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Money Laundering and Terrorist Financing Risk of the MSO sector
and
Way Forward for the Regulatory Regime

23.12.2019

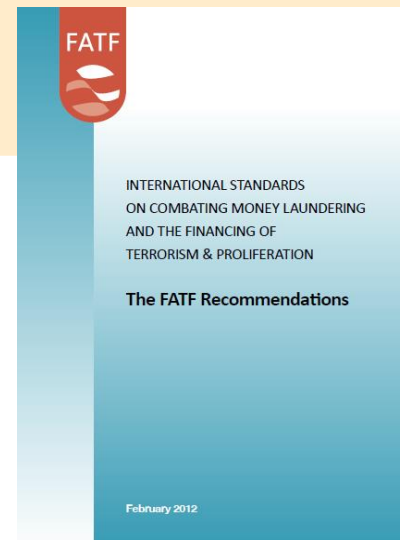**Risk Assessment Division**

Money Service Supervision Bureau

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

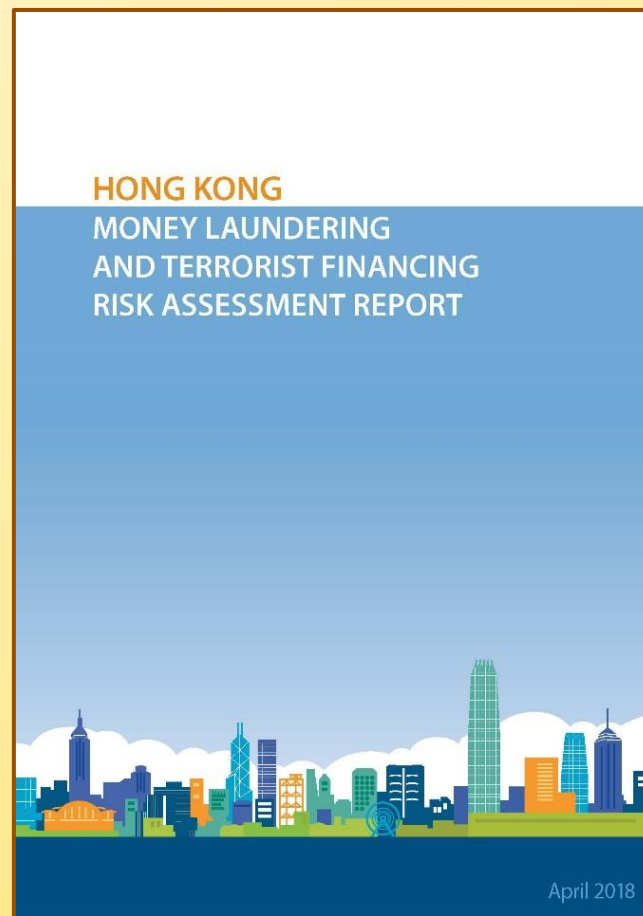- Response to the Recommendation of FATF on National Risk Assessment

FATF

INTERNATIONAL STANDARDS
ON COMBATING MONEY LAUNDERING
AND THE FINANCING OF
TERRORISM & PROLIFERATION

The FATF Recommendations

February 2012

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

HONG KONG
MONEY LAUNDERING
AND TERRORIST FINANCING
RISK ASSESSMENT REPORT

April 2018

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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

ICAC

保險業監管局
Insurance Authority

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
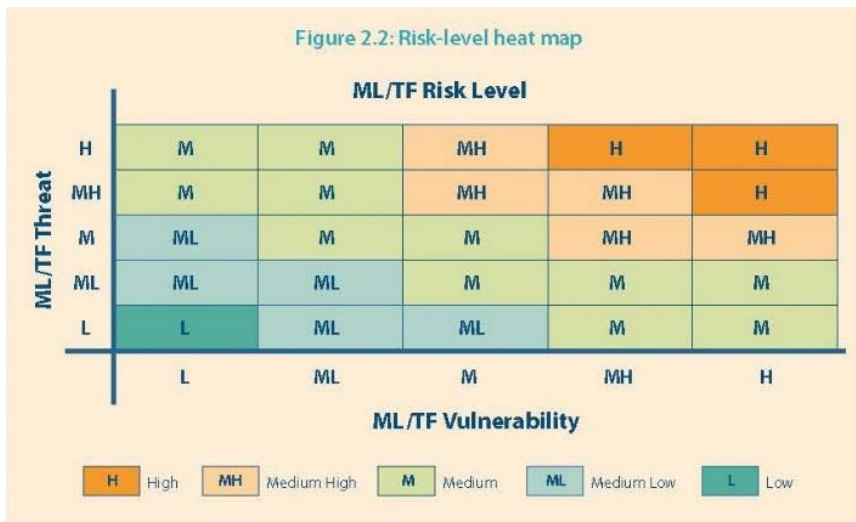
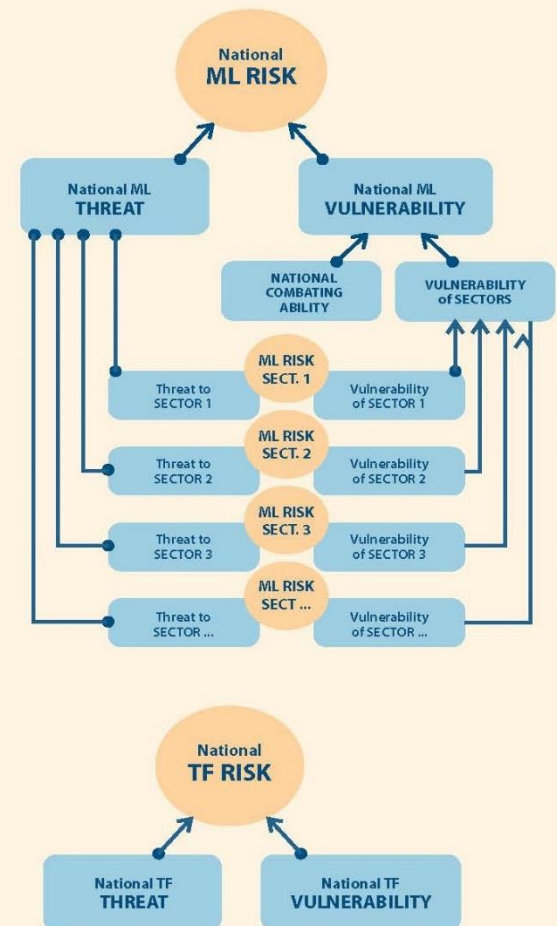- World Bank National Risk Assessment Tool

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)

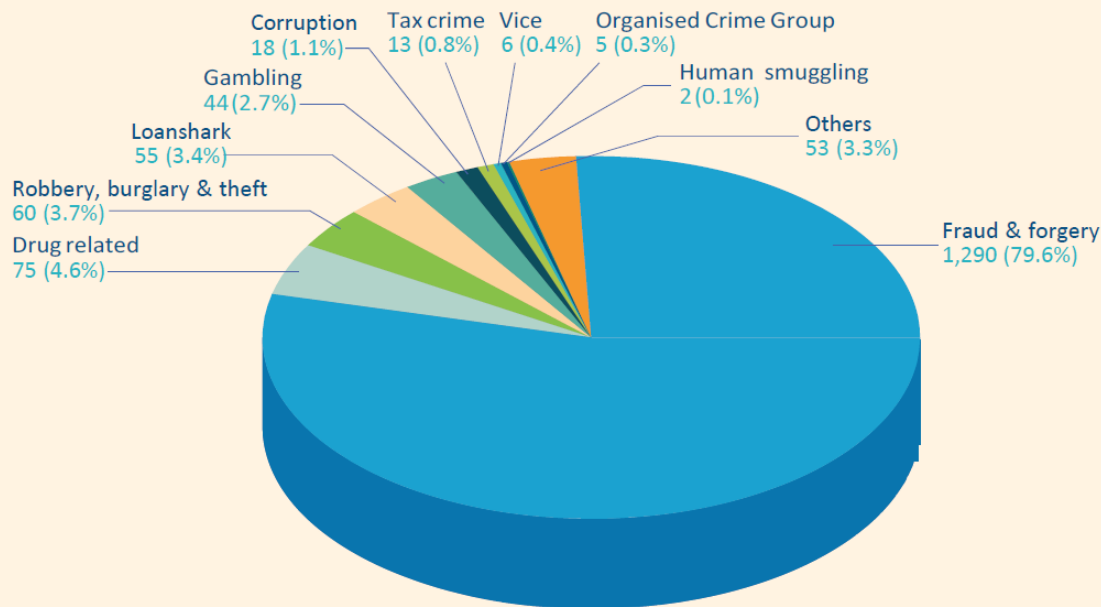## Hong Kong's Ability to Combat ML

- **Medium-high**

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

- Corruption 18 (1.1%)
- Tax crime 13 (0.8%)
- Vice 6 (0.4%)
- Organised Crime Group 5 (0.3%)
- Human smuggling 2 (0.1%)
- Gambling 44 (2.7%)
- Loanshark 55 (3.4%)
- Robbery, burglary & theft 60 (3.7%)
- Drug related 75 (4.6%)
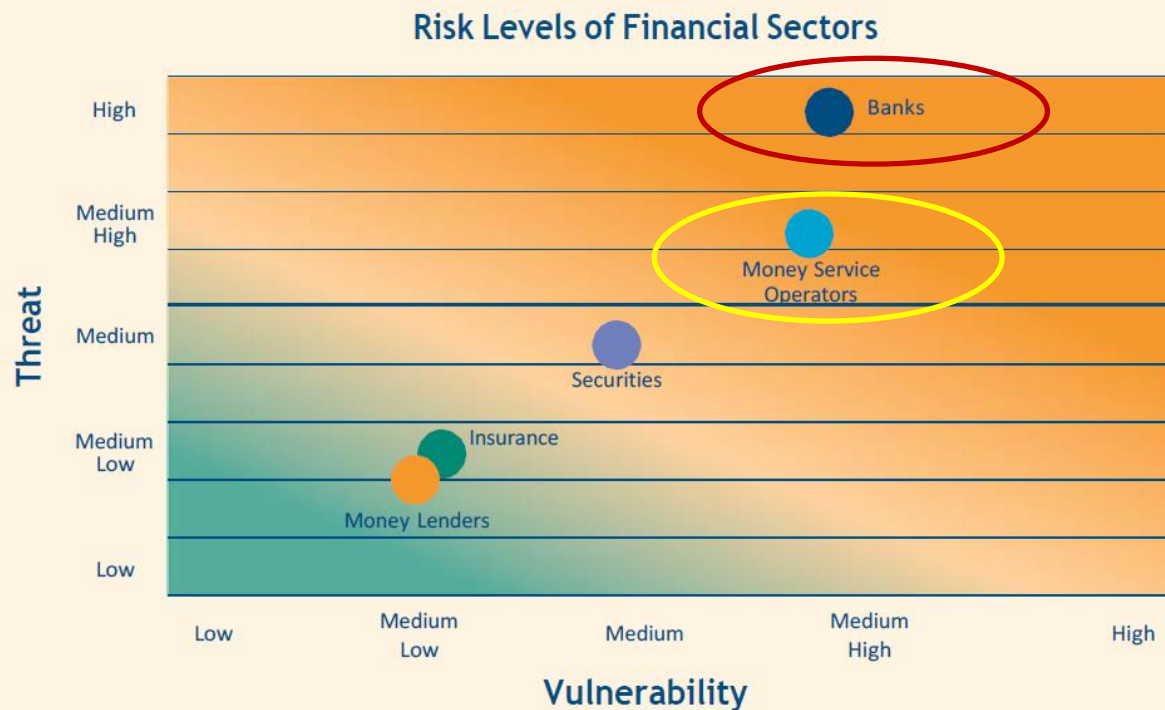- Others 53 (3.3%)
- Fraud & forgery 1,290 (79.6%)

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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
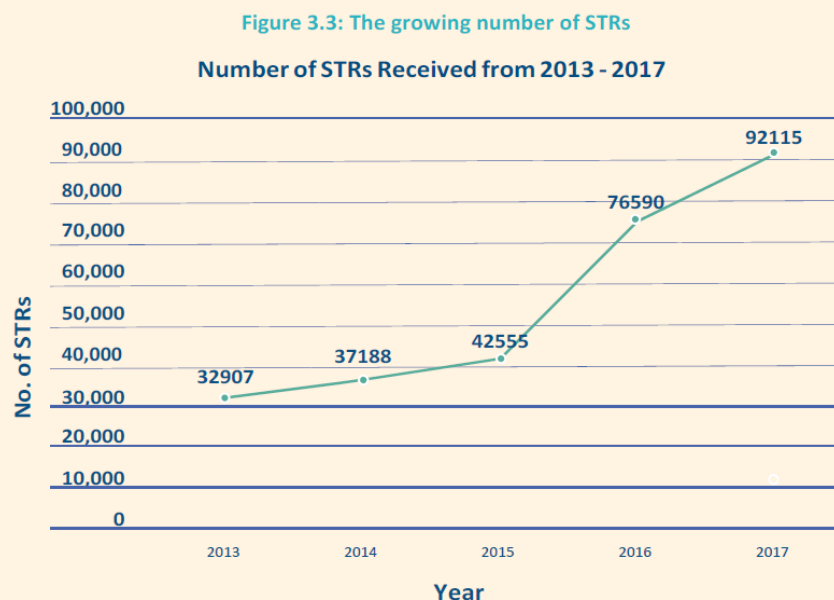
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Key Findings – Money Laundering (ML)

Hong Kong's ML Vulnerabilities

- Rapid growth in suspicious transaction reports ("STRs")
  → challenges to the JFIU in terms of handling capacity

Figure 3.3: The growing number of STRs

Number of STRs Received from 2013 - 2017

Year	No. of STRs
2013	32907
2014	37188
2015	42555
2016	76590
2017	92115

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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 – MSO Sector

◆ Definition of Money Service under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, Cap. 615 ("AMLO")

◆ Landscape of Licensed MSOs

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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

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Threats and Vulnerabilities of MSO Sector

◆ The quality of STRs submitted by MSOs varies.

◆ MSOs with compliance deficiencies.

◆ MSOs rely on manual transaction monitoring.

◆ Unlicensed MSOs

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Supervision and Enforcement – C&ED

◆ 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

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Way Forward

To enhance the supervision of the MSO sector by :

◆ Assessing and strengthing MSOs' AML/CFT knowledge

◆ Strengthening MSOs' level of compliance by raising their awareness in using computerised 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 compliance programmes by MSOs; and

◆ Conducting outreach programme and thematic review of the MSO sector.

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Suggestion to MSOs

MSOs should pay attention to:

- ◆ STR quality

- ◆ AML/CFT knowledge

- ◆ TF/PF knowledge

- ◆ AML Regulatory System

- ◆ Institutional Risk Assessment

- ◆ Ongoing monitoring system

- ◆ Sanction screening system

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THE END

Thank you