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

12 March 2024

Money Service Supervision Bureau

Trade Controls Branch



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Customs and Excise Department

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Topics

1. Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report
2. Update on key AML/CFT regulatory requirements



1

Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report

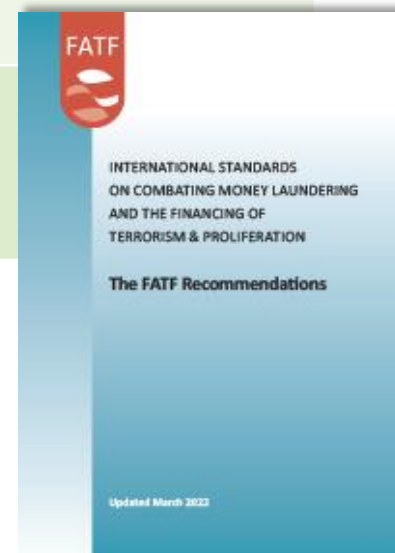


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Background

HONG KONG

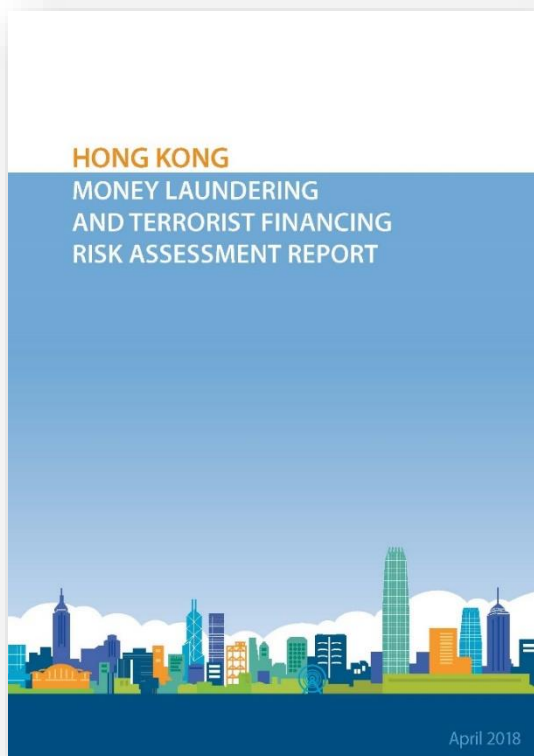
- Member of the Financial Action Task Force (FATF) and Asia/Pacific Group on Money Laundering (APG)
- Response to the fast-changing financial-market and Anti-Money laundering landscapes
- Response to the FATF Recommendations on National Risk Assessment



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

2018 1st HRA

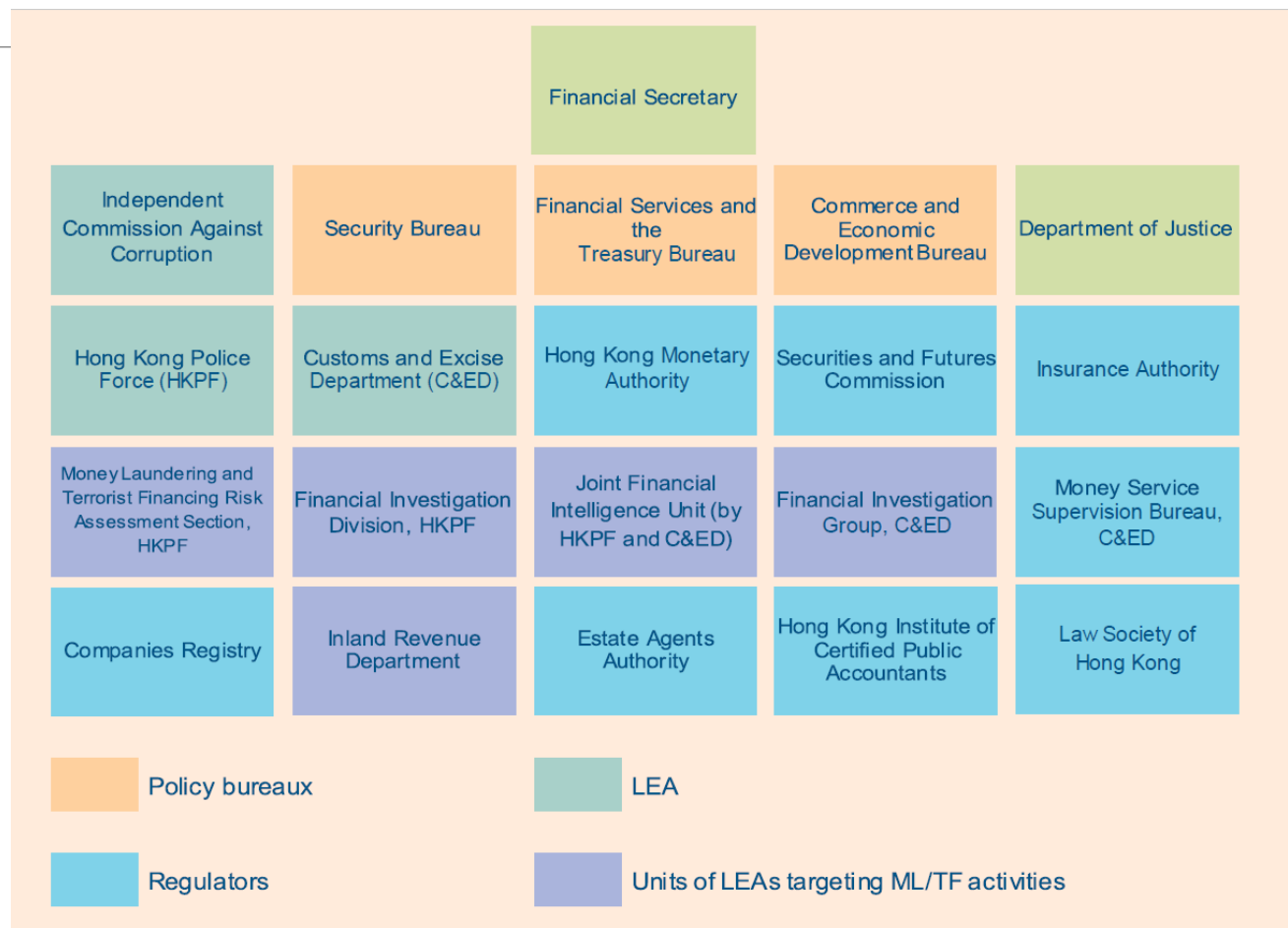


2022 2nd HRA



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



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Assessment Methodology

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



Key Findings

Ability of Hong Kong to combat ML/TF/PF

High

Robust
legal framework

High-level political
commitment



Close partnerships

Fair and efficient
prosecution and judicial
process

Good international
cooperation



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Key Findings – Money Laundering (ML)

ML Threat to
Hong Kong

Medium-high

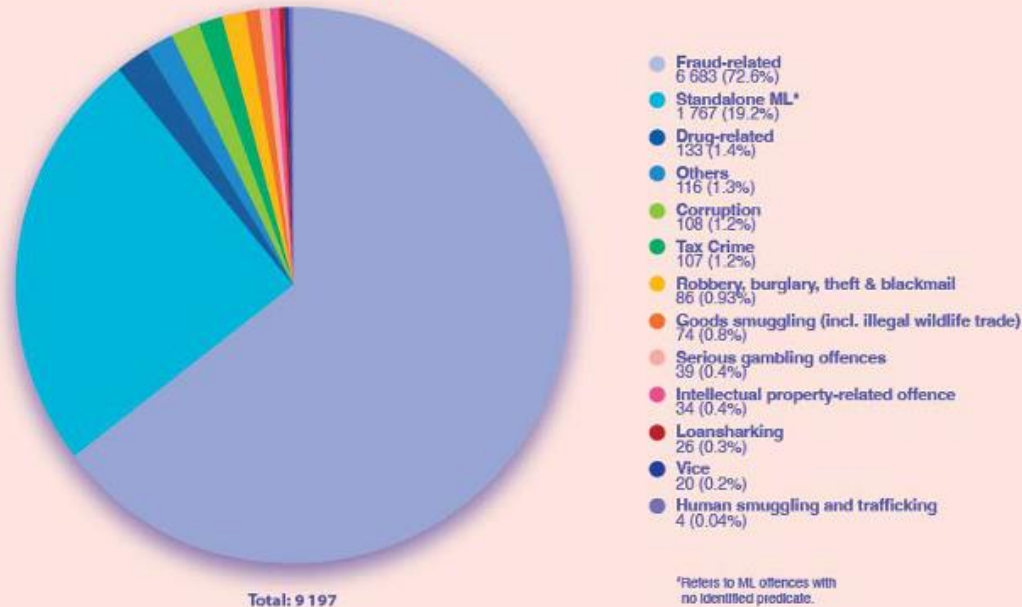
The predicate offences
of ML cases



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Figure 4.1: Breakdown of ML Investigations initiated in 2016-2020 by predicate offences



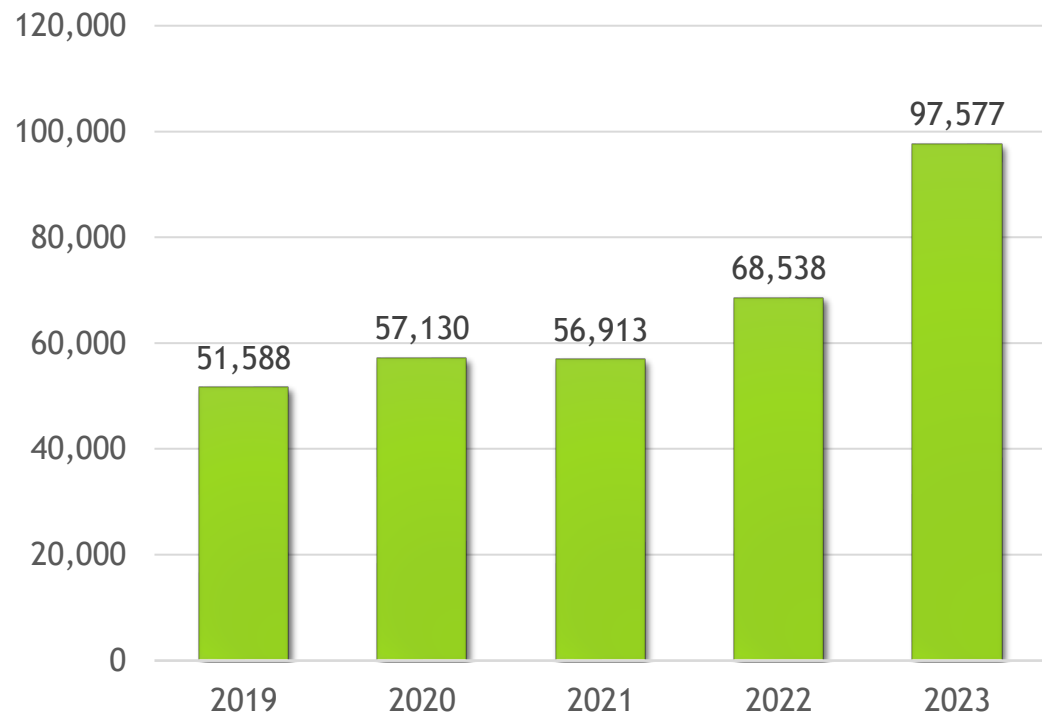
Key Findings – Money Laundering (ML)

To combat ML/TF/PF - Suspicious Transaction Report (STR)

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

Improvement in the quality of the STR

No. of STRs received



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Key Findings – Money Laundering (ML)

ML Risk in Hong Kong

Medium-high level

**Threat : Medium-high
Vulnerability : Medium**



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Key Findings – Terrorist Financing (TF)

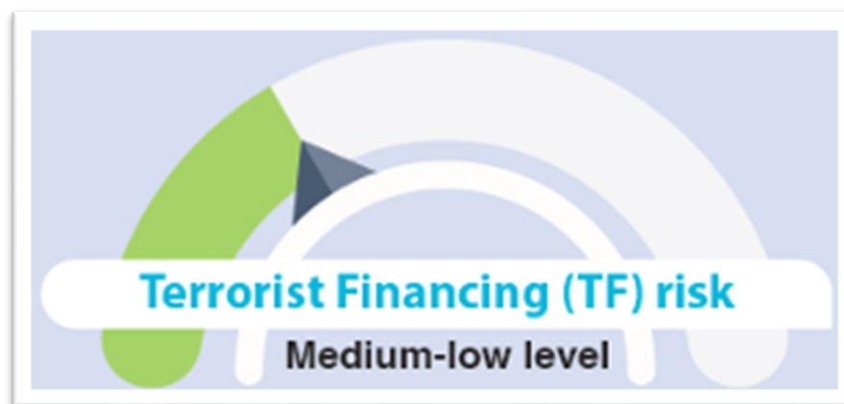
TF Risk in Hong Kong

Medium-low level

Threat : Medium-low
Vulnerability : Medium-low

Solid defense
mechanism

Effective and
professional
enforcement



Sound legal
framework



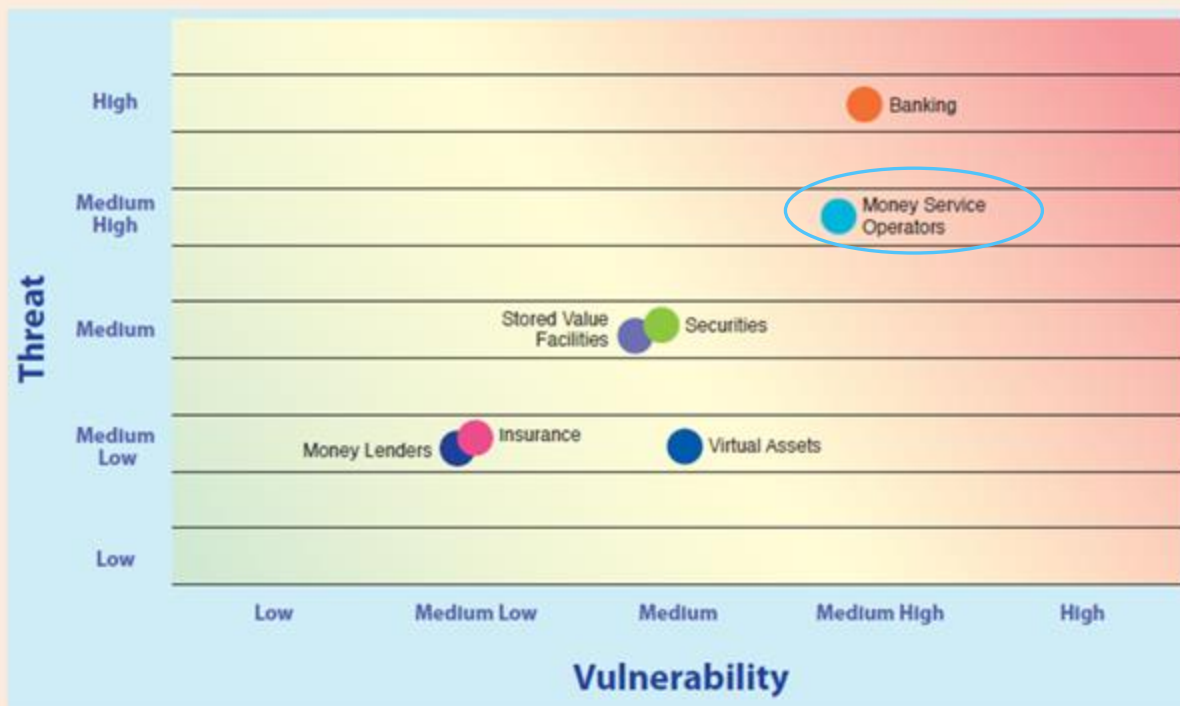
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Key Findings – Money Laundering (ML)

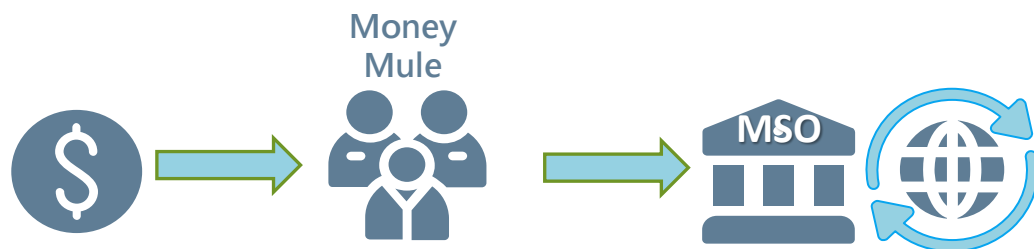
Hong Kong's ML Threat – Financial Sectors

Figure 5.2: Overview of risk levels of major financial institutions

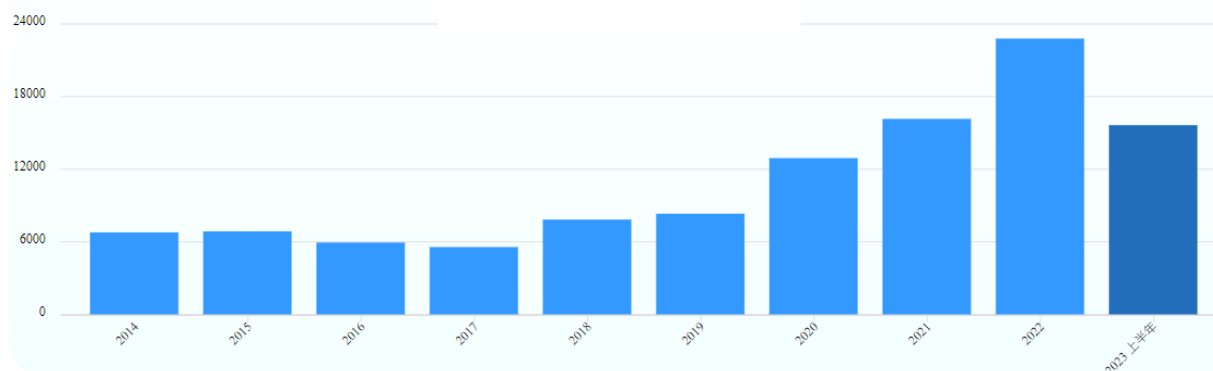


ML Threat to the MSO sector

- ◆ Used in the placement and layering stages of ML
- ◆ Fraud (e.g. phone deception, email scam and lottery fraud)
 - Money mule
 - Stooage account
- ◆ Cybercrime



Cybercrime Figures



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ML Threats to the MSO sector

- ◆ Combat fraud cases by stakeholders from all sectors
- ◆ handle suspected fraud cases with better understanding of the latest scam techniques and warnings

ADCC Anti-Deception Coordination Centre
<https://www.adcc.gov.hk/en-hk/alerts.html>



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ML Vulnerability of MSO sector

ML Vulnerability

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

C&ED

- ◆ Require MSOs to elaborate the entire delivery channel and fund flows in the business plan, so as to prove that effective AML/CFT measures have been taken
- ◆ Require MSOs to take additional measures to mitigate the risk associated with customers not physically present for identification purposes
- ◆ Conduct outreach activities to MSOs
- ◆ Carry out follow-up actions and onsite inspections



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Supervision and Enforcement



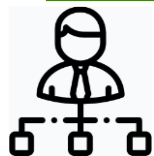
Risk-based Approach

- Revamped risk profiling methodology
- Appropriate supervisory criteria and priority



Entry control

- Due diligence background check
- Fit and Proper person



Ongoing risk-based supervision

- On-site and offsite inspection
- Disciplinary sanctions



Sanctions screening and transaction monitoring system

- Database and screening tool



Unlicensed money service operation

- Monitoring higher-risk areas
- Increased the sentencing level to a fine of HK\$1,000,000 and imprisonment for two years



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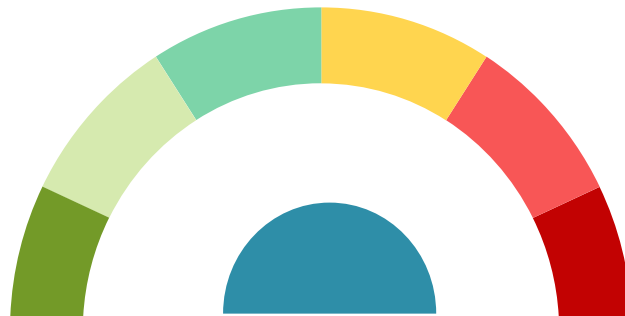
Overall ML Risk of MSO Sector

Overall ML Risk

Medium-high level

Threat : Medium-high

Vulnerability : Medium-high



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Proliferation Financing (PF)

Definition by FATF

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

Efforts in countering PF

- Implement **targeted financial sanctions** (TFS) to comply with United Nations Security Council (UNSC) Resolutions
- Freeze, without delay, related funds or other assets
- Ensure no funds and other assets are made available to, and for the benefit of, designated persons/entities in the **UN sanctions list**



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Proliferation Financing (PF)

Recommendation 7 of FATF

- R.7 requires implementation of **targeted financial sanctions** (TFS) to comply with United Nations Security Council (UNSC) Resolutions relating to the prevention of proliferation.
- UNSC committees have **designated certain persons/entities** and also stressed the need to cover the international network created to disguise activities of designated persons/entities.



Targeted financial sanctions

- ◆ MSOs **must not** establish business relationship with or providing any financial services to any designated persons/entities **under TFS**
- ◆ MSO should implement an effective **screening mechanism** on customers and any beneficial owners of the customers against all new and any updated designations to the database
- ◆ File suspicious transaction reports

the website of the Commerce and Economic Development Bureau for sanctions list :

<https://www.cedb.gov.hk/tc/policies/united-nations-security-council-sanctions.html>



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Targeted financial sanctions

Relevant Ordinances:

- ◆ United Nations Sanctions Ordinance
- ◆ Weapons of Mass Destruction (Control of Provision of Services) Ordinance
- ◆ Chemical Weapons (Convention) Ordinance
- ◆ Import and Export (Strategic Commodities) Regulations, made under the Import and Export Ordinance



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Key Findings – Proliferation Financing(PF)

PF Risk in HK

Medium-low level

Threat : Medium-low
Vulnerability : Medium-low

Strategic Commodities
Control regime

International financial
and trade hub

Proliferation Financing (PF) risk

Medium-low level

Effective screening
system

Robust legal framework



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Proliferation Financing

◆ Indicators of the potential breach, non-implementation or evasion of PF:

Vague or incomplete
information for due
diligence

Customer is reluctant
to provide additional
information

Customer appears in
sanctioned lists or
negative news

Affiliated with a
university or research
institution

Dealing with dual-use
goods

Accounts involve rapid
movement of high
volume transactions
and a small end-of-day
balance

Connected with a
country of
proliferation or
diversion concern



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Five Major Areas of Work



Enhancing the AML/CFT legal framework



Strengthening risk-based supervision



Stepping up outreach and awareness-raising



Strengthening law enforcement efforts



Monitoring new and emerging risks



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2

The latest information on main
regulatory provisions for AML/CFT



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The latest information on main regulatory provisions for AML/CFT

Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap 615)

The amended ordinance has come into effect in phases on April 1, 2023 and June 1, 2023

- Established a **licensing regime for virtual asset service providers** and a **registration regime for dealers in precious metals and stones**
- The virtual asset service providers and dealers in precious metals and stones must comply with the **AML/CTF requirements under the Ordinance**
- Addressed **miscellaneous and technical issues** under AMLO which had been identified in the Mutual Evaluation and other FATF contexts

Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (AMLO Guideline)

The amended guideline has come into on June 1, 2023

- Reflected the **amendments in the AMLO**
- Addressed some areas for improvement identified in the latest **Mutual Evaluation Report of Hong Kong (MER)** which are relevant to MSOs
- To provide practical guidance to facilitate the implementation of AML/CFT measures in a **risk-sensitive manner**



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Amendment on AMLO Guideline

- To address miscellaneous and technical issues under AMLO

Guideline related to Politically exposed persons (PEPs) – Chapter 4.9

- Expanding the scope of PEPs
- The additional measures set out in the AMLO are applicable to individual who is or has been entrusted with a prominent public function in **a place outside Hong Kong***
- Providing additional guideline on conducting CDD on **former PEP** taking into account various risk factors

* Also include a spouse, a partner, a child or a parent of an individual falling within paragraph (a) above, or a spouse or a partner of a child, or a close associate of the individual



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Amendment on AMLO Guideline

- To address miscellaneous and technical issues under AMLO

Guideline related to Customer not physically present for identification purposes – Chapter 4.10



- If an MSO has verified the identity of the customer on the basis of data or information provided by **a recognised digital identification**, the MSO is not required to carry out any of the additional measures

Guideline related to beneficial owner in relation to a trust or other similar legal arrangement – Chapter 4.3

- Align the definition of “beneficial owner” in relation to a trust under the AMLO with that of “controlling person” under the Inland Revenue Ordinance (Cap.112), by clarifying that, where a trust is concerned, it includes **trustees, beneficiaries and class(es) of beneficiaries**



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Amendment on AMLO Guideline

- To facilitate compliances

Guideline related to ML/TF Risk Assessment – Chapter 2 & 4.9

- Expanding the list of risk indicators to facilitate MSOs in carrying out institutional risk assessment and customer risk assessment
- Expanding the list of examples of higher risk indicators to facilitate MSOs in implementing CDD and ongoing monitoring with a more sensitive manner
- Providing additional guideline for adopting Risk-based Approach, including the record-keeping requirements of risk assessment reports



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Proposed amendment to Periodic Return

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交易報告
Statement of Transactions

香港法例 第615章《打擊洗錢及恐怖分子資金籌集條例》
Anti-Money Laundering and Counter-Terrorist Financing Ordinance,
Chapter 615

20 年 月 日至 20 年 月 日的定期申報表
Periodic Return for the period from (dd/mm/yyyy) to (dd/mm/yyyy)

請用正楷及黑色筆填寫表格。
Please fill in the form in capital letter and black ink.

持牌人姓名 / 名稱:
Name of licensee: _____
金錢服務經營者牌照號碼:
Money Service Operator Licence No.: _____

業務性質: ☐ 貨幣兌換 ☐ 匯款 ☐ 兩者 (如適用, 請加上「✓」號)
Nature of business: ☐ Money changing ☐ Remittance ☐ Both (please '✓' if applicable)

第1部 - 貨幣兌換交易
Part 1 - Money Changing Transactions

(A) 買入及賣出交易
Purchase and Sale Transactions

	買入 Purchase		賣出 Sale	
	款額(港元) Amount in HKD	交易宗數 No. of Transactions	款額(港元) Amount in HKD	交易宗數 No. of Transactions
人民幣 RMB				
其他貨幣 Other currencies				
總數 Total:				

(B) 須執行客戶盡職審查(盡職審查)措施的非經常貨幣兌換交易
Occasional Money Changing Transactions requiring Customer Due Diligence (CDD) measures

	成功交易的宗數 No. of Successful Transactions	拒絕個案數目# No. of Rejected Cases #
	人民幣 RMB	
其他貨幣 Other currencies		
總數 Total:		

被外客戶盡職審查措施未完成, 因而拒絕交易的個案
denies rejected transactions that due to incompleteness of CDD requirements

1

CED 406 (Rev. 12/2022)

- ◆ Reinforcing the monitoring in risk-based manner
- ◆ Facilitating data collection related to risk assessment
 - Money Changing and Remittance services
 - Information related to transaction monitoring



Public Consultation from FATF



- ◆ Revisions to Recommendation 16
- ◆ Increasing Payment Transparency
 - Review the content and quality of the payment information
 - Clarify the responsibilities of each financial institutes in the payment chains

Extract:

<https://www.fatf-gafi.org/en/publications/Fatfrecommendations/R16-public-consultation-Feb24.html>



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- The End -
Thank you

The website of Money Service Operators
Licensing System
<https://eservices.customs.gov.hk/MSOS/index>



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