

**Results of the**  
**MONEY LAUNDERING AND TERRORIST**  
**FINANCING RISK ASSESSMENT**  
**of the Money Service Operator Sector**

Money Service Supervision Bureau

**HONG KONG**

**MONEY LAUNDERING  
AND TERRORIST FINANCING  
RISK ASSESSMENT REPORT**



April 2018

**MONEY LAUNDERING AND TERRORIST  
FINANCING RISK ASSESSMENT REPORT  
("RA REPORT")**

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# Background

## HONG KONG

- ▶ Member of the Financial Action Task Force (“FATF”) since 1991
- ▶ Founding member of the Asia/Pacific Group on Money Laundering (“APG”) since 1997
- ▶ Has built up a comprehensive anti-money laundering and counter-financing of terrorism (“AML/CFT”) regime
- ▶ To conduct the risk assessment in response to challenges posed by the fast-changing financial-market and security landscapes.

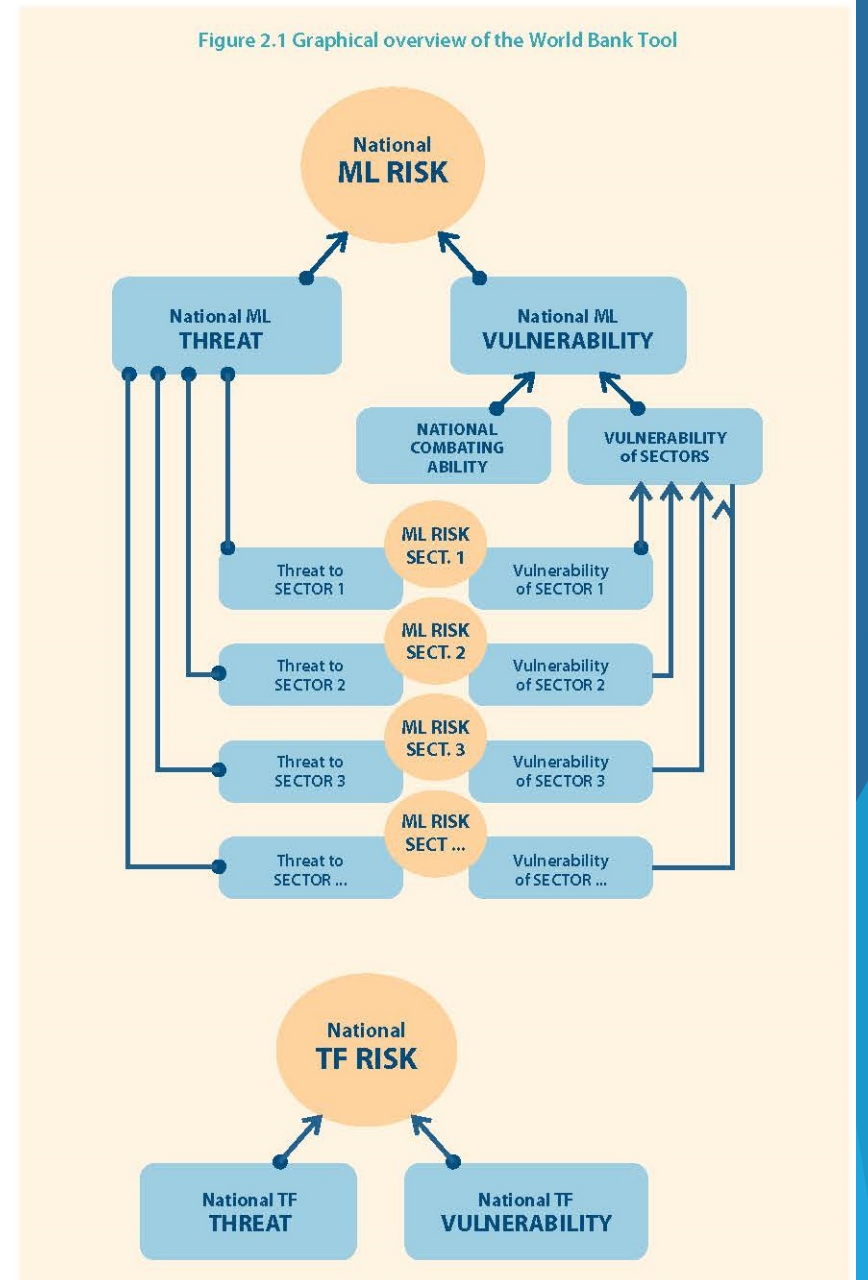
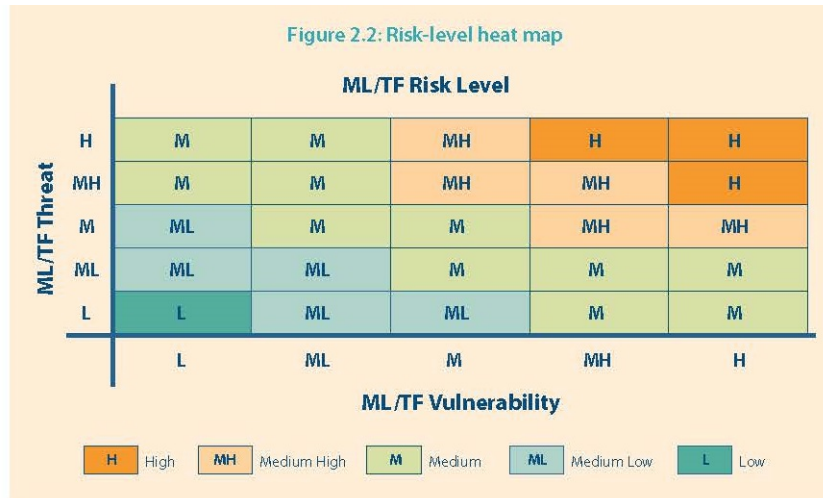
# First Territory-wide Risk Assessment

## The Steering Committee of the ML and TF Risk Assessment

- ▶ Was established under the direction a high-level Committee chaired by the Financial Secretary to steer the AML/CFT work in the Government to oversee the Risk Assessment
- ▶ Chaired by the Financial Services and the Treasury Bureau and members include the Security Bureau, the Commerce and Economic Development Bureau , the DoJ, the Hong Kong Police Force, the C&ED, the ICAC, the HKMA, the SFC, and the IA

# Risk Assessment Methodology

- ▶ Reference to the FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment
- ▶ Adopted the World Bank National Risk Assessment Tool



# Key Findings - Money Laundering (“ML”)

## Hong Kong’s Ability to Combat ML

- ▶ Medium-high

## Hong Kong’s ML Threat

- ▶ Internally, fraud and drugs-related crimes → high and medium-high ML threats
- ▶ Externally, fraud, drugs, corruption and tax evasion → high and medium-high threats
- ▶ Banking sector → faces a high ML risk
- ▶ MSOs → face a medium-high ML risk

# Key Findings - Money Laundering ("ML")

## Hong Kong's ML Threat

- ▶ Trust or company service providers ("TCSPs") → face ML risk with a noticeable cross-border element
- ▶ Bank accounts, real estates and stocks → illicit gains are commonly placed
- ▶ newly developing payment methods or commodities → a rapidly developing area requiring continued monitoring

# Key Findings - Money Laundering (“ML”)

## Overall ML Risk of Hong Kong

- ▶ a medium-high level of ML risk
- ▶ a medium-high level of threat and
- ▶ a medium level of vulnerability



# Key Findings - Terrorist Financing ("TF")

## Hong Kong's TF Threat

- ▶ a medium-low level of TF threat
- ▶ no confirmed TF case in Hong Kong

# Key Findings - Terrorist Financing ("TF")

## Overall TF Risk of Hong Kong

- ▶ a medium-low level of TF risk
- ▶ a medium-low level of threat and
- ▶ a medium-low level of vulnerability

# Way Forward

- ▶ 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

# Risk Assessment - MSO Sector

- ▶ At end-December 2017, 1,309 licensed MSOs
- ▶ Obligations of MSOs under AMLO: CDD, record-keeping requirements, ongoing monitoring of transactions and enhanced due diligence in high-risk
- ▶ Requirements of MSOs under the licensing regime: appropriate internal AML/CFT policies, procedures and controls, appointment of a compliance officer and an ML reporting officer.
- ▶ Other Requirements: refrain from carrying out suspicious transactions and report suspicious transactions to the JFIU with their observation and analysis

# Threats and Vulnerabilities of MSO Sector

- ▶ The cash-intensive nature of money-changing and frequent cross-border, walk-in and one-off transactions create a medium-high risk of exposure to ML/TF.
- ▶ The sector's ability to process numerous transactions conveniently and quickly also brings about the risk of illicit funds being introduced into the financial system.
- ▶ Cross-border activities pose challenges.

# Threats and Vulnerabilities of MSOs

- ▶ Information from JFIU shows that the quality of STRs submitted by MSOs varies.
- ▶ MSOs with compliance deficiencies.
- ▶ small-scale MSOs rely on manual instead of computerised monitoring of customer transactions.

# Unlicensed MSOs

- ▶ The C&ED maintains an up-to-date MSO licensee register, which is accessible on the Internet. This public register facilitates identification of false or inaccurate information about MSOs and unlicensed operation of money services.

# Overall Risk of MSO Sector

- ▶ ML threat : medium-high
- ▶ Vulnerabilities: medium-high
- ▶ Overall risk: medium-high



# Next Steps

## Enhance the supervision of the MSO sector by :

- ▶ Assessing MSOs' AML/CFT knowledge and providing tailor-made AML/CFT compliance training programmes to MSOs
- ▶ Strengthening MSOs' level of compliance by raising their awareness in using computerised systems for transaction monitoring as well as in improving STR quality;
- ▶ Supervising the proper implementation of AML/CFT compliance programmes by MSOs; and
- ▶ Conducting a thematic review of the client base of MSOs including clientele segments to facilitate the formulation of more targeted mitigating measures against the identified risk factors.

Thank you