



MSSB/MIS_06/2021
22 December 2021

Circular

**Circular to Money Service Operators
Counter-Proliferation Financing and
Implementation of Targeted Financial Sanctions
Identification and Mitigation of Proliferation Financing Risks**

In October 2020, the Financial Action Task Force (“FATF”) has adopted amendments to Recommendation 1 in “Assessing Risk and Apply Risk-based Approach” with the addition of requirement in conducting proliferation financing (“PF”) risk assessment. In June 2021, the FATF further published a new “Guidance on Proliferation Financing Risk Assessment and Mitigation” to require member jurisdictions and private sectors to identify, assess, understand and mitigate PF risks in order to fully undertake the obligation of implementing Targeted Financial Sanction (“TFS”) and preventing the proliferation of mass destruction weapons under the resolutions of the United Nations Security Council and FATF’s Recommendation 7 “Targeted Financial Sanctions related to Proliferation”.

MSOs must not establish business relationship or provide financial services to any designated individuals or entity subject to TFS in all circumstances. In order to meet the latest FATF standards, the Customs and Excise Department (“C&ED”) would like to remind MSOs to **conduct institutional risk assessment (“IRA”) on PF as soon as practicable inclusive of a thorough review on all existing businesses and customers** and take appropriate measures to mitigate any PF risk identified. MSOs may refer to C&ED’s circular issued on 13 August 2018 regarding the implementation of IRA^{Note1} and Chapter 2 of the “Guideline on Anti-money Laundering and Counter-Financing on Terrorism” (“the AML/CFT Guideline”) on the methodology in risk assessment.^{Note2} To conduct threat analysis and identification of high risk situations in the course of IRA, MSOs can make reference to the presentation slides of “Webinar on PF Risk Assessment and Mitigation” published on C&ED website on 17 September 2021^{Note3}.

C&ED reiterated that the counter PF regime in Hong Kong has been implemented through legislations, including the regulations made under the United Nations Sanctions Ordinance which are specific to the Democratic People’s Republic of Korea and Iran, and the Weapons of Mass Destruction (Control of Provision of Services) Ordinance (“WMD(CPS)O”). Section 4 of WMD(CPS)O prohibits a person from providing any services where he believes or suspects, on reasonable grounds, that those services may be connected to PF. The provision of services is widely defined and includes the lending of money or other provision of financial assistance. MSOs may also make reference to Chapter 6 of the AML/CFT Guideline on regulators’ guidance in implementing counter PF measures.

Note1 Relevant circular can be found at <https://eservices.customs.gov.hk/MSOS/downloadFile?id=166599>

Note2 Paragraph 2.6 of the Guideline on AML/CFT (For MSOs) requires MSOs to take into account higher risks identified, including higher risks notified to the MSOs by the C&ED, in their IRA.

Note3 Relevant materials can be found at <https://eservices.customs.gov.hk/MSOS/downloadFile?id=313566>



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MSOs are also advised to pay close attention to the latest sanction lists of individuals and entities designated by the United Nations Security Council by the means of having an effective and updated screening mechanism in place.

Furthermore, MSOs are reminded of their statutory obligation to file suspicious transaction reports with the Joint Financial Intelligence Unit (“JFIU”) as soon as practicable for any genuine hits of designated persons or entities on the United Nations Sanction Lists during transaction monitoring or other suspicious activities in relation to PF encountered in the course of business.

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End