



香港海關
Customs and Excise Department

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

9 December 2022

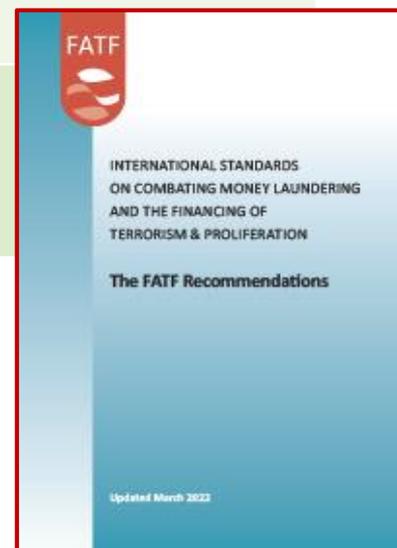
Money Service Supervision Bureau

Trade Controls Branch

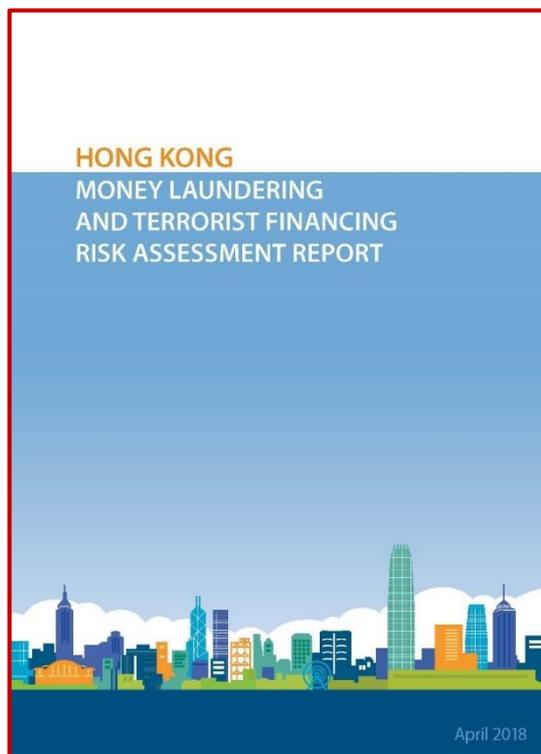
Background

HONG KONG

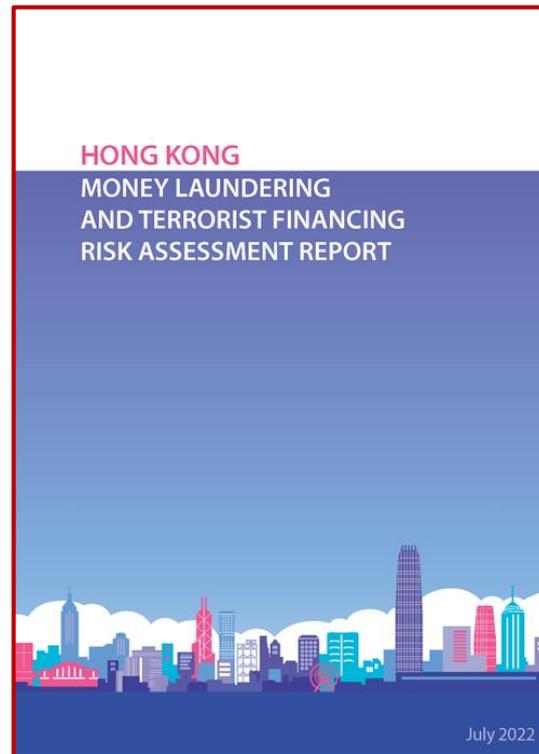
- Member of the Financial Action Task Force (FATF) and Asia/Pacific Group on Money Laundering (APG)
- Response to the fast-changing financial-market and Anti-Money laundering landscapes
- Response to the FATF Recommendations on National Risk Assessment



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



2018 1st HRA

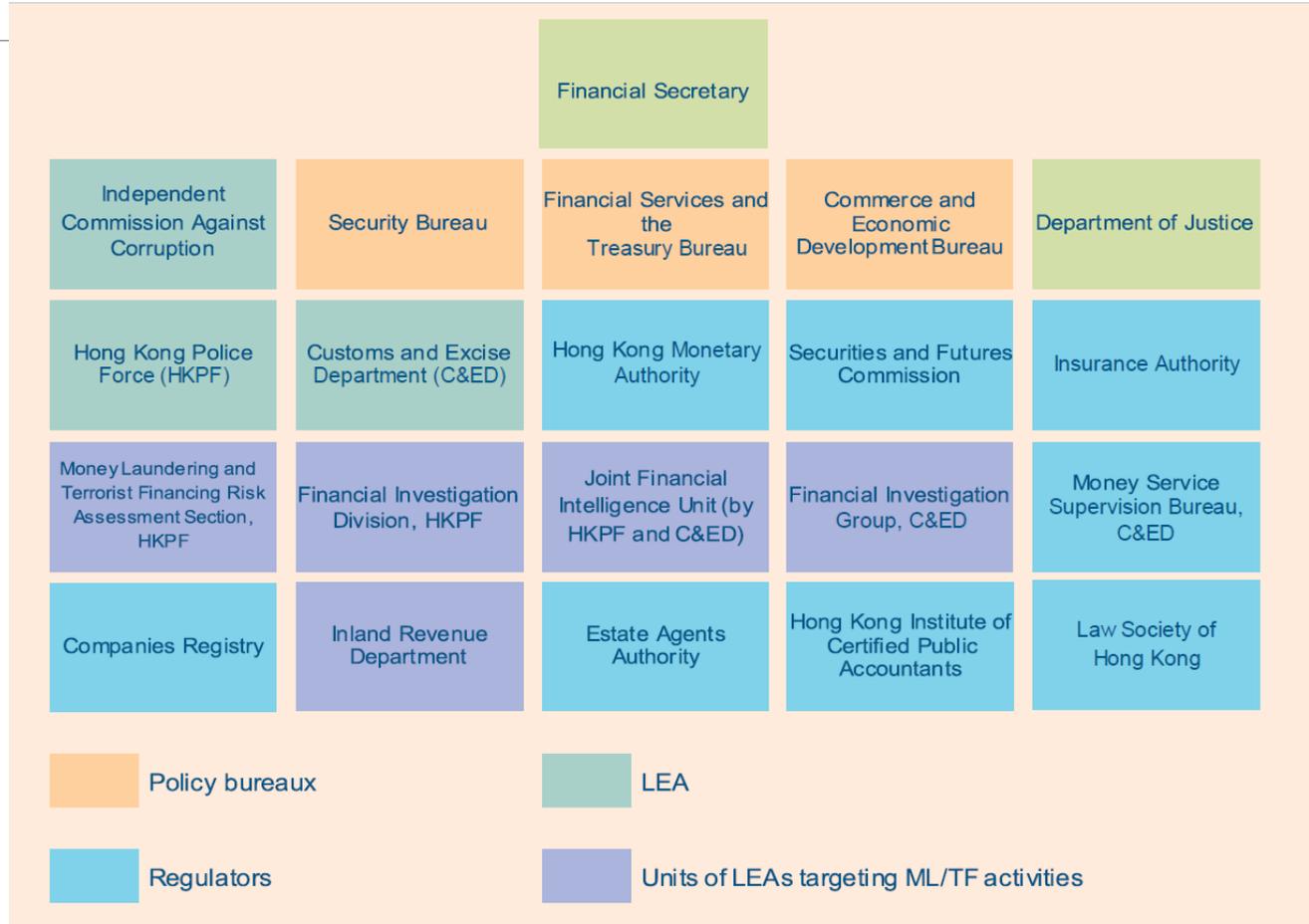


2022 2nd HRA



香港海關
Customs and Excise Department

Key Stakeholders in the Coordination and Implementation of AML/CFT Policies and Strategies



香港海關
Customs and Excise Department

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

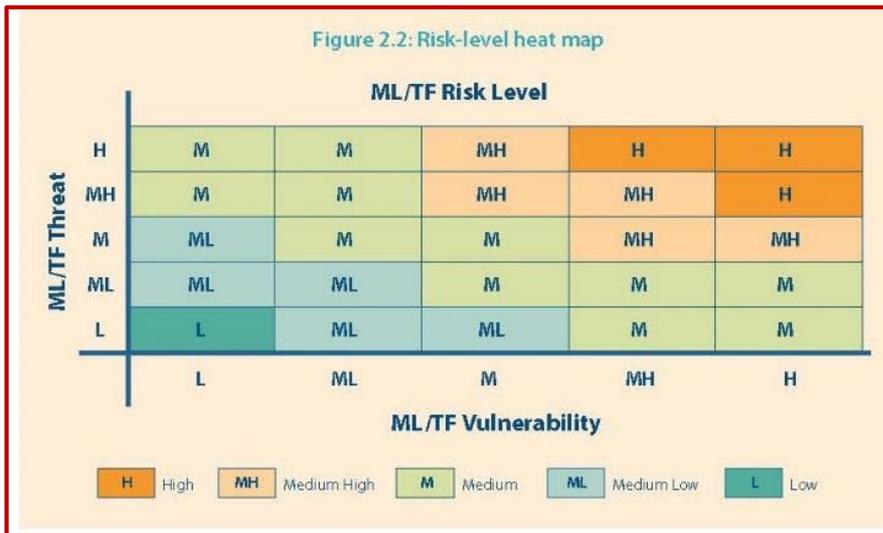
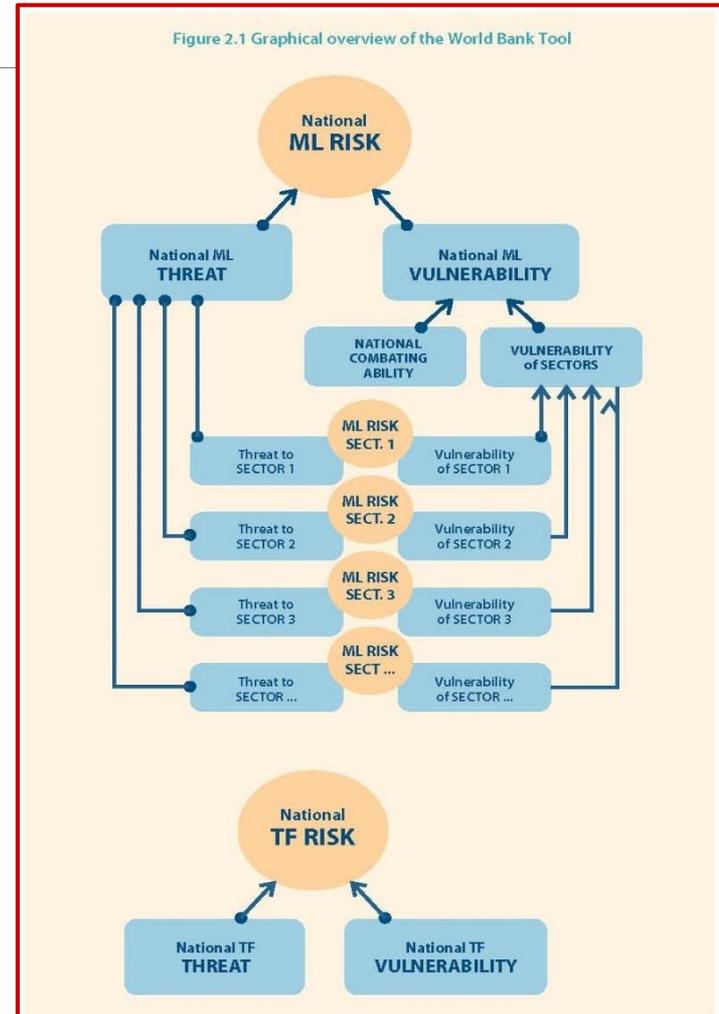


Figure 2.1 Graphical overview of the World Bank Tool

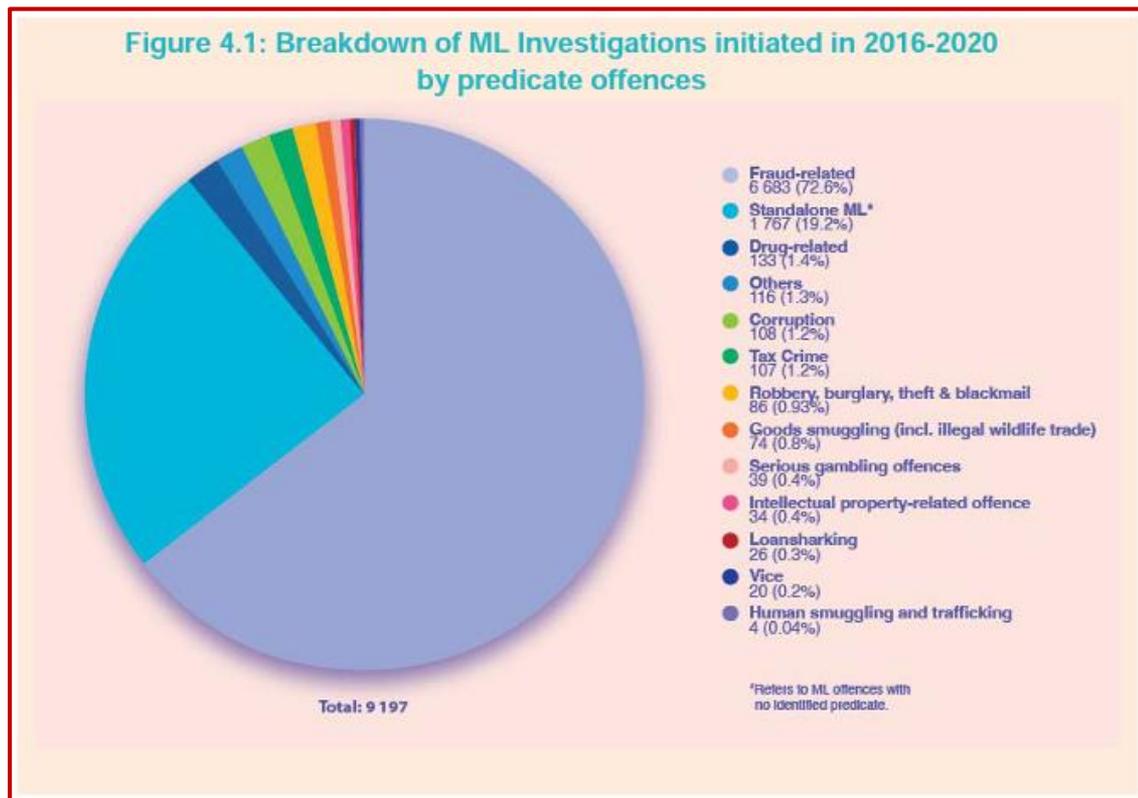


Key Findings – Money Laundering (ML)

Hong Kong's ML Threat

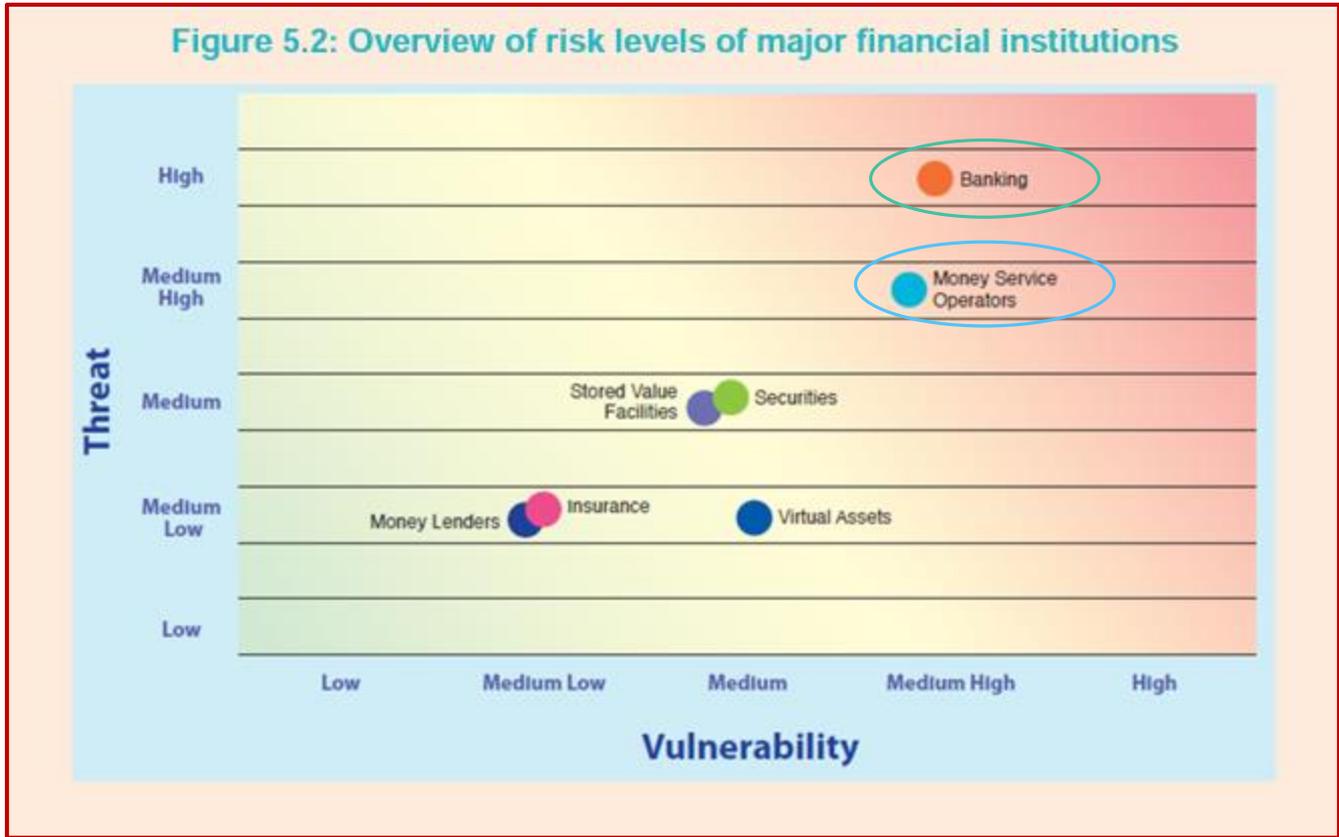
Medium-high

What are the predicate offences of ML cases?



Key Findings – Money Laundering (ML)

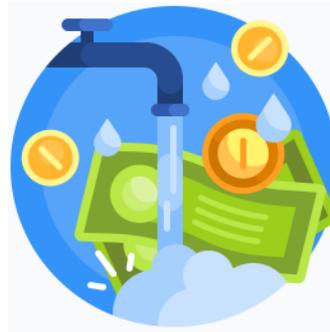
Hong Kong's ML Threat - Financial Sectors



Key Findings – Money Laundering (ML)

Hong Kong's Ability to Combat ML

High

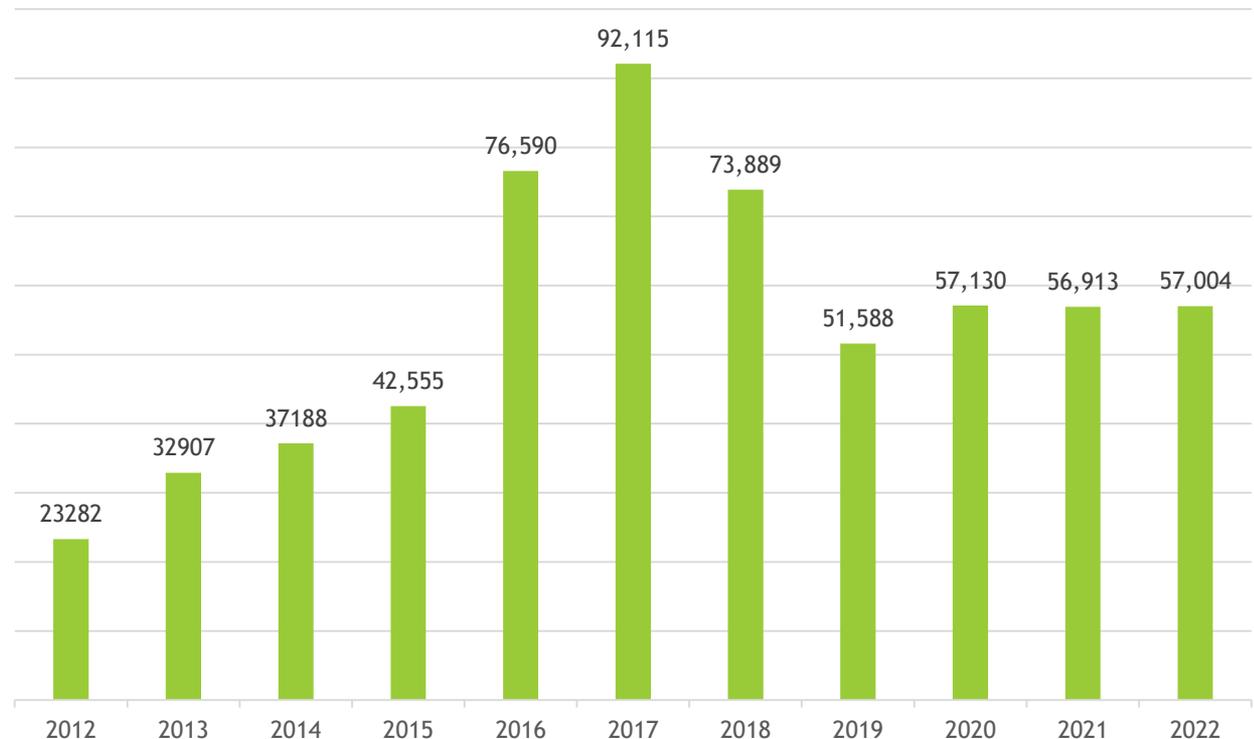


香港海關
Customs and Excise Department

Key Findings – Money Laundering (ML)

Hong Kong's ML Vulnerabilities

Number of STR received from 2012 - 2022



Improvement in the understanding of ML/TF risks and awareness of AML/CFT obligations

Improvement in the quality of the reports received

as at 2022-10-31



香港海關
Customs and Excise Department

Key Findings – Money Laundering (ML)

Overall ML Risk of Hong Kong

A medium-high level of ML risk

A medium-high level of ML threat

A medium level of ML vulnerability



Key Findings – Terrorist Financing (TF)

Overall TF Risk of Hong Kong

A medium-low level of TF risk

A medium-low level of TF threat

A medium-low level of TF vulnerability



Way Forward

Five Major Areas of Work



Enhancing the
AML/CFT legal
framework



Strengthening risk-
based supervision
and partnerships



Stepping up outreach
and awareness-
raising



Monitoring new and
emerging risks



Strengthening law
enforcement efforts
and intelligence
capability

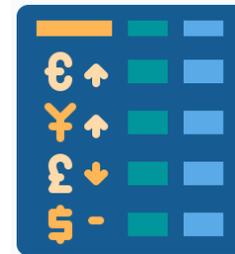
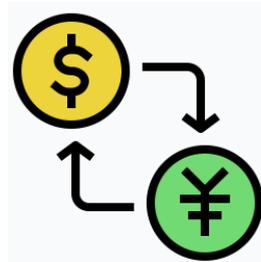


香港海關

Customs and Excise Department

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



ML Threats & Vulnerabilities of MSO sector

ML Threats

- ◆ 9.9% of ML convicted case
- ◆ 3.6% of crime proceeds laundered via the sector
- ◆ Fraud (e.g. telephone deception, email scam and lottery fraud)
- ◆ Cybercrime

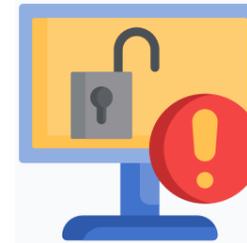
ML Vulnerabilities

- ◆ Cash-intensive nature with global exposure
- ◆ Frequent and cross-border transactions
- ◆ Large-amount transactions by walk-in and one-off customers
- ◆ Use of online platforms
- ◆ Transactions below customer identification and verification thresholds



Overall Risk of MSO Sector

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



Supervision and Enforcement



Risk-based Approach

- Revamped risk profiling methodology
- Appropriate supervisory extent and priority



Entry control

- Background due diligence
- Fit and Proper



Ongoing risk-based supervision

- On-site and offsite inspections
- Disciplinary sanctions



Sanction screening and transaction monitoring system

- Database and screening tool



Unlicensed money service operation

- MSO licensee register
- Monitors higher-risk areas
- Increasing the sentencing level to a fine of HK\$1,000,000 and imprisonment for two years



Way Forward

To enhance the supervision of the MSO sector by :

- a) strengthen its understanding of MSOs' risk profiles in order to form a solid foundation for effective risk-based supervision
- b) enhance MSOs' capability in particular in ML/TF/PF risk understanding, STR reporting obligations, and TF/PF TFS screening



香港海關
Customs and Excise Department



Way Forward

To enhance the supervision of the MSO sector by :

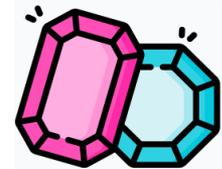
- c) encourage the adoption of innovation and new technology
- d) further study the emerging ML/TF/PF threats arising from cybercrime
- e) proactively conduct special theme-based review exercises



Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022

Legislative Proposals

1. FATF’s recommendations on areas to improve in the follow-up process
 - ◆ Regulation of dealers in precious metals and stones (“DPMS”)



2. Addition to the FATF Standards in 2019
 - ◆ To subject “virtual asset” service providers (“VASPs”) to the same range of AML/CTF obligations that are currently applicable to financial institutions and designated non-financial businesses and professions (“DNFBPs”)



Legislative Proposals (cont'd)

Two-tier Registration Regime for DPMS

- **Category A** registration is required for DPMS who do not intend to and will not engage in any cash transactions at or above HK\$120,000
- **Category B** registration is applicable to DPMS who intend to or may engage in any cash transaction at or above HK\$120,000



Licensing Regime for VASPs

- Designate the business of operating a VA exchange as a “regulated VA activity”
- Require any person seeking to engage in the regulated activity to obtain a VASP licence from the SFC



Legislative Proposals (cont'd)

Politically exposed persons (PEPs)

- To extend to PEPs in other parts outside Hong Kong (including the Mainland)
- To enable the adoption of a risk-based approach to determine whether to continue to apply the additional measures for foreign PEPs who are no longer entrusted with a prominent public function



Digital identification systems

- Assist the conduct of CDD in situations where a customer is not physically present for identification and verification purposes (i.e. non-face-to-face situations)



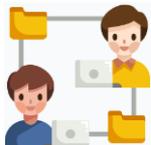
Penalty for unlicensed money service operation

- Raising the sentencing level to a fine of HK\$1,000,000 and imprisonment for two years



Exchange of supervisory information

- To standardize the parameters for exchange of information in the context of AML/CFT supervision among all AMLO regulators



香港海關
Customs and Excise Department



香港海關
Customs and Excise Department

- The End -

Thank you !

Contact Information

Tel : 2707 7837

Email : msoenquiry@customs.gov.hk