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# Risk Assessment and Mitigation of Money Laundering, Terrorist Financing & Proliferation Financing

**4 October 2021**

**Money Service Supervision Bureau**

**Trade Controls Branch**

# Background

## HONG KONG

- Member of the Financial Action Task Force (**FATF**) and Asia/Pacific Group on Money Laundering (**APG**)
- Response to the fast-changing financial-market and Anti-Money laundering landscapes
- Response to the FATF Recommendations on National Risk Assessment

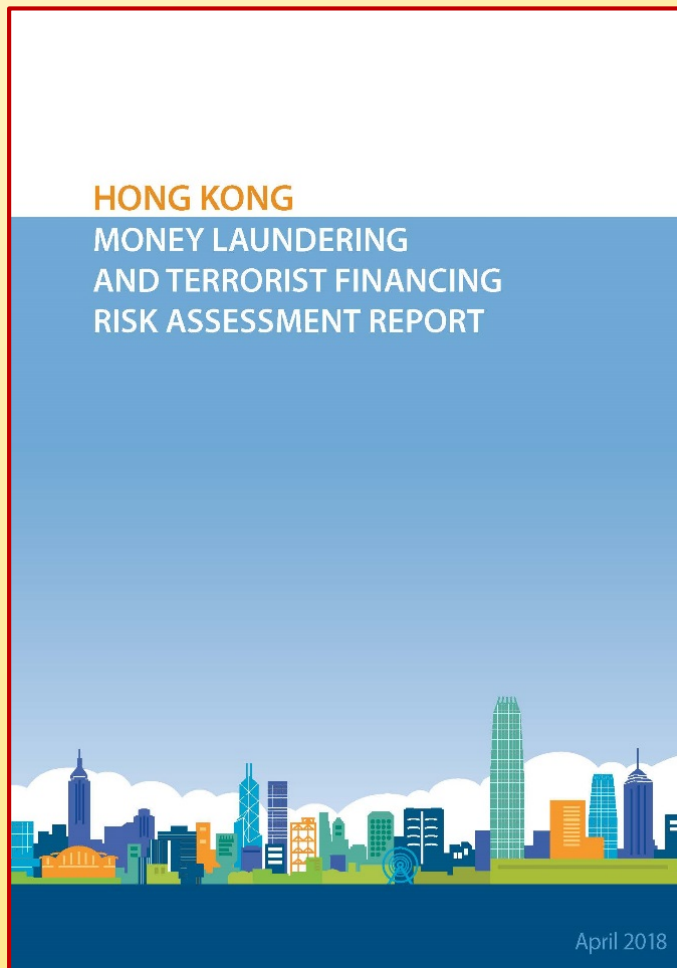


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# Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report (HRA)



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# Steering Committee



**Financial Services and the Treasury Bureau**  
The Government of the Hong Kong Special Administrative Region



**Security Bureau**  
The Government of the Hong Kong Special Administrative Region



**Commerce and Economic Development Bureau**  
The Government of the Hong Kong Special Administrative Region



**Department of Justice**  
The Government of the Hong Kong Special Administrative Region



**Hong Kong Police Force**  
The Government of the Hong Kong Special Administrative Region



**HONG KONG MONETARY AUTHORITY**  
香港金融管理局



**SECURITIES AND  
FUTURES COMMISSION**  
證券及期貨事務監察委員會



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# Risk Assessment Methodology

- FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment
- World Bank National Risk Assessment Tool

Figure 2.2: Risk-level heat map

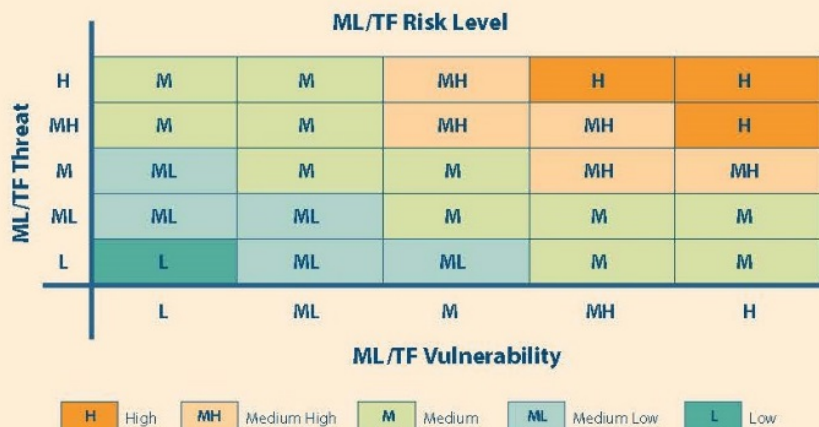
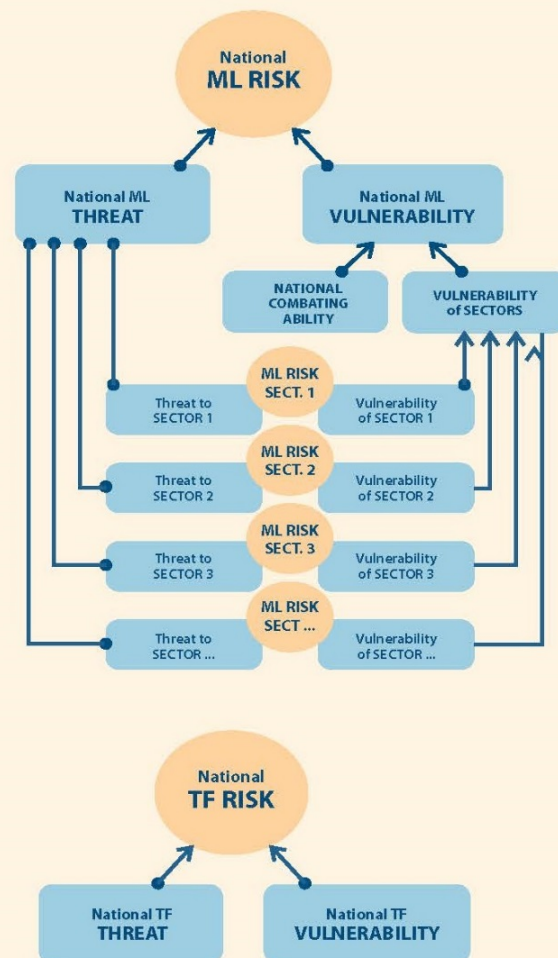


Figure 2.1 Graphical overview of the World Bank Tool



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# Key Findings – Money Laundering (ML)

**Hong Kong's Ability to Combat ML**

**Medium-high**



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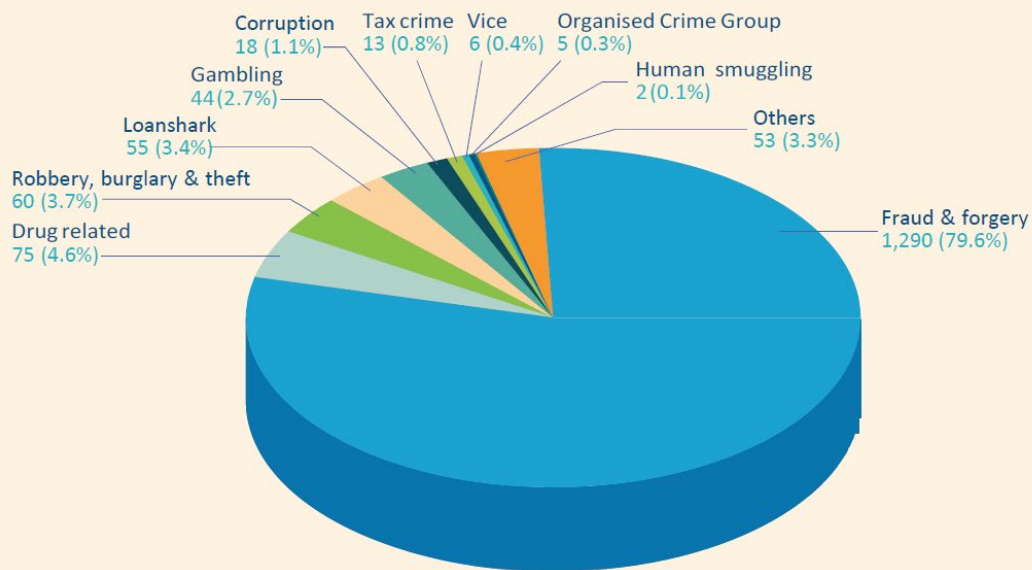
# Key Findings – Money Laundering (ML)

## Hong Kong's ML Threat

High and medium-high

What are the  
predicate offences  
of ML cases?

Figure 4.1: Breakdown of 1,621 identified predicate offences associated with 1,908 ML cases in 2011-2015



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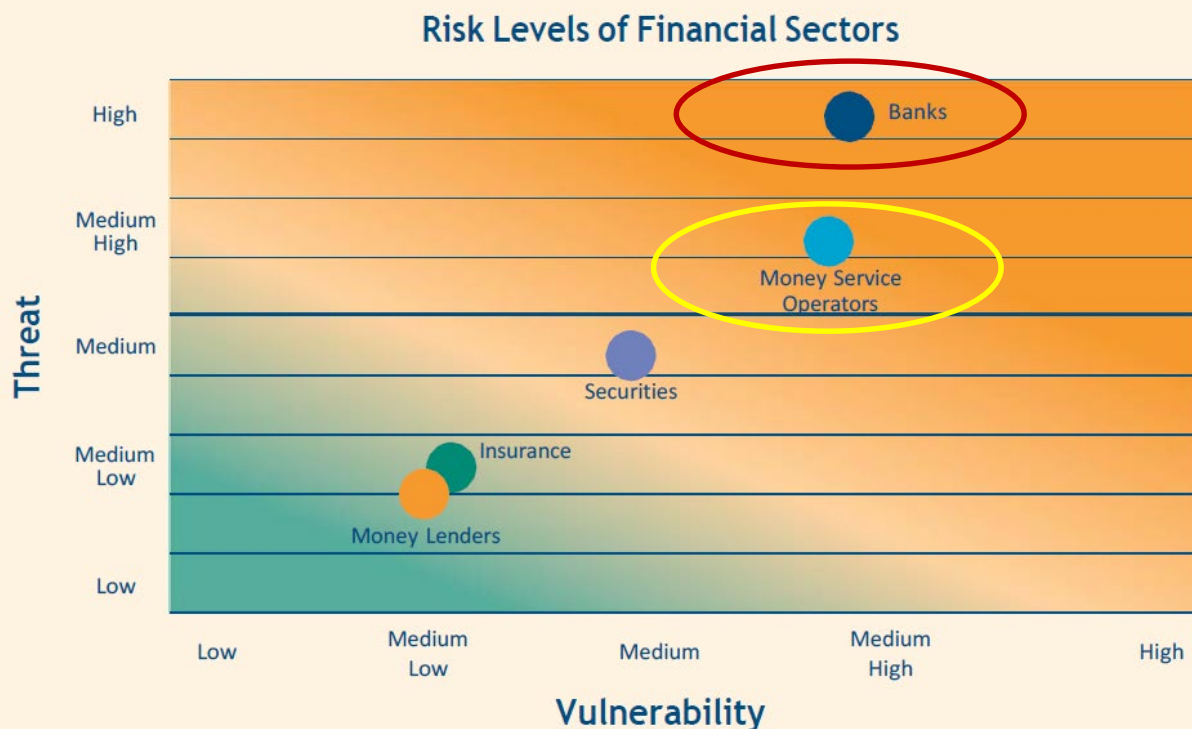
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# Key Findings – Money Laundering (ML)

## Hong Kong's ML Threat – Financial Sectors

Figure 5.1: Vulnerability level, threat level and overall ML risks of financial sectors



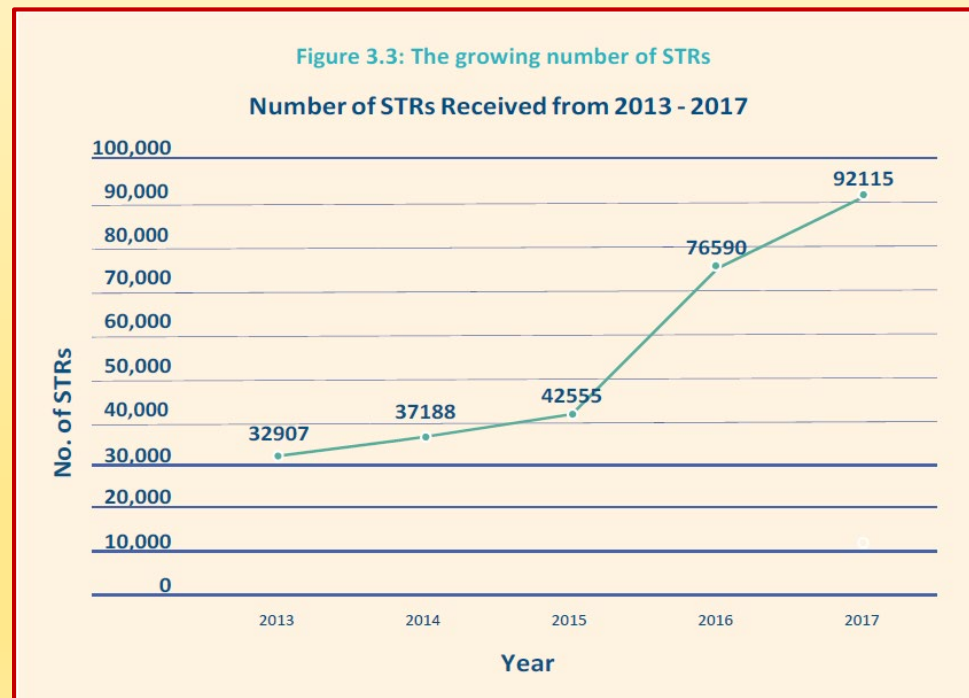
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# Key Findings – Money Laundering (ML)

## Hong Kong's ML Vulnerabilities

Rapid growth in suspicious transaction reports (“STRs”) (challenges to the JFIU in terms of handling capacity)



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# Key Findings – Money Laundering (ML)

**Overall ML Risk of Hong Kong**

**A medium-high level of ML risk**

**A medium-high level of Threat**

**A medium level of Vulnerability**



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# Key Findings – Terrorist Financing (TF)

**Overall TF Risk of Hong Kong**

**A medium-low level of TF risk**

**A medium-low level of Threat**

**A medium-low level of Vulnerability**



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# Five Major Areas of Work

- Enhancing the AML/CFT legal framework
- Strengthening risk-based supervision and partnerships
- Sustaining outreach and awareness-raising
- Monitoring new and emerging risks, and
- Strengthening law enforcement efforts and intelligence capability



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# Risk Assessment of MSO sector

- ◆ Definition of Money Service under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, Cap. 615 (“AMLO”)
- ◆ Landscape of Licensed MSOs



# Threats and Vulnerabilities of MSO sector

- ◆ Cash-intensive nature, frequent cross-border, walk-in and one-off transactions  
→ medium-high risk
- ◆ Ability to process numerous transactions  
→ illicit funds
- ◆ Cross-border activities



# Threats and Vulnerabilities of MSO sector

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- ◆ The quality of STRs submitted by MSOs varies
- ◆ MSOs with compliance deficiencies
- ◆ MSOs rely on manual transaction monitoring
- ◆ Unlicensed MSOs





# Supervision and Enforcement

- ◆ Awareness of the MSO's compliance obligation
- ◆ Unlicensed MSOs - suspended prison sentences and disqualification from holding an MSO licence for a specified period



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# Overall Risk of MSO Sector

- ◆ ML threat : **Medium-high**
- ◆ Vulnerabilities : **Medium-high**
- ◆ Overall risk : **Medium-high**



# Proliferation Financing (PF)

Definition provided by Financial Action Task Force (FATF)

*... **providing funds or financial services** which are used, in whole or in part, for the **manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials** (including both technologies and dual use goods used for non-legitimate purposes)...*



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# Proliferation Financing (PF)

## FATF Recommendation 7

- ◆ Implement targeted financial sanctions (TFS) to comply with United Nations Security Council resolutions
- ◆ In relation to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing



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# Proliferation Financing (PF)

## FATF Recommendation 7 (Cont'd)

- ◆ UN resolutions require members to freeze funds or assets related to PF without delay
- ◆ Ensure no funds and other assets are made available to; or for the benefit of the designated persons or entities under UN Sanctions



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Combatting PF

# Targeted Financial Sanctions

**United Nations Security Council  
sanctions against the DPRK and Iran**



**Targeted Financial Sanctions against  
designated individuals and entities**



*United Nations  
Sanctions (DPRK)  
Regulation*



*United Nations  
Sanctions (JCPOA - Iran)  
Regulation*



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*Combatting PF*

# Targeted Financial Sanctions

Regime	Designated Persons	Designated Entities	Last Update by UN
DPRK (North Korea)	80	75	May 2020
Iran	23	61	Jan 2016



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# Counter PF Regime in Hong Kong

## Relevant legislations:

- ◆ Regulations made under the UNSO to DPRK and Iran,
- ◆ Weapons of Mass Destruction (Control of Provision of Services Ordinance - WMD(CPS)O.
  - S.4 of WMD(CPS)O prohibits a person from providing any services connected to PF.
  - The provision of services includes the lending of money or other provision of financial assistance.



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# Targeted Financial Sanctions

- **NOT to make available or deal with economic assets** of:
  - a) individuals or entities designated by the United Nations Security Council; and
  - b) individuals or entities acting on behalf of, or at the direction of (a); or entities owned or controlled by (a).
- **Economic assets** means any funds or other financial assets or economic resources.
- Please visit the website of the Commerce and Economic Development Bureau for the sanction lists:  
[https://www.cedb.gov.hk/citb/tc/Policy\\_Responsibilities/united\\_nations\\_sanctions.html](https://www.cedb.gov.hk/citb/tc/Policy_Responsibilities/united_nations_sanctions.html)



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# Targeted Financial Sanctions

- MSOs **should not** establish business relationship or conduct transactions with sanctioned individuals or entities.
- MSOs should implement an **effective screening mechanism**, which should include screening customers and their beneficial owners against the most up-to-date sanction lists.
- STR reporting to JFIU



# Proliferation Financing (PF)

Recent amendments to Recommendation 1 (RBA) by FATF -

- ◆ Jurisdictions and private sector entities are required to carry out **risk assessment and mitigation for PF of weapons of mass destruction**, in addition to the same requirements already imposed on ML & TF.



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# PF Risk Assessment – Source of Information

◆ Some potential source of information:

(1) FATF Mutual Evaluation Reports;

(2) UN Panel of Experts Report;

(3) HRA Report;

(4) Sectoral Reports published by regulators



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# PF Risk Assessment – Source of Information

- ◆ Some potential source of information (Cont'd):
  - (5) Government's databases;
  - (6) Information sharing within the industry;
  - (7) Commercial / Firm and Group-wide databases;
  - (8) Transaction record of dual-use / controlled goods



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# PF Risk Assessment

- ◆ Similar to the process of an ML/TF risk assessment, but more targeted (narrower scope).
- ◆ The 6 key stages are:
  - (1) preliminary scoping;
  - (2) planning and organization;
  - (3) identification of threats and vulnerabilities;
  - (4) analysis;
  - (5) evaluation and follow-up; and
  - (6) update



(Source: 2013 FATF NRA Guidance and 2019 FATF TFRA Guidance)

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# Threats and Vulnerabilities

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## Structural / Inherent

- ◆ Free capital flow in and out of Hong Kong
- ◆ Geographically close to DPRK and Iran
- ◆ Easy to enter market and set up companies



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# Threats and Vulnerabilities

## Sectoral

- ◆ Inadequate PF understanding and awareness
- ◆ Legal persons clients, or acting on their behalf
- ◆ Complicated funds movement
- ◆ Frequent cross border transactions



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# PF Risk Indicators

## ◆ Common high risk indicators:

- (1) incomplete CDD information;
- (2) reluctant to provide additional information;
- (3) adverse news related to customers;
- (4) linkage with universities / research institutions;
- (5) trading of dual-use / controlled goods / high-tech products
- (6) abnormal transactions in accounts
- (7) jurisdictions of customers



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# Potential Risk of Evasion

## ◆ Tactics of evasion by designated persons / entities:

(1) use of shell or front companies;

(2) use of dummy accounts;

(3) fraudulent intermediaries;

(4) fraudulent businesses



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# Action to mitigate PF

- ◆ An effective screening mechanism is crucial:
  - screening its customers and any beneficial owners of the customers against the current sanctions lists; and
  - screening its customers and any beneficial owners of the customers against all new and updated designations on the sanction lists.



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# Recommendations for MSO sector

- ◆ MSOs should:
  - Deepen understanding on PF risk and Targeted Financial Sanctions;
  - Be familiar with EDD (oversight by senior management)
  - File STR to JFIU



# Recommendations for MSO sector

- ◆ MSOs should:
  - Keep an eye on C&ED's early alert circulars;
  - On-going monitoring
  - Provide training to staff
  - Proper record-keeping





# Way Forward

**To enhance the supervision of the MSO sector by :**

- ◆ Assessing and strengthening MSOs' AML, CFT and PF knowledge
- ◆ Strengthening MSOs' level of compliance by raising their awareness in using computerized systems for transaction monitoring and sanction screening as well as in improving STR quality;



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# Way Forward

**To enhance the supervision of the MSO sector by :**

- ◆ Supervising the proper implementation of AML, CFT and PF compliance programmes by MSOs; and
- ◆ Conducting outreach programme and thematic review of the MSO sector.





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**- The End -**

**Thank you !**

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