7.1)

Table 7.1 Statistics of Promotional and Training Speeches for Money-laundering Prevention

Name of Financial Institutions		No. of Sessions	No. of Attendees
Banks	Domestic Banks	76	5552
	Foreign Banks	16	634
Farming & Fishing Assos.		2	140
Securities, Investment, Trust		2	95
Securities Dealers		110	10110
Bills Financing		2	85
Insurance Institute of the ROC		7	648
Total		215	17264

Part Three

Major Case Studies

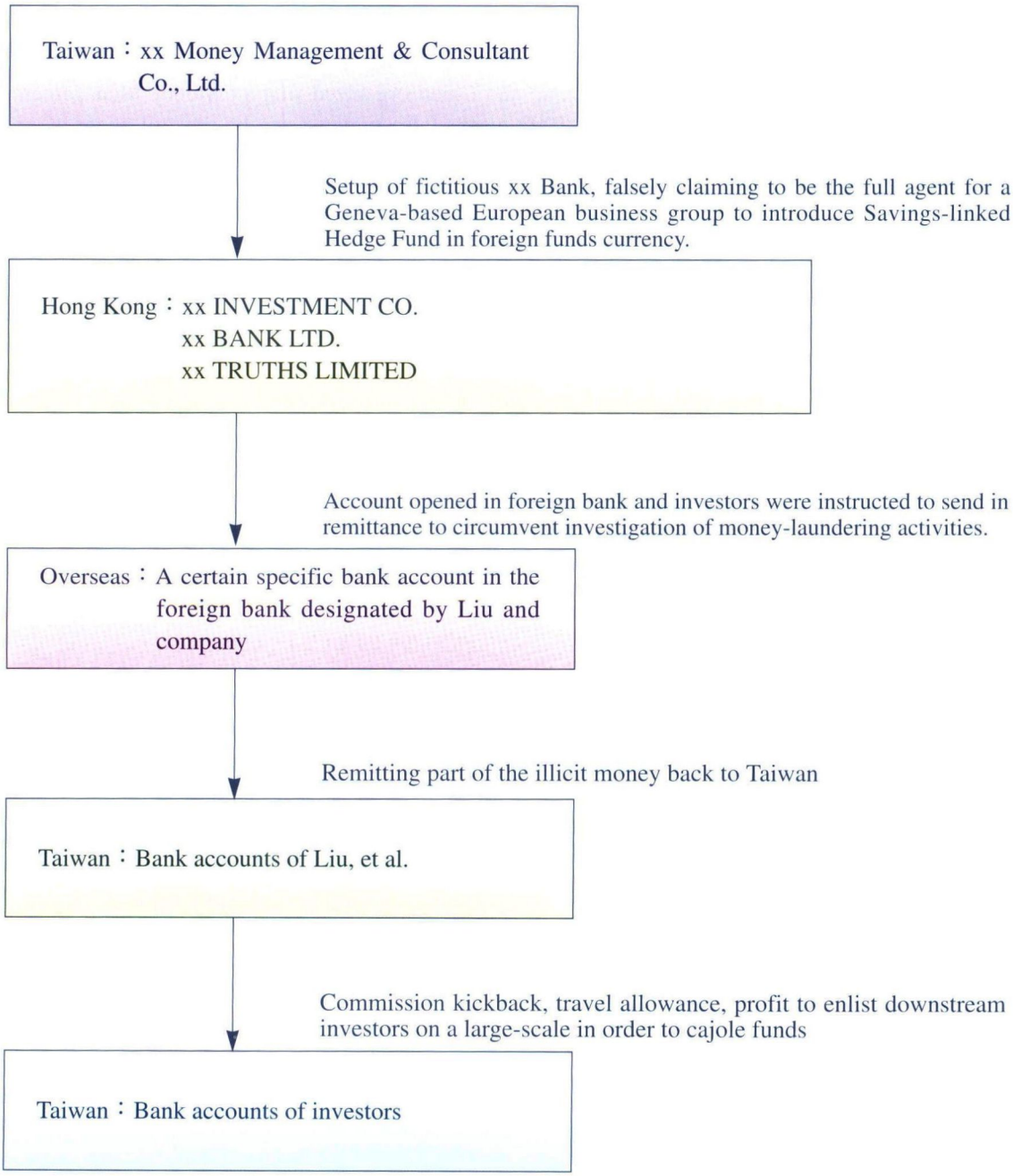
I. Money laundering funds derived from fraud by Liu, et al.

Knowing perfectly well that unless specified otherwise by law, non-banking institutions shall not engage in the businesses of accepting deposits, handling trust funds, public property or domestic/foreign remittances, Liu, Chen, Liang and Chien organized first xx Money Management and Consultant Co., Ltd. in Kaohsiung in 1999, using false pretenses to be the full agent of xx International Group for operating foreign currency exchange with a guaranteed annual income of 20%. Using this method, they took in deposits and trust funds. The scheme was uncovered by the Kaohsiung Field Office of MJIB on December 27, 2000 (case being prosecuted separately). Later the gang restarted the scheme in Hong Kong by setting up a fictitious firm by the name of xx Trust Company, Ltd., and xx Bank, falsely claiming to be the subsidiary business of a Geneva-based European business group. The re-named fictitious firm promoted a savings-linked hedge program in foreign currency that guaranteed an annual return of at least 20%, provided that the investor delegate full authority to xx Trust Co., Ltd. to manage their investments. They began to take in money from prospective investors the same way as does chain-letter schemes. Each contract investors' purchases were in the amount of US$10,000 for a period of two months. On the average, interest accrued for each contract each month ran to some NT$6,000. They further encouraged investors to solicit downstream investors in large number by paying high commissions and travel allowance for large-denomination investment program. To circumvent investigation by law enforcement agencies, they instructed investors, at different times and on different occasions, to remit the capital to a specific bank account in a foreign bank to undergo money laundering.

All in all, Liu and company had cajoled 4,030 investors and illegally took in US$113,200,000. By the exchange rate of US$1 for NT$34, the illegal receipts would amount to NT$3.8488 billion. Apart from reports by the general public, xx Bank had reported the case in accordance with the MLCA to MJIB's MLPC in October 2000 after they discovered frequent massive foreign exchange was remitted inbound to Liu's account, which was later re-deposited into several different accounts.

After establishment of file, analysis, investigation and analog, it was determined that said case was indeed suspicious. It was referred to the MJIB's Kaohsiung Field Office for action. Through international cooperation via Egmont Group, foreign law enforcement agencies were asked to freeze the illegal funds in the country of destination for a total of US$17,032,423.1. Meanwhile, prosecutor had brought charges on violation of Article 125 of the Banking Law, Article 339(1) of the Criminal Code and Article 9 of the MLCA against Liu and company, requesting the court to hand down a prison term ranging from 3 years and 6 months to 10 years. At the time of writing, the case is pending in Kaohsiung District Court of Taiwan.

Money Laundering Flow Chart - Liu and company



II. Money laundering of funds derived from forgery of securities by Chu and company

Chu, Lee, Hsu, and Wu did not have regular verifiable employments. In partnership with Yang and others of xx Machinery and Engineering Co., Ltd., hereinafter called xx Co., along with money broker Su and Yueh (who was on parole following a 5-year sentence for involvement in a fraudulent loan connected with xx College), they used the name of xx Co. to cajole capital from the public on the pretext of pending bank loans to contract construction of a large-scale incineration plant. They offered to pay high commissions to anyone who could provide the funds and deposit the money in certificate of deposit into the bank from which xx Co. intends to apply for loans. That was the bait they used to cajole financial backers who had idle cash.

In November 1998, Lee asked fellow worker Cheng to seek a financial backer for him. Through the medium of a friend, Cheng came to know Ying of the Non-profit xx Medical Center, hereinafter called xx Hospital. In normal case, xx Hospital then had several hundred million idle funds available each day. They tried to persuade Ying to help them. When Ying was informed of the interest to be accrued and the extraordinary profit he could make, he complied with the suggestion for assistance from Lee, et al. On December 24, 1998, chief cashier of xx Hospital withdrew NT$200 million from the current account xx Hospital has with the Tienmou Branch of A Bank, instructing the bank to issue two separate NT$100 million check payable to the order of xx Hospital at T Bank. Following an instruction from Ying, Hsu later asked A Bank to issue the checks with unregistered title and cancelled the clause of 'no endorsement permitted.'

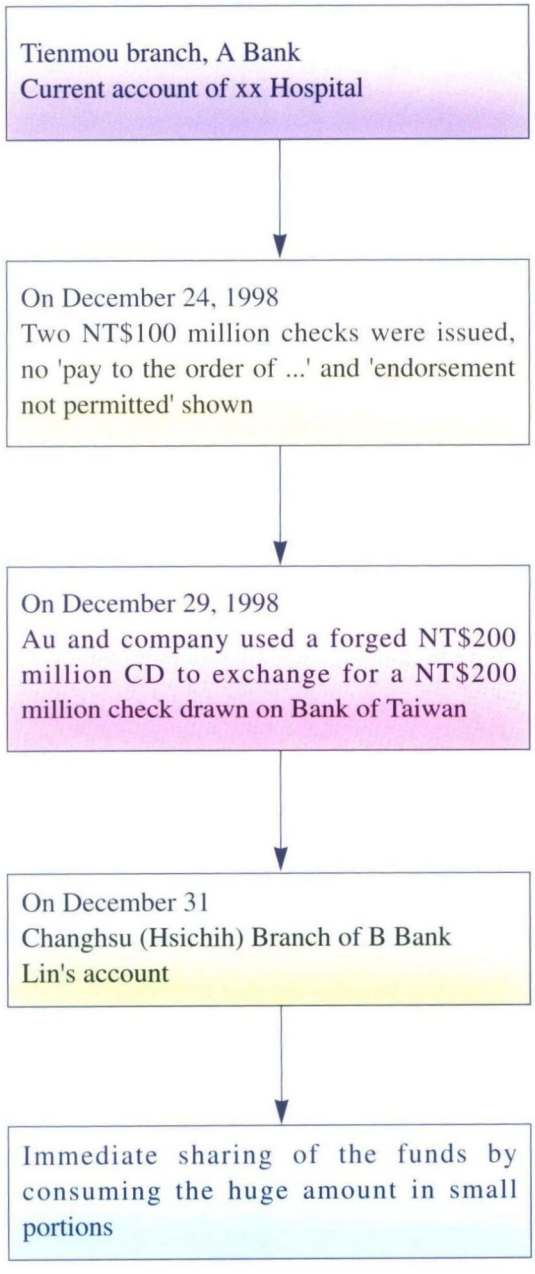
Once the checks were ready, Ying and Chu and company brought the checks to the Chunglun branch of T Bank to open up an account and proceeded with the formalities for certificate of deposit. Chu introduced Wu, a feigned assistant vice president of T Bank, to Ying. At the time Chu and company returned the checks and seals of xx Hospital and other related documents to Ying, saying the formalities were not completed. Once Chu and company confirmed the NT$200 million check was genuine, they rushed to T Bank to make small-amount CD. After the CD was issued, they counterfeited a 3-month CD with the commencement date of December 24, 1998 as well as counterfeited receipt. On December 29, Yin handed Wu the NT$200 million check for CD. Wu also handed Ying the afore-mentioned counterfeited CD and receipt to Ying, which was turned over by Ying to the chief cashier for custody.

Once Chu and company obtained the NT$200 million check, they asked Chen to present the check for clearance. With the criminal intent of receiving stolen funds and money laundering, Chen went to T Bank on December 30, 1998 to open up a general deposit account with the check. The bank teller noticed the monstrous amount shown on the check without the wordings 'pay to order of ...' and 'endorsement not permitted.' As the teller became suspicious, he tried to verify with the Tienmou branch of A Bank. The reply was positive and Chen had expressed the check would be deposited with the bank's Chunglun branch in the form of CD. So the teller asked Chen and company to visit the Chunglun branch to proceed with the formalities. At the same time, the teller

phoned Ying of on the situation. Ying replied that the checks might be returned to the bearer. The teller complied with the information input in the computer databank. On the very next day, Chu and company asked Yu and Lin to cash the checks at the Changhsu (Hsichih) branch of B Bank; the proceeds were deposited into Lin's account. The Changhsu (Hsichih) branch had checked with the Tienmou branch of A Bank to verify the checks. Again, the Tienmou branch of A Bank relayed the message to Ying who did not request stop payment, or re-deposit or the like. On the end, the checks were cashed and Chu and company had shared the loot by consuming the huge amount in small portions.

Trial of the case was concluded by Shihlin District Court in February 2003. Chu, Chen and Ying were sentenced to prison terms ranging from one to seven years on charges of counterfeiting securities, breach of trust and money laundering.

Flow Chart of Money Laundering of funds derived from forged securities - Chu and company



Part Four

Review of the Past and Outlook for the Future

For the year 2002, as the world's economy continued to be sluggish, domestic industry and business as well had been greatly affected. The impact of accession to the World Trade Organization (WTO) by the two sides of the Taiwan Strait has seen the arrival of internationalization and ever-increasing travel between people on the two sides of the Taiwan Strait. As a result, there were many major economic crimes committed at home involving malicious closing of business and emptying company assets. The end results have been the common saying, "Marching forward to Mainland China with cash, while leaving debts in Taiwan."

On the other hand, the threat of terrorism to global security has been on the rise. As such, anti-terrorism appears to have become a new trend in the formation of international alliances. The UN and other major international organizations have prepared various protocols, recommendations and guidelines requiring coordination from all countries in the world so as to jointly put an end to the financing of terrorists and their organizations.

In this regard, the ROC can simply not stay idle! Further, in order to implement the established government policy of thoroughly stamping out dirty money, all concerned agencies have spared no efforts in trying to discover and prosecute cases involving corruption, dereliction of duty and election bribery.

As for the prevalence of drug-related crimes, the government has insisted on the principles of 'interdicting at habitat,' 'intercepting at disembarkation,' and 'wiping-out within inland' to enforce the law. In practice, law enforcement agencies have never relaxed in their efforts to effectively stop the inflow of drugs into Taiwan. They have been working day in and day out on investigations of the origin of drugs, trafficking network and smuggling channels.

In the face of the stern threat to domestic security caused by these major crimes, our efforts on prevention of money laundering at home are illustrated as follows:

I. In order to fight financial crimes, the Executive Yuan had particularly set 2002 as a year of 'Financial Reform Year' by setting up a cross-ministry Financial Crime Enforcement Task Force and promoting the reform vision of 'building up a financial environment featured by high discipline and justice.' On the reform these of 'aggressive prevention of financial crime,' recommendation was made to amend the existing MLCA by adding the types and models of major crimes. In addition, on the theme of 'strengthening financial crime enforcement,' proposals were brought forward to include 'filing of SAR's by financial institutions in accordance with established rules at the earliest possible time;' 'integration of resources available at the hands of law enforcement agencies and financial institutions to facilitate timely planning for investigation of cyber financial crime;' 'instant notice to the MJIB's MLPC of financial crime cases under investigation so that the flow of capital may be traced at the earliest possible time;' 'request to law enforcement agencies to step up investigation of illegal foreign exchange dealing and remittance, underground remittance and money-laundering crime between the two sides of the Taiwan Strait;' and 'aggressive promotion of negotiations on mutual judicial assistance protocols in order to implement the judicial assistance program for investigation of transnational money-laundering case.' All concerned agencies have been asked to submit a

concrete workable plan to implement above-mentioned proposals.

II. On October 23, 1996, the first ever money-laundering law in Asia passed the legislative process in Taiwan, which was enacted on April 23, 1997, now in its sixth year of enforcement. In the process, we have encountered numerous difficulties, discovering non-compatibility of the law with the recommendation on anti-money laundering made by international communities. Therefore, a draft on amendment has been especially made to cope with the situation. First reading of the amendment had passed the 5th session of the 4th Term Legislative Yuan, but failed to pass the 2nd reading and it was resubmitted before the first session of the 5th Term Legislative Yuan. On January 13, 2003, the amendment passed the third reading in the Legislative Yuan and, on February 6, the President signed it into law, which will take effect six months after promulgation. Focal points of the amendment include:

A. Addition of currency transaction when the sum exceeds a certain amount under Article 7(1) that requires identification of the customer and retention of the transaction record on file in addition to filing report to the designated government agency. The primary intent of the revision lies in the concept that financial institutions are the very base to prevent money laundering and report filed by financial institutions could concretely develop the mechanism to its fullest extent that can be further used to implement government policy to fight dirty money and transnational money-laundering activities. To impose administrative responsibilities for anti-money laundering on financial institutions would enable the MLPC to trace at the earliest possible time the flow of suspicious funds.

B. Deletion of Article 8(1) of 'may notify the interested party,' is primarily meant to comply with Point 17 of the 40 Recommendations made by FATF, an international anti-money laundering organization. The provisions in Point 17 says, "Financial institutions, their directors, officers and employees, should not, or, where appropriate, should not be allowed to, warn their customers when information relating to them is being reported to the competent authorities." As our practice under the un-amended law ran counter to international anti-money laundering trend and, moreover, it was at variance with the penalty provision for leakage of confidential information under Article 11 of the MLCA, causing contradiction and difficulties in enforcement, the provision was therefore deleted.

C. Addition of Article 8(1) for freezing of assets. Since September 11, 2001 when terrorists attacked New York and Washington, D.C., international community have tried to act to prevent terrorist activities and wiping out terrorist financing organizations. UN Resolution No. 1373 urged all member countries to freeze all assets related to terrorist organizations. In addition, FATF has particularly proposed eight recommendations, requiring its members to freeze assets of terrorist organizations in accordance with the UN resolution. In this regard, Taiwan's action is in unison with the international community. In order to expand future judicial assistance in the international community, we have added this provision, after having consulted with laws enacted in advanced countries.

D. Article 12-1 adds the system of 'sharing of confiscated property.' The intent is to enhance the

strength of law enforcement agencies in their fight against dirty money, in addition, to expanding Taiwan's cooperative relations with the international community in the fight against money-laundering activities. It is patterned after the US 'sharing confiscated property' system, appropriating proceeds seized from investigation of crimes to law enforcement agencies for official use. Where confiscation or seizure is made overseas, the proceeds may be appropriated to foreign enforcement agencies as an incentive for international judicial assistance in fighting against crimes.

III. To fight against terrorism, the UN, through its Resolution #1373, urged emergency cooperation among all countries in the world to prevent and stop attacks by terrorist organizations. The resolution further asks countries to imprison terrorist if they have been found to have assisted, planned, prepared or committed or supported terrorist activity. Each country should clearly state in their domestic law that terrorist activity is a serious crime, subject to heavy penalty. Apart from prevention of terrorist activities, the resolution also urges close intelligence cooperation, administrative and judicial cooperation as well as signing of bilateral or multi-lateral agreements to prevent terrorist activities. Despite the fact the ROC is not a UN member, we feel, as a member of the international community, we should try to work with the international community to fulfill our obligations and responsibilities toward anti-terrorism activities. In this respect, the Ministry of Justice has completed the draft of 'Anti-terrorist Activities' bill, which would penalize terrorist activities by prison terms and, in addition, stipulate freezing and confiscation of property and flow of capital of terrorists. The bill meets with the request of the international community on anti-terrorist activity. It should be beneficial greatly to the ROC's cause for alliance with international anti-terrorist organizations.

IV. On March 27, 2002, Taiwan signed a Mutual Legal Assistance Agreement with the US. Article 2 of said agreement stipulates that competent regulatory agencies within the territory of each signatory may, in accordance the agreement, provide mutual assistance in the process of investigation and prosecution with regard to the judicial procedures involving crime prevention and related criminal cases. The scope of assistance includes obtainment of testimony or statement; available evidential documents, records and articles; confirmation or identification of the whereabouts of the interested party; delivery of documents; expatriation of detainee for the purpose of being the witness or other purposes; request for house raid and seizure; assistance in the procedures involving request for freezing and seizing property, return of compensation and levy of fines; and assistance that does not violate the law of the territory being requested. In addition, Article 17 concerns assistance in the procedures of confiscation whereas within the scope of law mutual assistance should be offered with regard to confiscation of income from commission of crime or tools used to commit the crime, compensation by the victim, as well as execution of the levy of fines rendered by criminal judgment. The assistance also includes provisional freezing of the illicitly gained income or tools used to commit the crime, pending further action. The benefit from this mutual assistance agreement extends to freezing,

confiscation and sharing of transnational property which will no doubt help us in seeking further international mutual judicial assistance programs.

On anti-money laundering, the international community, following the 9-11 attacks to the US, has tried to activate every means to put an end to terrorist's financing. To newly emerging methods used in money laundering in Asia, more and more discussions were held. In particular, FATF and APG, both international anti-money laundering organizations, have recommended the following for anti-money laundering:

A. In its 2001-2002 Report on Money Laundering Typologies, the FATF has filed a special report discussing terrorist financing. The report believes that the primary target of terrorism is to threaten the general public or force a certain government to take or give up a certain action. Although it differs in motive from traditional organized crime, the ultimate goal of terrorism remains the same: to seek a source of financing. One group of sources includes sponsorship from governments, certain specific organization or individuals. The other source is the revenue-generating activities terrorists engage, including kidnapping, blackmail, robbery, fraud, drug trafficking and collection of protection fees. As is similar to traditional organized crime, terrorist organizations must seek channels to launder the illicitly gained income to circumvent attention by law enforcement agencies. The methods used include cash smuggling, structured deposits to or withdrawals from bank accounts, purchase of such financial instruments as traveler's checks, bank drafts and bills of draft, use of debit cards or credit cards, and T/T. In addition, such underground remittance system such as hawala also acts an important role in money movement by terrorists. The way to put an end to terrorist financing is implementation of the UN Resolution #1373 and the special eight recommendations proposed by FATF to freeze and confiscate the property terrorists' control.

B. The APG 5th Annual Meeting was held in Australia in early June 2002. At the meeting, frequently used money-laundering methods currently in use in Asia as well as future trends were both discussed. The themes discussed included financial services OBU provides; transfer of capital by alternate use of underground remittance and substitute remittance system; use of bogus ID and names of friends and relatives in opening up new bank account; use of lawyers and CPA's to undergo money laundering; use of structured transactions in cash; evasion of legal threshold for report and investigation; use of bank drafts and checks in lieu of cash, followed by personal courier service or postal system; use of container or international carrier or by courier post to smuggle cash in large amount; use of conventional electronic method of payment via bank transfer or transfer via financial consultants, insurance agents or securities dealers; use of newly emerging financial transaction methods such as transfer of funds through the Internet, or purchase in the Internet of financial goods or services or use of valued-stored cards; use of non-conventional banking service to perform financial transactions such as underground or substitute banking, money changers and remittance handlers; use of shell companies to transfer funds; transfer of illicitly gained income in the name of investment to offshore territory; use of gambling business to divert and conceal proceeds from crime committed; and use of negotiable

payment instruments, credit cards, debit cards to divert and conceal proceeds from crime committed.

Anti-money laundering work requires close coordination of law enforcement agencies, regulatory agencies and financial institutions as well before a prevention network can be established. Looking back on the year just past, the MLPC continues to act as the agency that handles SAR's filed by financial institutions, coordinates and serves as a liaison for strategic studies of domestic anti-money laundering and anti-money laundering laws and regulations. In other words, the MJIB's MLPC has fully developed the FIU function at home. Compared with past years, the work of 2002 had the following features:

1.Massive increase in number of SAR's filed by financial institutions

The number of SAR's filed in 2001 was 791. The figure was 1,140 for 2002, an increase of 349, or 44%. It sets a new record primarily due to the concerted efforts by staff of the MLPC to keep cordial interactive relations with financial institutions. Besides, the MLPC staff had made themselves available at every opportunity to promote the MLCA and train workers in financial institutions to familiarize themselves with the SAR procedures. As a result, the efforts paid off, thus effectively increasing the willingness of financial institutions to file SAR's.

2.Remarkable progress made at investigation of related capital flow involving major cases

To meet the needs of fellow MJIB units and other related agencies in investigation, the MLPC has made available massive manpower to proceed with the investigation of capital flow in many cases such as the scandals of xx and Liu. The focus of investigation was on the flow of funds from which to trace the people involved in the case being investigated. By the flow of funds, related suspects were traced and the "main veins" of various criminal structures were spotted. Findings were immediately relayed to concerned agencies and the performance of the MLPC was highly praised by its superiors.

3.Promotion of MLCA amendments with initial achievements

Difficulties in enforcement of the MLCA have prompted the MLPC to recommend revision of the law and recommendations regarding the amendments were forwarded to the Ministry of Justice in time for their reference. To make the amendments possible, the MLPC had collected related information at home and abroad on a large-scale. The recommended amendment included deletion of 'may notify the interested party' as specified under Article 8 of the original Act, which runs counter to common sense, not to mention the usual international practice; addition of 'report on transactions of huge sum', 'freezing property used in money laundering activity,' and 'system of

sharing confiscated property.' Now that the amendment had passed the third reading at the Legislative Yuan and was signed into law by the President, it will be definitely beneficial to upgrade of domestic anti-money laundering work and make Taiwan's law compatible with those of the international community.

4.Effectively shutting off money laundering activities by terrorists and their organizations in Taiwan in conjunction with international anti-terrorism movement

In response to request from the concerned agency responsible for xx Project, the MLPC continued to target specific individuals in investigating their funds, property and financial transactions. In addition, the MLPC, in conjunction with regulators of financial institutions, requested domestic financial institutions to list the AIT-provided name list as suspects of money laundering principals. Domestic financial institutions are required to file immediately SAR should any suspicious transaction come up. On the MJIB website, there is page of US-listed Terrorists and Terrorist Organizations linked to the MJIB website for financial institutions to check related information. Further, in educational promotion tours aimed at financial institutions, MLPC staff have emphasized the importance of putting an end to terrorist financing through the administrative anti-prevention mechanism available at financial institutions. In addition, the MLPC has prepared a special report on how to effectively shut off terrorist financing and establish anti-money laundering mechanisms. The study has specially looked into the nature of terrorism, source of funds, threats it brings to the world and money-laundering channels. The report also proposed concrete recommendations on how to effectively prevent and cut off financing of terrorists and their organizations from the viewpoint of judicial sector, enforcement sector, financial sector and financial management sector.

5.Aggressive promotion of international cooperation

In 2002, the MLPC had exchanged information with the US, Singapore, Belgium, Switzerland, Malaysia, Latvia and Hong Kong in a total of 14 instances. Among them, xx Trust Company was suspected of illegally taking in deposits in Taiwan and later transferring majority of the funds overseas. Thanks to the safety network of the Egmont Group, we were able to ask respectively related countries for information of transactions in the suspect's financial accounts. The information thus obtained was forwarded to xx Prosecutor's Office for prosecution on charges of violation of the MLCA. To protect the interests of victims, MLPC, through mutual judicial assistance program, was further instrumental to access to information on the balance of the suspect's financial accounts which helped the xx Prosecutor's Office in prosecuting said case. At present, Taiwan is the full member of both Egmont Group and APG, eligible to participate in various conferences and activities the two international organizations hold. To fulfill our membership obligations, we have tried to sponsor holding workshops of the two organizations in Taiwan with positive response. Yet in

another development, we have promoted among our counterpart agencies signing of MOU or MLAT. Some countries have expressed keen interest and further negotiations are pending.

6.Progress registered in the work of education and promotion

In conjunction with the training programs financial institutions provide, the MLPC have assigned staff members to tour financial institutions lecturing on the concept of money laundering and promoting staff in financial institutions to file SAR's in accordance with law. The tour saw 215 sessions and the number of attendees exceeded 17,000 persons, almost double the 2001 figure of 98 sessions. To help staff in financial institutions to identify suspicious money-laundering activities and file SAR's, the MLPC specially printed various promotional leaflets, cards of suspicious indications, compilation of case studies and practical money laundering laws and regulations for distribution to financial institutions. Judging by the huge increase in number of filed SAR's in the year in question, it indicates that obviously the efforts MLPC made have paid off.

7.Upgrade of professional skills for MLPC staff in a timely manner

To upgrade the professional skills of MLPC staffers and enhance the investigation of anti-money laundering cases, colleagues handling major cases have been asked to submit their findings at joint meetings of the Center to instantly share their experience and skills in investigating flow of illegal proceeds. The MLPC have frequently invited outside scholars and experts to visit the Center lecturing on subjects related to financial transactions, newly emerging crime-committing types, money-laundering methods and audit of capital flow that are meant to encourage colleagues to engage in research which may upgrade their professional skills. In addition, domestic and foreign publications on anti-money laundering works have been collected on a large-scale for reference of MLPC staff.

Performance of anti-money laundering work in 2002 was quite remarkable, thanks to the concerted efforts of all MLPC staff. In review of the work performed in the past year, we have found there is room for improvement:

1.Quality of filed SAR's leaves room for improvement and, moreover, source of report seems excessively concentrated

The number of SAR's filed by financial institutions has broken the 1,000 mark. Nonetheless, there were only 208 cases referred either to MJIB or police agencies for further action. Compared to the 274 cases in 2001, this was an obvious reduction in number, which reflects the fact that some were only reported to the police agencies. A long time supporter to investigations of capital movement by special projects, the MLPC finds the domino effect has taken its toll on the investigation of reported cases. The low rate of completed case was further caused by assistance to

financial institutions in their training programs which has distracted the analytical work required of the MLPC, although it helps elevate the number of filed SAR's. In addition, it has been noted that the SAR's filed by financial institutions originated mostly from the banking industry. Few better-managed banks had even outstanding performance while the number of filed SAR's from other financial institutions numbered only less than 40 cases. Apparently the source of filing SAR's needs further development in order to implement the administrative responsibility required of financial institutions in anti-money laundering whereas the financial institutions serve as the domestic frontline defender.

2.Feedback system in financial institutions needs improvement

Filing of SAR's by financial institutions is the legal responsibility of financial institutions in the first place; on the other hand, it is the expectation from law enforcement agencies for assistance in fighting against crimes. Therefore, once the SAR's are filed by financial institutions, they would naturally expect the feedback so that they may understand the results of the filing with which they can review their internal anti-money laundering strategy. This is particularly true with the better-managed banking industry that has frequently requested the feedback. In this respect, the MLPC needs strengthen its feedback system.

3.Bottlenecks encountered by colleagues in analyzing money-laundering cases

It has been almost six years since the MLCA went into effect. Unlawful organized crime syndicates have gradually discovered ways and means to circumvent reporting by financial institutions and investigation by law enforcement agencies. In practice, they would intentionally make cash withdrawal or specially request the banking industry to work on the account by transfer in the name of cash withdraw, thereby making it difficult for law enforcement agencies to trace flow of funds as the lead has been cut off. Further, shell accounts at home are prevalent at the present time, which makes investigation of capital flow a difficult task. Furthermore, newly emerging financial products that appear in the marketplace at a rapid pace, especially the ones using hi-tech and Internet applications, have created bottlenecks for the MLPC staff who are assigned to trace the whereabouts of capital. This is an area where we need a breakthrough.

4.Study on anti-money laundering strategies needs further enhancement

Rapid and uninterrupted progress in hi-tech and convenient application of Internet has made the dream of the earlier-conceived 'global village' a reality. Natural borders between countries are no more a barrier to stop invasion by organized crime syndicates. E-banking and electronic transfer have made it increasingly difficult to trace capital flow and that, in turn, has created new methods of money laundering to transfer at instant notice tremendous sums of ill-gained proceeds overseas.

Therefore, it has become necessary to put in more manpower to study methods on how to come to grips with the newly emerging transaction methods, channels that may likely be used for money laundering, new types of crime and manners of money laundering as well as anti-money laundering strategies and investigative techniques.

Anti money laundering work is internationally recognized as an effective way to fight major crimes. As such, all advanced countries have started from enactment of comprehensive laws, stern enforcement, effective financial management and administrative prevention required of financial institutions. In the face of rapid and uninterrupted progress of and application in future hi-tech; money-laundering channels and methods are both advancing at the same time. The focus of the MLPC's work in future shall include:

1.Strengthening existing mechanisms of team work and forming special task forces to assist in investigation

To assist other law enforcement agencies nationwide in investigation of the flow of illegal capital is one of the missions assigned to MLPC. In the face of the ever-changing complex types of money-laundering crime, we can only rely on the spirit of 'teamwork, division of labor and rapid service' to offer our assistance in the form of special task force in investigation of major cases. By integration of limited manpower, resources and individual specialties, we may expect to develop the spirit of elite teamwork, offer rapid service and share our experience in a timely manner with all concerned. In addition, we would invite scholars and experts in this field to lecture on subjects that may elevate the professional skills of our colleagues in order to meet the challenge brought upon by future money-laundering crimes.

2.Strengthening further liaison, promotion and training works with financial institutions

Under the MLCA, financial institutions of the ROC are given the frontline job to prevent money laundering. Consequently, financial institutions are required by law to identify the customer and keep the transaction record on file in case the transaction involves a certain sum and above. Should a suspicious transaction be found to exist, the concerned financial institution is required to report it to the MLPC. As such, the willingness to cooperate, the company policy, the professional ability and idea to follow the law held by staff of financial institutions will directly affect the overall effect of anti-money laundering work at home. It is therefore necessary to continue enhancement of the liaison work with financial institutions by establishing a single window for active communication. In addition, further training of financial institution employees on the subjects of anti-money laundering, technique to identify suspicious transactions and related laws and regulations must be conducted. Compilation of case studies, production of promotional items concerning related laws and regulations should be provided from time to time for reference by all concerned.

3.Prudent planning of newly emerging methods to fully develop anti-prevention function

Amendments of the MLCA have passed the third reading in the Legislative Yuan and the President has signed the bill into law. Major reform in the amendments includes addition of report on transaction of huge sum under Article 7; freezing of the bank account that was used to launder money under Article 8-1; sharing of confiscated property under Article 12-1. The regulatory agency for handling report on transactions of huge sum in future shall be the MLPC. We estimate the number of reports to be handled could exceed 100,000 each month. How to cope with this suddenly increased amount of work will certainly bring additional work to the MLPC, not to mention the additional software and hardware equipment required of analog and analysis. To respond to the pending changes, we need to prepare in advance our plan for manpower, budget, division of labor and computer linking.

4.Strengthening various anti-prevention mechanisms in cooperation with international anti-terrorism movement

Since the terrorist attacks to the US on September 11, 2001, anti-terrorism has become a worldwide trend. Apart from supply of instant information, as may be required by concerned regulatory agencies, on the movement of foreign exchange and capital flow of a certain specific individuals targeted for investigation, the MLPC contemplates to keep close cooperation with financial institutions and other regulatory agencies in order to stop terrorists from using Taiwan as a channel for money laundering. The MLPC will specially undergo a systematical study on the practice of using domestic underground remittance outlets to send outward remittance home by foreign laborers now working in Taiwan. The attempt may cut off use by terrorists and their organizations in laundering money. At the same time, domestic anti-prevention mechanism will be established in line with various recommendations and standards as proposed by the UN and other international anti-money laundering organizations.

5.Expansion of international cooperation channels to fight against transnational money laundering crime

Toward the ever-prevalent transnational money-laundering crime, we need to combine the force of all nationwide law enforcement agencies and share information and experience to trace in our investigations the flow of the illicit proceeds. Only in so doing, we may expect to achieve effectively the goal of fighting against crime. The MLPC is the FIU of Taiwan's financial institutions which seats in APG and Egmont Group as a full member. Under multiple efforts made in the interest of Taiwan, members of the two international organizations have gradually increased their information exchange activities with Taiwan. Confined by the retrenched government budget,

participation in international money-laundering activities and conference by the MLPC has been greatly reduced. Nonetheless, we need to break through the many difficulties that lie ahead and use the limited resources to work toward the following goals:

a. To establish more liaison channels with counterpart foreign agencies on mutually reciprocal and equal basis so as to conduct exchange of intelligence and jointly investigate transnational money laundering cases, thereby strengthening substantial cooperation relations.
b. To seek approval of Egmont Group and APG of holding workshops in Taiwan to display our aggressive performance in anti-money laundering work.
c. To seek counterpart agencies of friendly nations signing MOU's, thus exploring the possibility of signing judicial mutual assistance agreement.
d. To aggressively seek full membership in FATF.

Appendix

FATF Special Recommendations on Terrorist Financing

Recognising the vital importance of taking action to combat the financing of terrorism, the FATF has agreed these Recommendations, which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

I. Ratification and implementation of UN instruments

Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism. Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373.

II. Criminalising the financing of terrorism and associated money laundering

Each country should criminalise the financing of terrorism, terrorist acts and terrorist organisations. Countries should ensure that such offences are designated as money laundering predicate offences.

III. Freezing and confiscating terrorist assets

Each country should implement measures to freeze without delay funds or other assets of terrorists, those who finance terrorism and terrorist organisations in accordance with the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts.

Each country should also adopt and implement measures, including legislative ones, whic would enable the competent authorities to seize and confiscate property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organisations.

IV. Reporting suspicious transactions related to terrorism

If financial institutions, or other businesses or entities subject to anti-money laundering obligations, suspect or have reasonable grounds to suspect that funds are linked or related to, or are to be used for terrorism, terrorist acts or by terrorist organisations, they should be required to report promptly their suspicions to the competent authorities.

V. International co-operation

Each country should afford another country, on the basis of a treaty, arrangement or other mechanism for mutual legal assistance or information exchange, the greatest possible measure of assistance in connection with criminal, civil enforcement, and administrative investigations, inquiries and proceedings relating to the financing of terrorism, terrorist acts and terrorist organisations.

Countries should also take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism, terrorist acts or terrorist organisations, and should have procedures in place to extradite, where possible, such individuals.

VI. Alternative remittance

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

VII. Wire transfers

Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

Countries should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information (name, address and account number).

VIII. Non-profit organisations

Countries should review the adequacy of laws and regulations that relate to entities that can be abused for the financing of terrorism. Non-profit organisations are particularly vulnerable, and countries should ensure that they cannot be misused:

(i) by terrorist organisations posing as legitimate entities;

(ii) to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; and

(iii) to conceal or obscure the clandestine diversion of funds intended for legitimate purposes to terrorist organisations.

GUIDANCE NOTES FOR THE SPECIAL RECOMMENDATIONS ON TERRORIST FINANCING AND THE SELF-ASSESSMENT QUESTIONNAIRE

Introduction

1. The Eight Special Recommendations on terrorist financing were adopted by the FATF in October 2001. Immediately following their adoption, the FATF undertook to assess the level of implementation of the Special Recommendations through a self-assessment exercise. A selfassessment questionnaire on terrorist financing (SAQTF) was developed with a series of questions for each Special Recommendation. The questions were designed to elicit details that would help determine whether a particular jurisdiction has in fact implemented a particular Special Recommendation.
2. Since the adoption of the Special Recommendations, the FATF has had little time to develop interpretations based on the experience of implementing these measures. Upon completion of the initial phase of this exercise by FATF members, it was therefore decided that additional guidance would be drafted and published to assist non-FATF members in understanding some of the concepts contained in the Special Recommendations on terrorist financing and to clarify certain parts of the SAQTF. This document therefore contains additional clarification of the Eight Special Recommendations and the SAQTF.
3. It should be emphasised at the start that the information presented here is meant primarily to serve as a guide to jurisdictions attempting to fill in and submit the SAQTF. For this reason, the should not be considered exhaustive or definitive. Any questions on particular interpretations or implications of the Special Recommendations should be directed to the FATF Secretariat at Contact@fatf-gafi.org.

SR I: Ratification and implementation of UN instruments

4. This Recommendation contains six elements:
   - Jurisdictions should ratify and fully implement the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism, and
   - Jurisdictions should implement five UN Security Council Resolutions: S/RES/1267(1999), S/RES/1269(1999), S/RES/1333(2000), S/RES/1373(2001) and S/RES/1390(2001).
5. For the purposes of this Special Recommendation, *ratification* means having carried out any necessary national legislative or executive procedures to approve the UN Convention **and** having delivered appropriate ratification instruments to the United Nations. *Implementation* as used here means having put measures in place to bring the requirements indicated in the UN Convention and UNSC Resolutions into effect. The measures may be established by law,

regulation, directive, decree, or any other appropriate legislative or executive act according to national law.

6. The UN Convention was open for signature from 10 January 2000 to 31 December 2001, and upon signature is subject to ratification, acceptance or approval. Ratification, acceptance or approval instruments must be deposited with the Secretary-General of the United Nations in New York. Those countries that have not signed the Convention may accede to it (see Article 25 of the Convention). The full text of the UN Convention may be consulted at http://untreaty.un.org/English/Terrorism.asp. As of 19 March 2002, 132 countries have signed, and 24 have deposited ratification instruments. On 10 March 2002, the UN Convention reached the minimum number of ratifications (22) stipulated as necessary for it to come into effect. The effective date of the Convention is 10 April 2002. The web page containing information on the status of the Convention is located on the UN website at http://untreaty.un.org/ENGLISH/status/Chapter_xviii/treaty11.asp. For general information about UN treaties, see http://untreaty.un.org/english/guide.asp and the Treaty Handbook of the UN Office of Legal Affairs at http://untreaty.un.org/English/TreatyHandbook/hbframeset.htm. The texts of the relevant UN Security Council Resolutions may be consulted on the UN website at http://www.un.org/documents/scres.htm.

SR II: Criminalising the financing of terrorism and associated money laundering

7. This Recommendation contains two elements:
   - Jurisdictions should criminalise "the financing of terrorism, of terrorist acts and of terrorist organisations"; and
   - Jurisdiction should establish terrorist financing offences as predicate offences for money laundering.
8. In implementing SR II, jurisdictions must either establish specific criminal offences for terrorist financing activities, or they must be able to cite existing criminal offences that may be directly applied to such cases. The terms *financing of terrorism* or *financing of terrorist acts* refer to the activities described in the UN Convention (Article 2) and S/RES/1373(2001), paragraph 1b (see the UN website at http://www.un.org/documents/scres.htm for text of this Resolution). It should be noted that each jurisdiction should also ensure that terrorist financing offences apply as predicate offences even when carried out in another State. This corollary interpretation of SR II is then consistent with FATF Recommendation 4.
9. FATF Recommendation 4 already calls for jurisdictions to designate "serious offences" as predicates for the offence of money laundering. SR II builds on Recommendation 4 by requiring that, given the gravity of terrorist financing offences, terrorism financing offences should be specifically included among the predicates for money laundering. For the full text of the FATF Forty Recommendations, along with their Interpretative Notes, see the FATF website at http://www.fatfgafi. org/40Recs_en.htm.
10. Finally, as in general with other predicates for money laundering, jurisdictions should ensure

that terrorist financing offences are predicate offences even if they are committed in a jurisdiction different from the one in which the money laundering offence is being applied. SR III: Freezing and confiscating terrorist assets

11. This Recommendation contains three major elements:
    - Jurisdictions should have the authority to *freeze* funds or assets of (a) terrorists and terroristorganisations and (b) those who finance terrorist acts or terrorist organisations;
    - They should have the authority to *seize* (a) the proceeds of terrorism or of terrorist acts, (b) the property used in terrorism, in terrorist acts or by terrorist organisations and (c) property intended or allocated for use in terrorism, in terrorist acts or by terrorist organisations; and
    - They should have the authority to *confiscate* (a) the proceeds of terrorism or of terrorist acts, (b) the property used in terrorism, in terrorist acts or by terrorist organisations and (c) property intended or allocated for use in terrorism, in terrorist acts or by terrorist organisations.
12. The term *measures*, as used in SR III, refers to explicit (legislative or regulatory) provisions or "executive powers"[1] that permit the three types of action. As with the preceding Recommendation, it is not necessary that the texts authorising these powers mention terrorist financing in particular. However, jurisdictions with already existing laws must be able to cite specific provisions that permit them to freeze, to seize or to confiscate terrorist related funds and assets within the national legal/judicial context.
13. The definitions of the concepts of freezing, seizure and confiscation vary from one jurisdiction to another. For the purposes of general guidance, the following descriptions of these terms are provided:
14. *Freezing*: In the context of this Recommendation, a competent government or judicial authority must be able to freeze, to block or to restrain specific funds or assets and thus prevent them from being moved or disposed of. The assets/funds remain the property of the original owner and may continue to be administered by the financial institution or other management arrangement designated by the owner.
15. *Seizure*: As with freezing, competent government or judicial authorities must be able to take action or to issue an order that allows them to take control of specified funds or assets. The assets/funds remain the property of the original owner, although the competent authority will often take over possession, administration or management of the assets/funds.
16. *Confiscation (or forfeiture)*: Confiscation or forfeiture takes place when competent government or judicial authorities order that the ownership of specified funds or assets be transferred to the State. In this case, the original owner loses all rights to the property. Confiscation or forfeiture orders are usually linked to a criminal conviction and a court decision whereby the property is

1 The term executive powers means those powers emanating from the executive branch of government (as opposed to legislative or judicial powers). An example might be an order or decree made by the head of state or government.

determined to have been derived from or intended for use in a violation of the law.

17. With regard to freezing in the context of SR III, the terms *terrorists, those who finance terrorism and terrorist organisations* refer to individuals and entities identified pursuant to S/RES/1267 (1999) and S/RES/1390 (2002), as well as to any other individuals and entities designated as such by individual national governments.

SR IV: Reporting suspicious transactions related to terrorism

18. This Recommendation contains two major elements:
    - Jurisdictions should establish a requirement for making a report to competent authorities when there is a suspicion that funds are linked to terrorist financing; or
    - Jurisdictions should establish a requirement for making a report to competent authorities when there are *reasonable grounds to suspect* that funds are linked to terrorist financing.
19. For SR IV, the term financial institutions refers to both banks **and** non-bank financial institutions (NBFIs). In the context of assessing implementation of FATF Recommendations, NBFIs include, as a minimum, the following types of financial services: bureaux de change, stockbrokers, insurance companies and money remittance/transfer services. This definition of *financial institutions* is also understood to apply to SR IV in order to be consistent with the interpretation of the FATF Forty Recommendations. With regard specifically to SR IV, if other types of professions, businesses or business activities currently fall under anti-money laundering reporting obligations, jurisdictions should also extend terrorist financing reporting requirements to those entities or activities.
20 The term *competent authority*, for the purposes of SR IV, is understood to be either the jurisdiction's financial intelligence unit (FIU) or another central authority that has been designated by the jurisdiction for receiving disclosures related to money laundering.
21. With regard to the terms *suspect* and *have reasonable grounds to suspect*, the distinction is being made between levels of mental certainty that could form the basis for reporting a transaction. The first term - that is, a requirement to report to competent authorities when a financial institution suspects that funds are derived from or intended for use in terrorist activity - is a subjective standard and transposes the reporting obligation called for in FATF Recommendation 15 to SR IV. The requirement to report transactions when there are reasonable grounds to suspect that the funds are derived from or intended for use in terrorist activity is an objective standard, which is consistent with the intent of Recommendation 15 although somewhat broader. In the context of SR IV, jurisdictions should establish a reporting obligation that may be based either on suspicion **or** on having reasonable grounds to suspect

SR V: International Co-operation

22. This Recommendation contains five elements:
    - Jurisdictions should permit the exchange of information regarding terrorist financing with

other jurisdictions through *mutual legal assistance mechanisms;*

- Jurisdictions should permit the exchange of information regarding terrorist financing with other jurisdictions by means *other than through mutual legal assistance mechanisms;*
- Jurisdictions should have specific measures to permit the denial of "safe haven" to individuals involved in terrorist financing;
- Jurisdictions should have procedures that permit the extradition of individuals involved in terrorist financing; and
- Jurisdictions should have provisions or procedures to ensure that "claims of political motivation are not recognised as a ground for refusing requests to extradite persons alleged to be involved in terrorist financing".

23. To obtain a clear picture of the situation in each jurisdiction through the self-assessment process, an artificial distinction has been made for some questions in the SAQTF between international co-operation through *mutual legal assistance* mechanisms on the one hand and information exchange through means *other than through mutual legal assistance.*
24. For the purposes of SR V, the term *mutual legal assistance* means the power to provide a full range of both non-coercive legal assistance, including the taking of evidence, the production of documents for investigation or as evidence, the search and seizure of documents or things relevant to criminal proceedings or to a criminal investigation, the ability to enforce a foreign restraint, seizure, forfeiture or confiscation order in a criminal matter. In this instance, *mutual legal assistance* would also include information exchange through rogatory commissions (that is, from the judicial authorities in one jurisdiction to those in another).
25. Exchange of information by means *other than through mutual legal assistance* includes any arrangement other than those described in the preceding paragraph. Under this category should be included exchanges that take place between FIUs or other agencies that communicate bilaterally on the basis of memoranda of understanding (MOUs), exchanges of letters, etc.
26. With regard to the last three elements of SR V, these concepts should be understood as referred to in the relevant UN documents. These are S/RES/1373 (2001), paragraph 2c (for denial of safe haven); the UN Convention, Article 11 (for extradition); and the UN Convention, Article 14 (for rejection of claims of political motivation as related to extradition). The text of the UN Convention may be consulted at http://untreaty.un.org/English/Terrorism.asp; the text of S/RES/1373 (2001) may be accessed at http://www.un.org/documents/scres.htm.
27. The term *civil enforcement* as used in SR V is intended to refer only to the type of investigations, inquiries or procedures conducted by regulatory or administrative authorities that have been empowered in certain jurisdictions to carry out such activities in relation to terrorist financing. Civil enforcement is not meant to include civil procedures and related actions as understood in civil law jurisdictions.

SR VI: Alternative Remittance

28. This Recommendation consists of three major elements:

- Jurisdictions should require licensing **or** registration of persons or legal entities providing money/value transmission services, including through informal systems or networks;
- Jurisdictions should ensure that money/value transmission services, including informal systems or networks, are subject to FATF Recommendations 10-12 and 15; and
- Jurisdictions should be able to impose sanctions on money/value transmission services, including informal systems or networks, that fail to obtain a license/register and that fail to comply with relevant FATF Recommendations.

29. Money or value transfer systems have shown themselves vulnerable to misuse for money laundering or terrorist financing purposes. The intention of SR VI is to ensure that jurisdictions impose anti-money laundering and counter-terrorist financing measures on all forms of money/value transfer systems. To obtain a clear picture of the situation in each jurisdiction through the selfassessment process, an artificial distinction has been made between formal and informal transfer systems in some questions.
30. The term *money remittance or transfer service refers* to a financial service - often provided by a distinct category of non-bank financial institutions - whereby funds are moved for individuals or entities through a dedicated network or through the regulated banking system. For the purposes of assessing compliance with the FATF Recommendations, money remitter/transfer services are included as a distinct category of NBFI and are thus considered part of the regulated financial sector. Nevertheless, such services are used in some laundering or terrorist financing operations, often as part of a larger alternate remittance or underground banking scheme.
31. The term *informal money or value transfer system* also refers to a financial service whereby funds or value are moved from one geographic location to another. However, in some jurisdictions, these informal systems have traditionally operated outside the regulated financial sector in contrast to the "formal" money remittance/transfer services described in the preceding paragraph. Some examples of informal systems include the parallel banking system found in the Americas (often referred to as the "Black Market Peso Exchange"), the *hawala or hundi* system of South Asia, and the Chinese or East Asian systems. For more information on this topic, see the FATF-XI Typologies Report (3 February 2000), available through the FATF website at http://www.fatfgafi. org/FATDocs_en.htm#Trends, or the Asia Pacific Group Report on Underground Banking and Alternate Remittance Systems (18 October 2001), available through the APG website a http://www.apgml.org/content/typologies_reports.jsp.
32. Where *licensing* or *registration* are indicated in the questionnaire, either licensing **or** registration is considered sufficient to meet the requirements of the Recommendation. Licensing in this Recommendation means a requirement to obtain permission from a designated government authority in order to operate a money/value transmission service. Registration in this Recommendation means a requirement to register or declare the existence of a money/value transmission service in order for the business to operate. It should be noted that the logical consequence of the requirements of SR VI is that jurisdictions should designate a licensing **or** registration authority and an authority to ensure compliance with FATF Recommendations for money/value transmission services, including informal systems or networks. This corollary

interpretation of SR VI (i.e., the need for designation of competent authorities) is consistent with FATF Recommendation 26.

33. The reference to "all FATF Recommendations that apply to banks and non-bank financial institutions" includes as a minimum Recommendations 10, 11, 12, and 15. Other applicable Recommendations include Recommendations 13, 14, 16-21 and 26-29. The full text of these and all other FATF Recommendations may be consulted on the FATF website (http://www.fatfgafi. org/40Recs_en.htm).

SR VII: Wire transfers

34. This Recommendation consists of three elements:
    - Jurisdictionss should require financial institutions to include originator information on funds transfers sent within or from the jurisdiction;
    - Jurisdictions should require financial institutions to retain information on the originator of funds transfers, including at each stage of the transfer process; and
    - Jurisdictionss should require financial institutions to examine more closely or to monitor funds transfers when complete originator information is not available.
35. For the purposes of SR VII, three categories of financial institution are specifically concerned (banks, bureaux de change and money remittance/transfer services), although other financial services (for example, stockbrokers, insurance companies, etc.) may be subject to such requirements in certain jurisdictions.
36. The list of types of *accurate and meaningful* originator information indicated in the Special Recommendation (that is, name, address and account number) is not intended to be exhaustive. In some instances - in the case of an occasional customer, for example - there may not be an account number. In certain jurisdictions, a national identity number or a date and place of birth could also be designated as required originator information.
37. The term *enhanced scrutiny* for the purposes of SR VII means examining the transaction in more detail in order to determine whether certain aspects related to the transaction could make it suspicious (origin in a country known to provide safe haven to terrorists or terrorist organisations, for example) and thus warrant eventual reporting to the competent authority.

SR VIII: Non-profit organisations

38. The intent of SR VIII is to ensure that legal entities (juridical persons), other relevant legal arrangements, and in particular *non-profit organisations* may not be used by terrorists as a cover for or a means of facilitating the financing of their activities. This Recommendation consists of two elements:
    - Jurisdictionss should review the legal regime of entities, in particular non-profit organisations, to prevent their misuse for terrorist financing purposes; and
    - With respect specifically to non-profit organisations, jurisdictions should ensure that such

entities may not be used to disguise or facilitate terrorist financing activities, to escape asset freezing measures or to conceal diversions of legitimate funds to terrorist organisations.

39. As stated above, the intent of SR VIII is to ensure that legal entities, other relevant legal arrangements, and *non-profit organisations* may not be misused by terrorists. Legal entities have a variety of forms that differ from one jurisdiction to another. The degree to which a particular type of entity may be vulnerable to misuse in terrorist financing may also vary from one jurisdiction to another. For this reason, a selection of types of legal entities and other legal arrangements has been presented in the SAQTF in an attempt to obtain a clear picture of the situation in individual jurisdictions. The selection is based on types of entities that have been observed as being involved in money laundering and/or terrorist financing activities in the past. Individual categories may overlap, and in some instances, a jurisdiction may not have all the categories indicated in the SAQTF.
40. Similarly it should be pointed out that *non-profit organisations*, a particular focus of SR VIII, may exist in legal forms that vary from one jurisdiction to another. Again, the selection of entity types in the SAQTF has been made with the intention of permitting jurisdictions to find entitiesor arrangements that correspond to their individual situation. The term *non-profit organisation* can be generally understood to include those types of entities that are organised for charitable, religious, educational, social or fraternal purposes, or for the carrying out of other types of "good works". In addition, the earnings of such entities or activities should normally not benefit any private shareholder or individual, and they may be restricted from direct or substantial involvement in political activities. In many jurisdictions, non-profit organisations are exempt from fiscal obligations.
41. In the SAQTF, the term *offshore companies* refers to what are usually established as limited liability juridical persons in certain jurisdictions and which often fall under a separate or privileged regulatory regime. Such entities may be used to own and operate businesses (a shell or holding company), issue shares or bonds, or raise capital in other manners. They are generally exempt from local taxes or subject to a preferential rate and may be prohibited from doing business in the jurisdiction in which they are incorporated. The International Business Corporation (IBC) is an example of such an entity. In the SAQTF, jurisdictions should only respond to relevant offshore questions if they have an offshore sector within their jurisdiction.
42. The SAQTF also includes a category "Trusts and/or foundations" under SR VIII. Trusts are legal arrangements available in certain jurisdictions. Although they are not strictly speaking legal entities, they are used as a means for holding or transmitting assets and may, as with certain legal entities, be misused as a means for hiding or disguising true ownership of an asset. The term *foundations* refers primarily to "private foundations or establishments" that exist in some civil law jurisdictions and which may engage in commercial and/or non-profit activities. Some examples of these include *Stiftung*, *stichting*, *Anstalt*, etc.

FATF Secretariat
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