



香港海關  
Customs and Excise Department

# Money Laundering & Terrorist Financing Risks and Way Forward for the Regulatory Regime

**9 July 2021**

**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

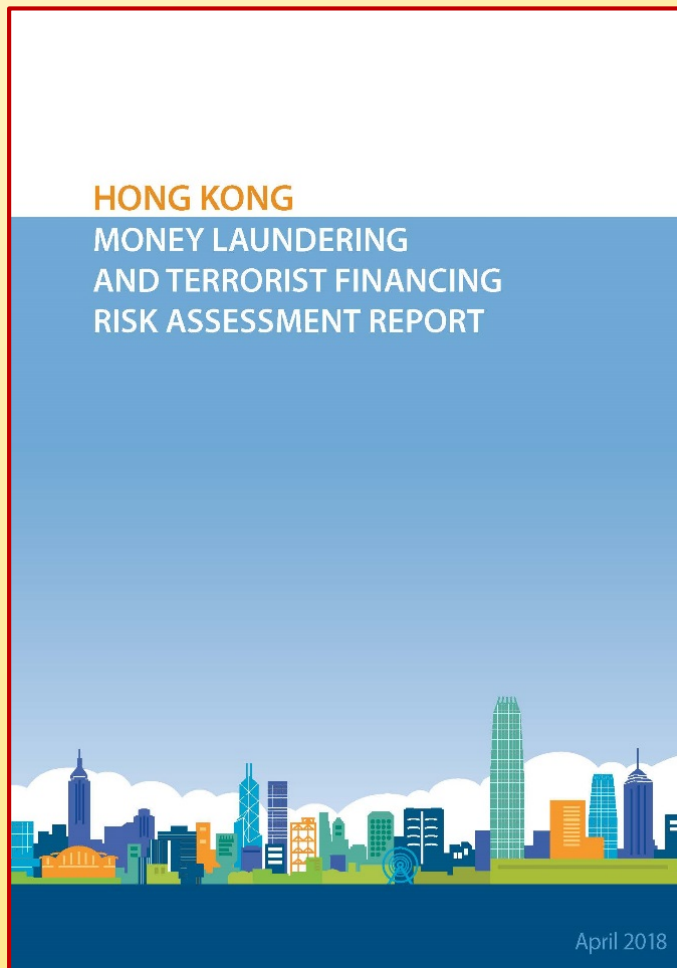


香港海關  
Customs and Excise Department

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



香港海關  
Customs and Excise Department



# 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



**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

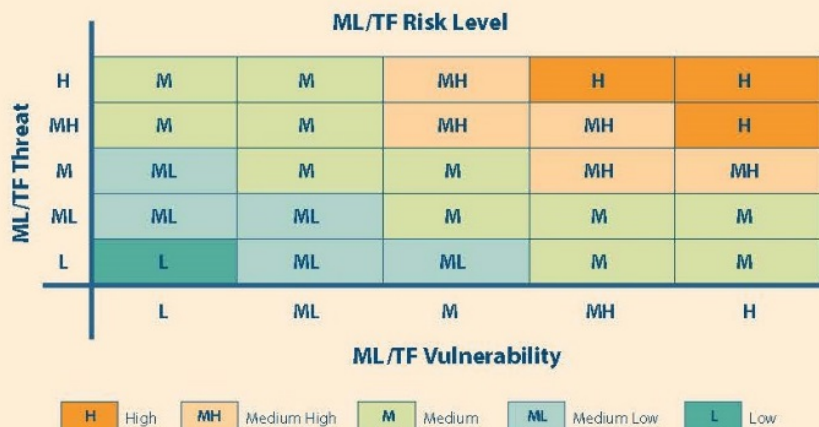
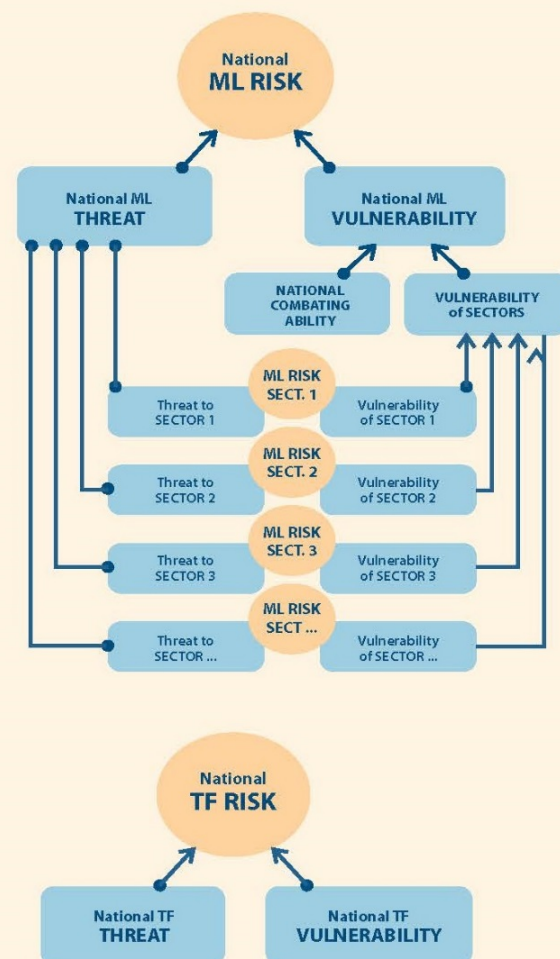


Figure 2.1 Graphical overview of the World Bank Tool



香港海關

Customs and Excise Department

# Key Findings – Money Laundering (ML)

**Hong Kong's Ability to Combat ML**

**Medium-high**



香港海關  
Customs and Excise Department

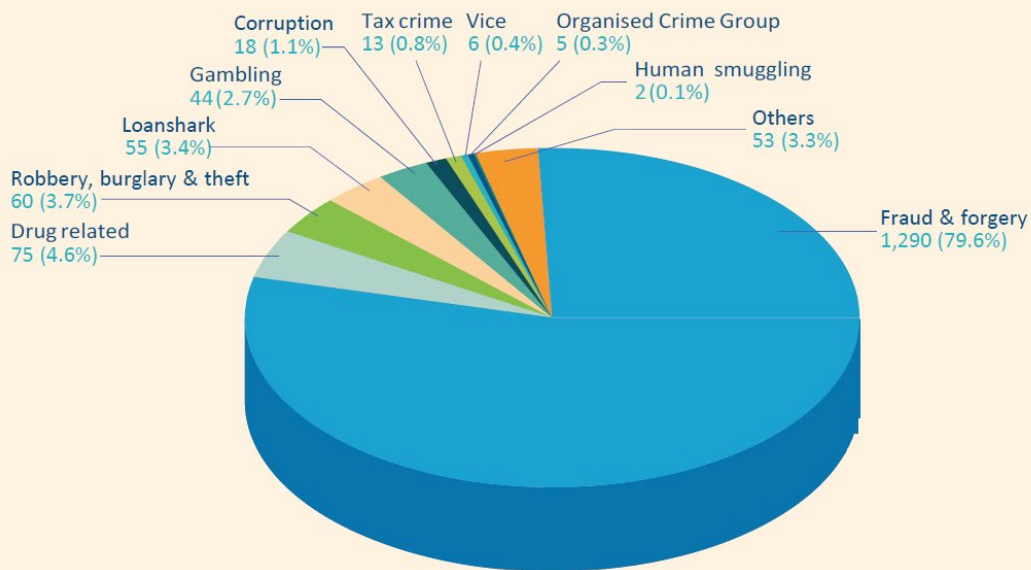
# Key Findings – Money Laundering (ML)

## 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



香港海關

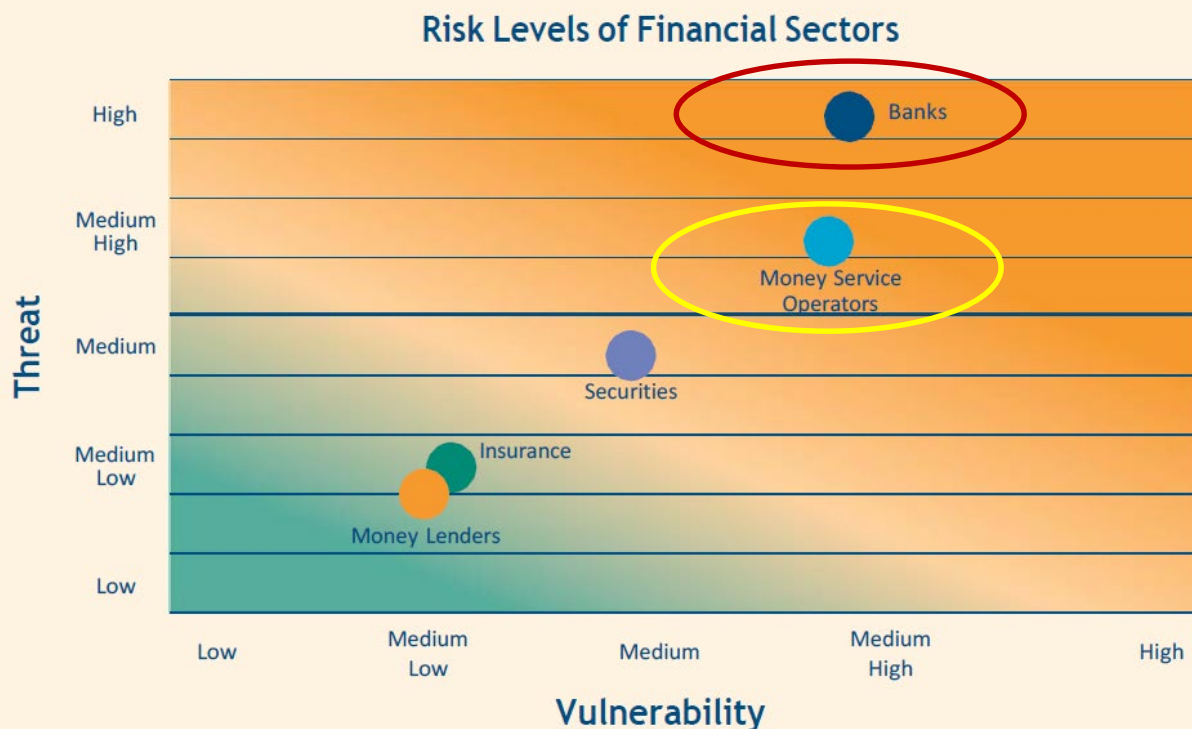
Customs and Excise Department



# 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



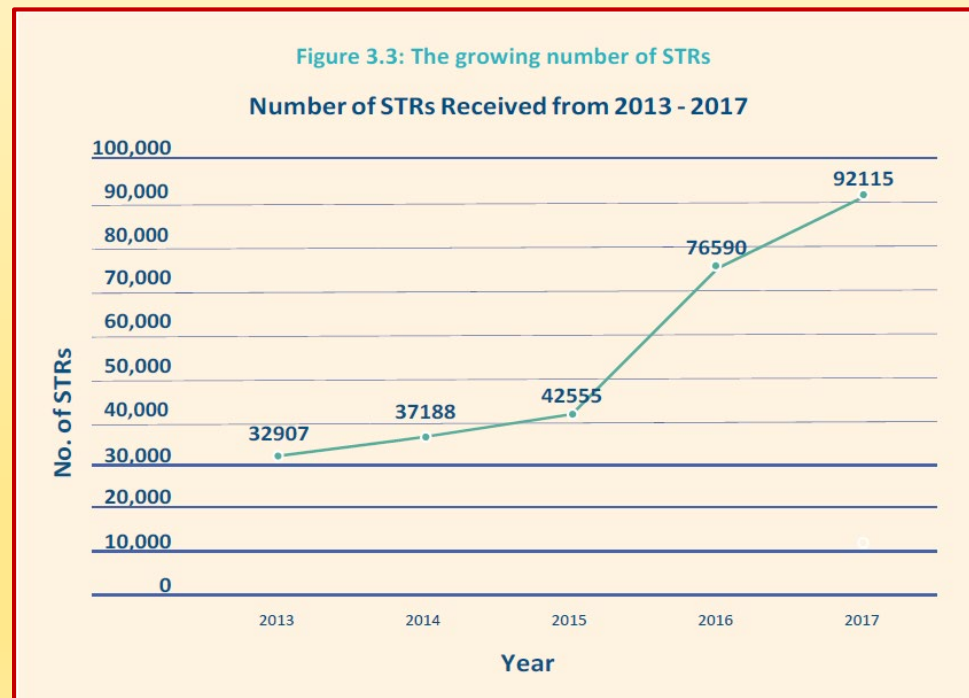
香港海關  
Customs and Excise Department



# 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)



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 Threat**

**A medium level of Vulnerability**



香港海關  
Customs and Excise Department



# 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**



香港海關  
Customs and Excise Department



# 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



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



# 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



# 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





# Supervision and Enforcement

- ◆ Awareness of the MSO's compliance obligation
- ◆ Unlicensed MSOs - suspended prison sentences and disqualification from holding an MSO licence for a specified period



香港海關  
Customs and Excise Department

# Overall Risk of MSO Sector

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



# Proliferation Financing (PF)

Definition provided by Financial Action Task Force (FATF)

*... **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)...*



香港海關  
Customs and Excise Department



Combatting PF

# Targeted Financial Sanctions

**United Nations Security Council  
sanctions against the DPRK and Iran**



**Targeted Financial Sanctions against  
designated individuals and entities**



*United Nations  
Sanctions (DPRK)  
Regulation*



*United Nations  
Sanctions (JCPOA - Iran)  
Regulation*



香港海關  
Customs and Excise Department

# Targeted Financial Sanctions

- **NOT to make available or deal with economic assets** of:
  - a) individuals or entities designated by the United Nations Security Council; and
  - b) individuals or entities acting on behalf of, or at the direction of (a); or entities owned or controlled by (a).
- **Economic assets** means any funds or other financial assets or economic resources.
- Please visit the website of the Commerce and Economic Development Bureau for the sanction lists:  
[https://www.cedb.gov.hk/citb/tc/Policy\\_Responsibilities/united\\_nations\\_sanctions.html](https://www.cedb.gov.hk/citb/tc/Policy_Responsibilities/united_nations_sanctions.html)



香港海關

Customs and Excise Department



# Targeted Financial Sanctions

- MSOs should not establish business relationship or conduct transactions with sanctioned individuals or entities.
- MSOs should implement an effective screening mechanism, which should include screening customers and their beneficial owners against the most up-to-date sanction lists.



# Mutual Evaluation (ME) Report of Hong Kong

- ◆ Published on  
4 September 2019
- ◆ Available at FATF  
website



香港海關  
Customs and Excise Department





# Recommendations for MSO sector

- ◆ MSOs should:
  - Deepen the understanding of risks of ML, TF and Proliferation Financing (PF); Targeted Financial Sanctions; and Enhanced Customer Due Diligence
  - Implement AML/CFT measures, e.g. Suspicious Transaction Reporting



# Way Forward

**To enhance the supervision of the MSO sector by :**

- ◆ Assessing and strengthening MSOs' AML, CFT and PF 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;



香港海關  
Customs and Excise Department

# Way Forward

**To enhance the supervision of the MSO sector by :**

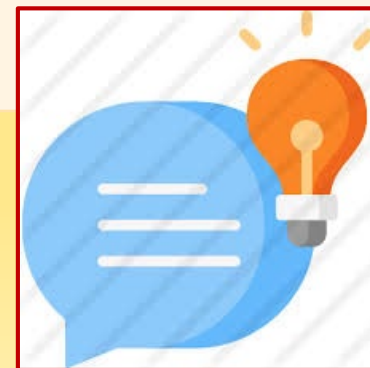
- ◆ Supervising the proper implementation of AML, CFT and PF compliance programmes by MSOs; and
- ◆ Conducting outreach programme and thematic review of the MSO sector.



# Suggestion to MSOs

## MSOs should pay attention to:

- ◆ STR quality
- ◆ AML/CFT knowledge
- ◆ TF/PF knowledge
- ◆ AML, CFT and PF Regulatory System
- ◆ Institutional Risk Assessment
- ◆ Ongoing monitoring system
- ◆ Sanction screening system





香港海關  
Customs and Excise Department

**- The End -**

**Thank you !**

## Contact Information

Tel : 2707 7837

Email : [msoenquiry@customs.gov.hk](mailto:msoenquiry@customs.gov.hk)