

## **Guidelines for Submission of AML/CFT Policy**

### **by Applicant for Money Service Operator Licence/Licensee**

These guidelines aim to provide practical guidance to assist applicants to draw up their own policies, procedures and controls (collectively known as “policy”) in the relevant operational areas, taking into consideration of their proposed business plan and special circumstances so as to meet the relevant anti-money laundering and counter-terrorist financing (“AML/CFT”) statutory and regulatory requirements.

Please note that each applicant has its unique way of conducting money service business including products and services offered, distribution channels, organizational structure, customer base and geographical risks, etc. It is important for applicant to complete a self AML/CFT risk assessment and put in place a set of policy to mitigate the risks of money laundering and terrorist financing (“ML/TF”). The policy must be based on the applicant’s risk assessment and meet its particular business risk profile.

The items tabulated below are by no mean exhaustive and applicant must consider any other important issues that are peculiar to its business model and to facilitate the formulation of practical and effective policy.

<b>Item No.</b>	<b>Required information</b>	<b>Detail of the required information</b>
<b>1</b>	<b>Introduction to the Policy</b>	<ul style="list-style-type: none"><li>• The applicant (Name) must take all reasonable measures to ensure that proper safeguards exist to prevent a contravention of any requirement under Part 2 or 3 of Schedule 2 to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (“AMLO”) and to mitigate ML/TF risks.</li><li>• The applicant is required by section 19(3) of the AMLO to establish and maintain effective procedures not inconsistent with the AMLO for the purpose of carrying out the duties under sections 3, 4, 5, 9, 10 and 15 of Schedule 2.</li><li>• The applicant adopts a risk-based approach in the design and implementation of the AML/CFT policies with a view to managing and mitigating ML/TF risks.</li><li>• Qualified Compliance Officer (Name) and Money Laundering Reporting Officers (Name) are employed to implement appropriate AML/CFT policies and procedures including suspicious transaction report. The line of reporting should be clearly stated.</li></ul>

2	<b>AML/CFT Framework in Hong Kong</b>	<p>Elaborate the relevant AML/CFT framework</p> <ul style="list-style-type: none"> <li>• What is Money Laundering (“ML”), Terrorist Financing (“TF”) and Proliferation Financing (“PF”).</li> <li>• State the legal obligations of money service operator (“MSO”) in respect of ML, TF and PF under different legislation.</li> <li>• Why is it important to have an AML/CFT system for the applicant’s business.</li> <li>• What are the three stages of ML.</li> <li>• Typical signs or indicators for ML, TF and PF.</li> <li>• What is Suspicious Transaction Report (“STR”) and the applicant’s legal obligations.</li> <li>• Actions required by applicant if a suspicion arises.</li> <li>• Procedure of handling STR and timing.</li> <li>• What is tipping off and the applicant’s legal obligations.</li> </ul>
3	<b>Customer Due Diligence (CDD)</b>	<p>Elaborate the relevant workflow and AML/CFT procedures</p> <ul style="list-style-type: none"> <li>• What is CDD.</li> <li>• Statutory obligations of CDD requirement.</li> <li>• State company policy on different transaction thresholds for carrying CDD including treatment of one-off transaction for walk-in customer.</li> <li>• What is Customer Risk Assessment (“CRA”) and the applicant’s legal obligation.</li> <li>• Procedures for carrying out the CRA.</li> <li>• Regular CDD and its application within the company <ol style="list-style-type: none"> <li>1. MSO should indicate how the paragraphs 4.2.1- 4.2.6 of the Guideline on AML/CFT issued for MSOs (“AML Guideline”) will be complied with and how linked transactions will be dealt with.</li> </ol> </li> <li>• Simplified Due Diligence (“SDD”) and its application within the company.</li> <li>• Enhanced Due Diligence (“EDD”) and its application within the company. <ol style="list-style-type: none"> <li>1. What is Politically Exposed Person (“PEP”)</li> <li>2. What is the MSO’s policy on Domestic, Foreign and International Organization PEPs</li> </ol> </li> </ul>

		<ol style="list-style-type: none"> <li>3. Non-face-to-face channel</li> <li>4. High risk countries (e.g. countries identified by the Financial Action Task Force)</li> <li>5. Any situation that is assessed to be high risk by the applicant (e.g. remit HK\$200,000 in cash to Mainland by a walk-in customer)</li> </ol> <ul style="list-style-type: none"> <li>• What are Source of Funds(“SOF”) and Source of Wealth (”SOW”).</li> <li>• How SOF and SOW measures are incorporated into the applicant’s EDD process.</li> <li>• Funding provided by third party requires the applicant to identify and verify its ultimate beneficial owner including legal person, partnership, trust and other legal arrangement (procedures and steps taken by the applicant to comply with these requirements).</li> <li>• What are the consequences of failure to carry out CDD measures.</li> <li>• How the applicant obtains information on the purpose and intended nature of the business relationship as part of the company’s CDD process).</li> <li>• On-going Monitoring <ol style="list-style-type: none"> <li>1. Customer monitoring</li> <li>2. Transaction monitoring What is a “normal” level of business activity and what is not? Is the transaction consistent with the MSO’s knowledge of the customer and profile?</li> </ol> </li> <li>• Record keeping <ol style="list-style-type: none"> <li>1. Elaborate on how CDD, transaction, screening and CRA records will be recorded and kept.</li> <li>2. Whether the system can retrieve those records within a reasonable timeframe say one day.</li> </ol> </li> </ul>
<b>4</b>	<b>Products &amp; Services</b>	Money changing and/or remittance services.
<b>5</b>	<b>Distribution Channels</b>	Elaborate the distribution channels. For example, counter service, internet or mobile etc. Percentage of face-to-face and non-face-to-face transactions.
<b>6</b>	<b>Type of currencies</b>	Elaborate the main types of currencies provided in the money service business.
<b>7</b>	<b>Target customers</b>	Elaborate the target customers in the money service business.
<b>8</b>	<b>Target jurisdictions for</b>	Elaborate the target jurisdictions for “inward remittance transaction” and “outward remittance transaction”.

	<b>remittance</b>	
<b>9</b>	<b>Revenue model</b>	<p>Elaboration of the way by which the applicant makes profit from the business.</p> <p>For example, profit is made from a certain percentage of each transaction, handling charge, etc.</p>
<b>10</b>	<p><b>Elaboration of the “payment systems” and “AML/CFT procedures” in remittance transaction</b></p> <p>(i.e. s.13 in Schedule 2 to the AMLO) and/or wire transfer (i.e. s.12 in Schedule 2 to the AMLO)</p>	<p>Elaborate the relevant workflow and AML/CFT procedures, which should include, among others:</p> <ul style="list-style-type: none"> <li>• the relevant payment system, fund flow, settlement system (by bank transfer, cash etc.)</li> <li>• procedures for taking other reasonable measures in mitigation of ML/TF risks, such as identifying the source of funds, identity and legality of any counterparts/related parties in processing the transaction.</li> <li>• procedures for monitoring the company’s overseas branch and agent’s compliance with the AML/CFT policy.</li> </ul>
<b>11</b>	<b>AML/CFT screening process</b>	<p>Elaborate the procedures in conducting sanctions screening.</p> <p>For example, screening against customers for mitigating the risks of (a) targeted financial sanctions (“TFS”) related to terrorism and TF, (b) TFS related to proliferation, and (c) PEP.</p>
<b>12</b>	<b>Risk assessment procedures</b>	<p>Elaborate the risk assessment methodology of the applicant for AML/CFT purpose.</p> <p>For example, relevant risk factors, procedures to conduct risk assessment of customer, products and services, etc.</p>
<b>13</b>	<b>Compliance function</b>	<p>Elaborate the AML/CFT compliance function of the applicant.</p> <p>For example, management oversight, the roles of compliance department, any relevant committee/panel, the duties and responsibilities of compliance officer and compliance staff.</p>
<b>14</b>	<b>Reporting of suspicious transaction</b>	<p>Elaborate the procedures of the company in the process of reporting suspicious transaction, relevant reporting lines, and the roles of money laundering reporting officer and relevant staff.</p>
<b>15</b>	<b>AML/CFT audit function</b>	<p>Elaborate the AML/CFT audit function of the applicant to ensure their AML/CFT systems/programmes are commensurate with the up-to-date business risk profile and the AML/CFT circumstances.</p> <p>For example, by internal/external audit function, relevant policy and procedures, etc.</p>

<b>16</b>	<b>Training programme</b>	<p>Elaborate the training programme of the company.</p> <ul style="list-style-type: none"> <li>• Staff must be trained in what they need to do to carry out their particular duties with respect to AML/CFT.</li> <li>• Scope of training to be provided <ol style="list-style-type: none"> <li>1. Staff's personal statutory obligations and consequence for failure to report STR</li> <li>2. statutory obligations on the MSO and the consequence of breaches of the relevant legislation</li> <li>3. the MSO's policies and procedures relating to AML/CFT</li> <li>4. any new and emerging techniques, methods and trends in ML/TF that are needed by the staff to carry out their particular duties</li> <li>5. other issues set out in para. 9.7 of the AML Guideline</li> </ol> </li> <li>• MSO will monitor the effectiveness of training by testing their staff's understanding on the above issues and their ability to recognize suspicious transactions.</li> <li>• MSO will monitor and maintain records of who have been trained, when the staff received the training and type of training provided.</li> </ul>
<b>17</b>	<b>Other internal controls systems</b>	If there are other internal controls systems for AML/CFT purpose, elaborate the relevant policies and procedures.
<b>18</b>	<b>Other information</b>	Applicant is advised to provide/attach other information to facilitate the elaboration of the business plan and AML policy, such as the company's internal forms for reporting suspicious transactions, customer on-boarding, account opening, conducting CRA, brochures, and publications, etc.
<b>19</b>	<b>Cooperation with regulator and law enforcement agencies</b>	<p>The applicant will cooperate with the Customs &amp; Excise Department about their routine inspection or investigation. This company will also cooperate with other law enforcement agencies wherever required under the laws of Hong Kong.</p> <p>The applicant will implement the above AML/CFT policy to mitigate the ML and TF risks.</p>