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Risk Assessment and Mitigation of Money Laundering, Terrorist Financing & Proliferation Financing

9 December 2022

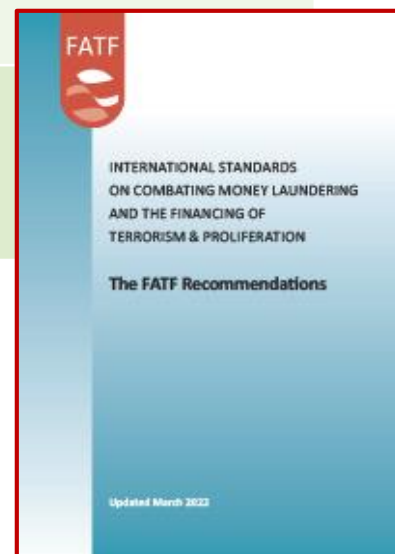
Money Service Supervision Bureau

Trade Controls Branch

Background

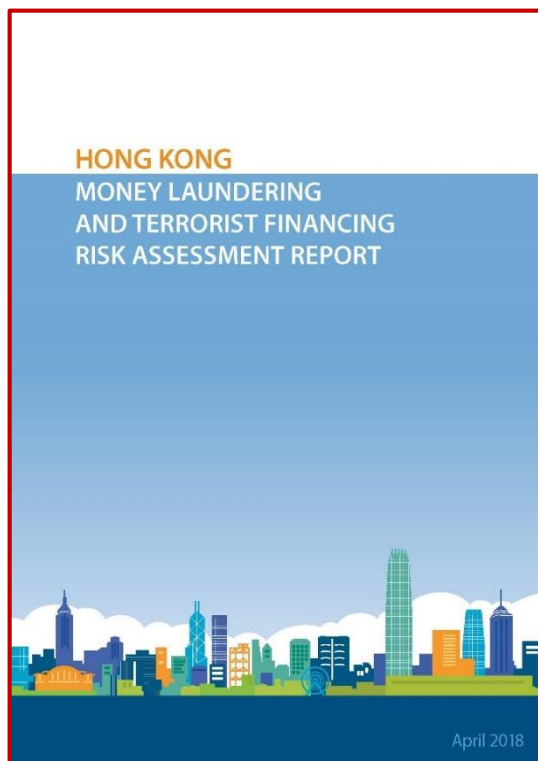
HONG KONG

- 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

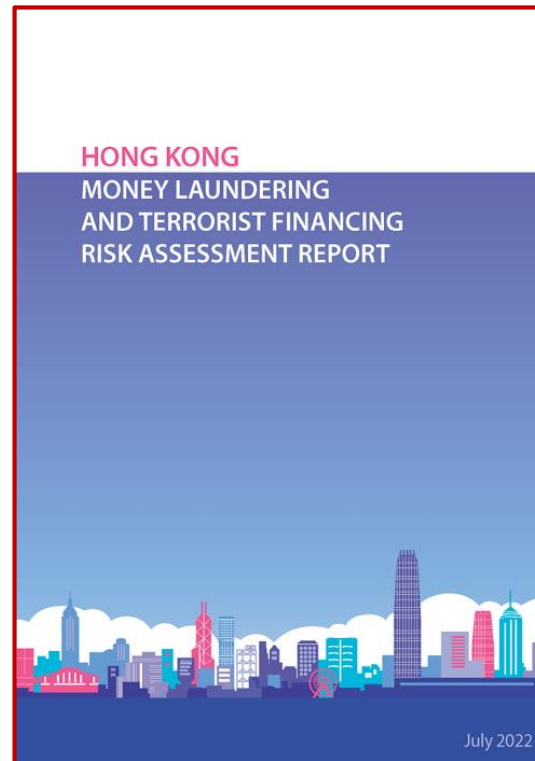


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Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report (HRA)



2018 1st HRA

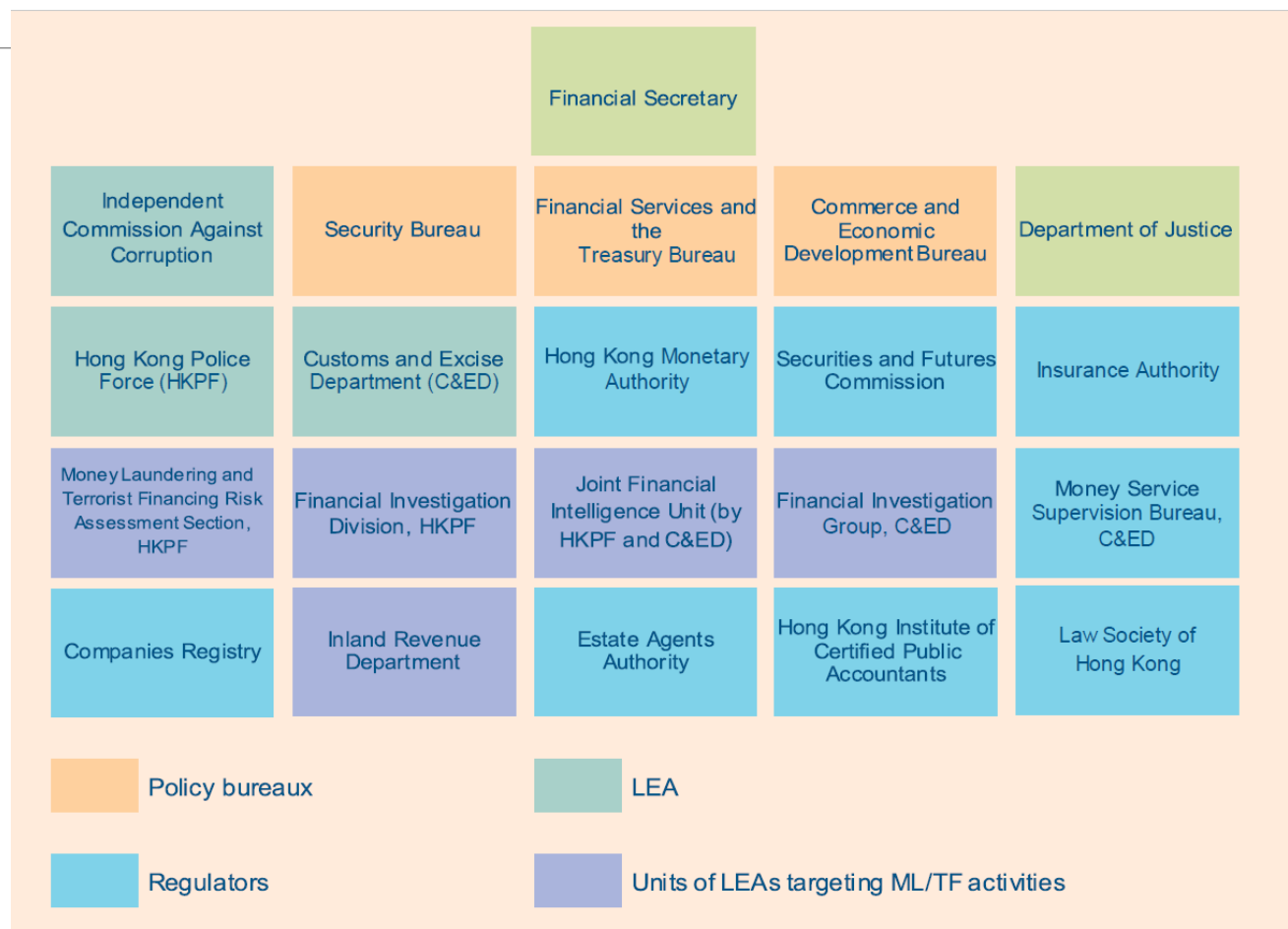


2022 2nd HRA



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Key Stakeholders in the Coordination and Implementation of AML/CFT Policies and Strategies



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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

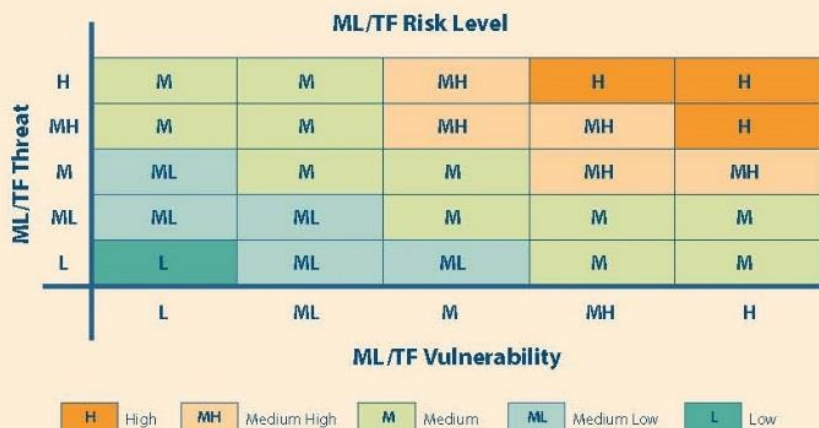
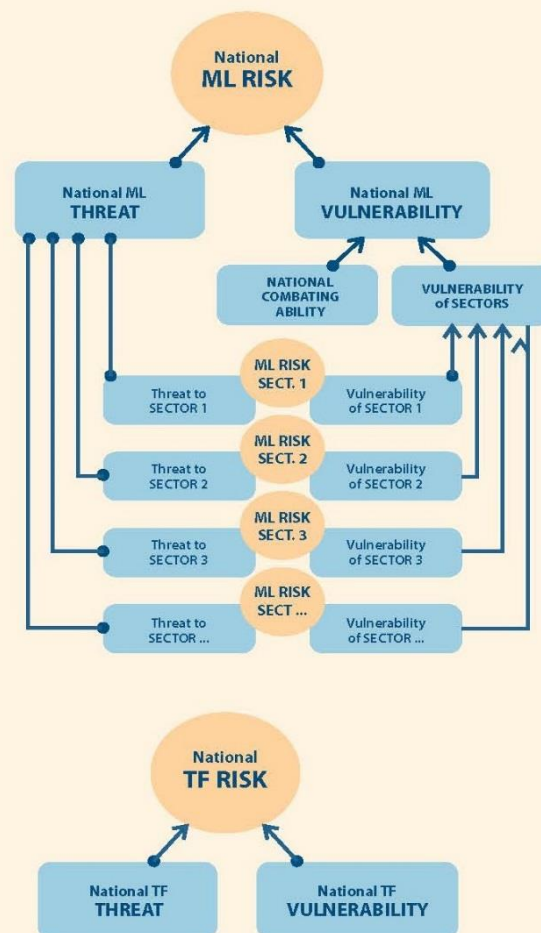


Figure 2.1 Graphical overview of the World Bank Tool



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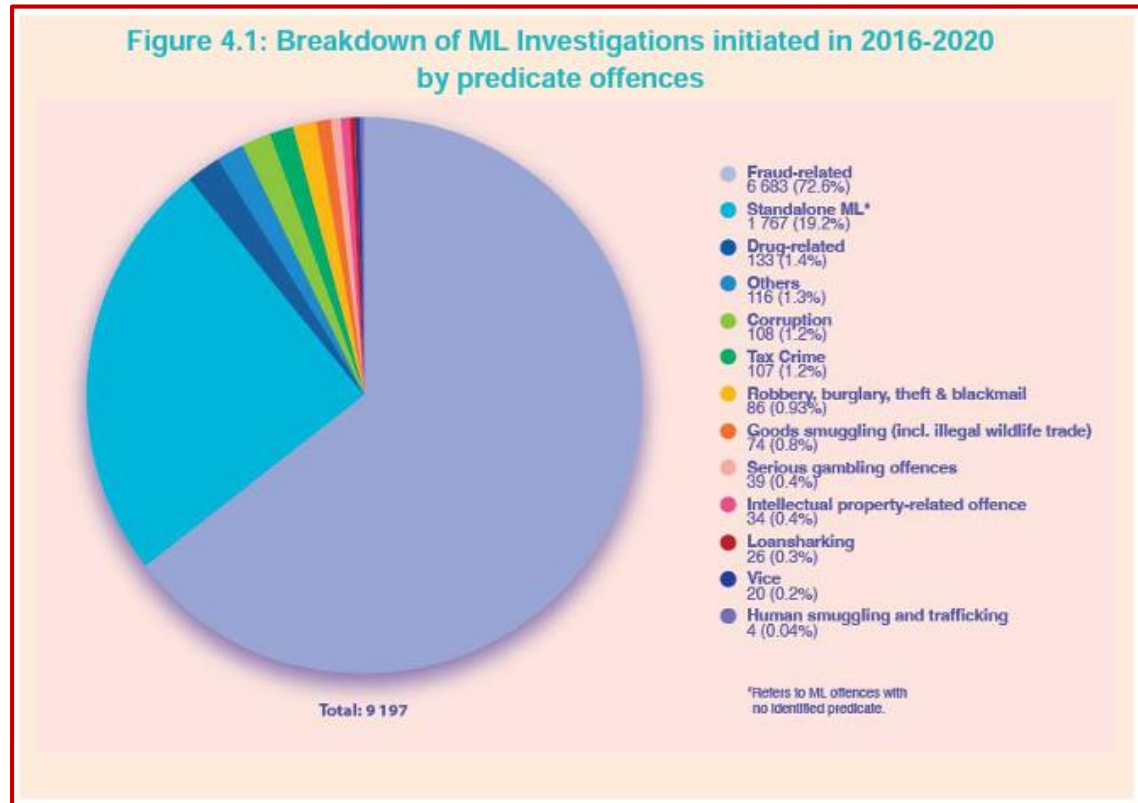
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Key Findings – Money Laundering (ML)

Hong Kong's ML Threat

Medium-high

What are the
predicate offences
of ML cases?

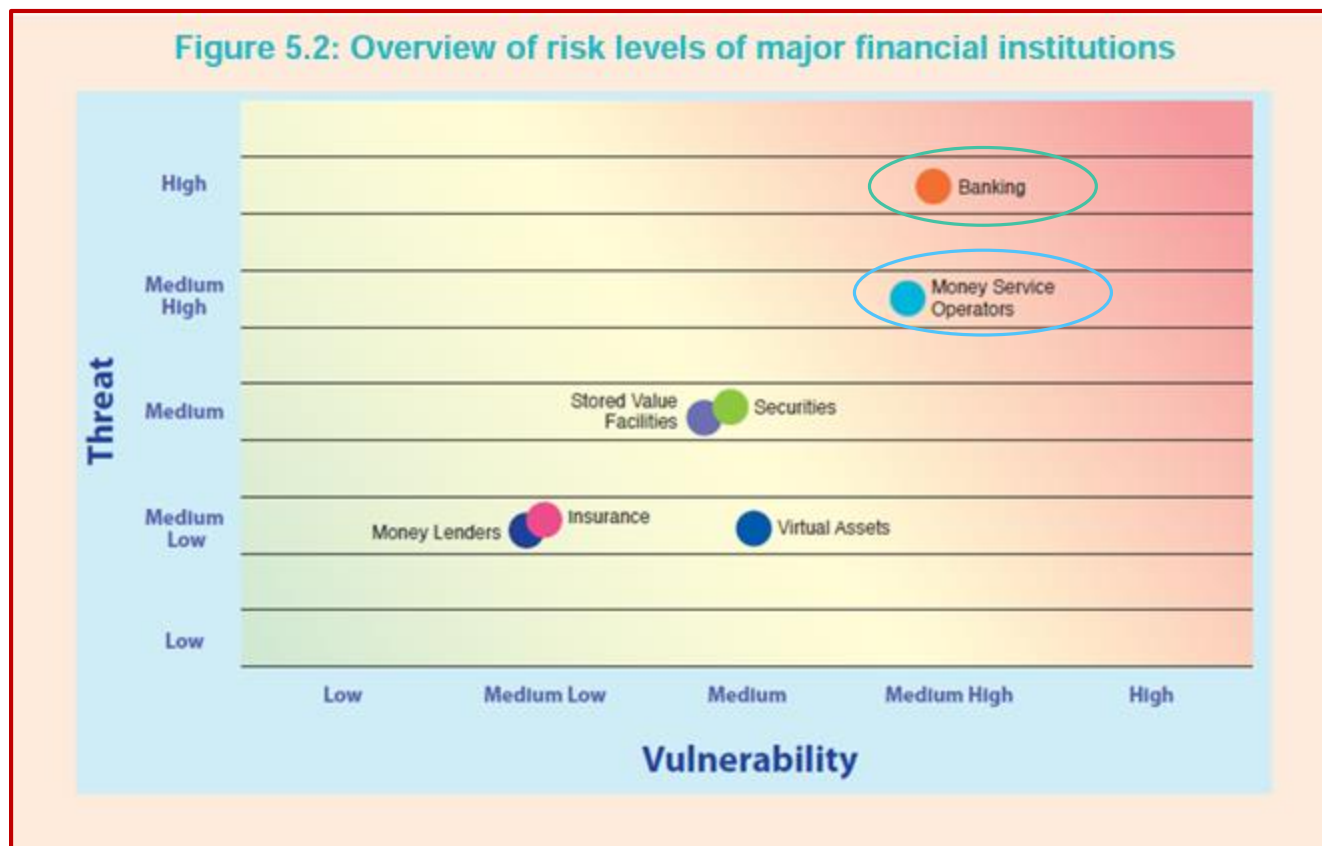


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Key Findings – Money Laundering (ML)

Hong Kong's ML Threat - Financial Sectors



Key Findings – Money Laundering (ML)

Hong Kong's Ability to Combat ML

High

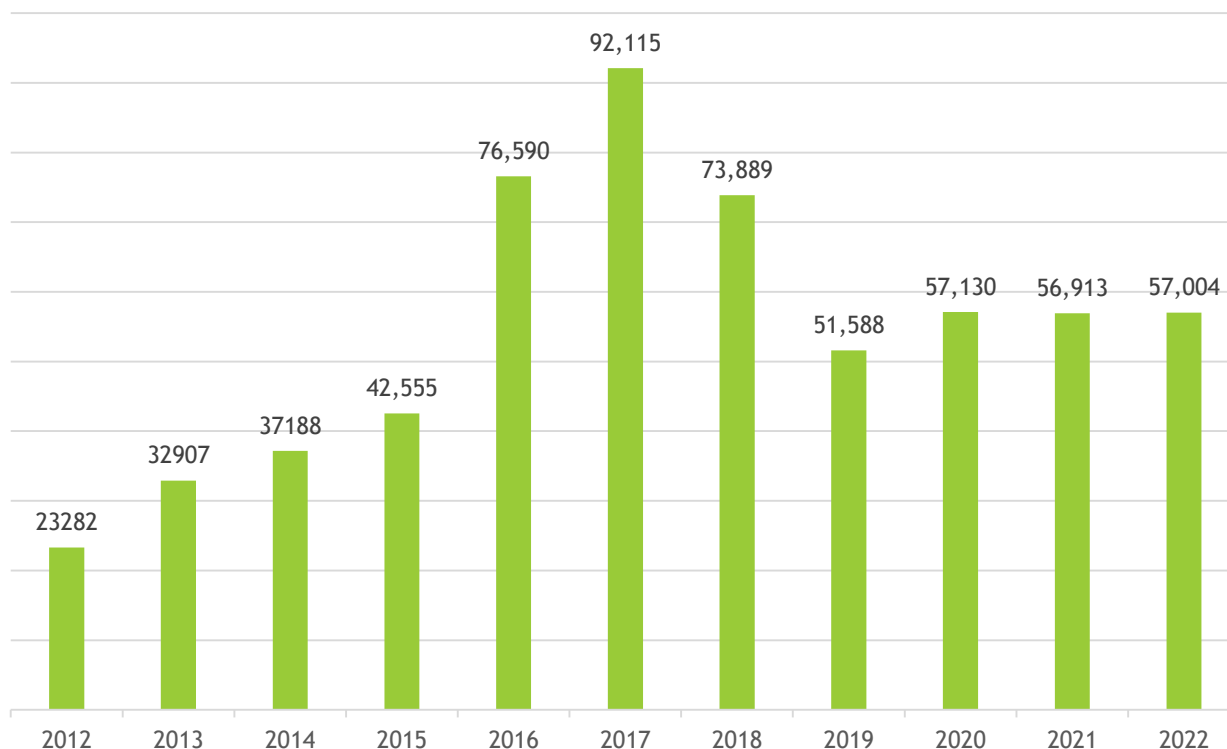


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Key Findings – Money Laundering (ML)

Hong Kong's ML Vulnerabilities

Number of STR received from 2012 - 2022



Improvement in the understanding of ML/TF risks and awareness of AML/CFT obligations

Improvement in the quality of the reports received

as at 2022-10-31



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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 ML threat

A medium level of ML 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 TF threat

A medium-low level of TF vulnerability



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Way Forward

Five Major Areas of Work



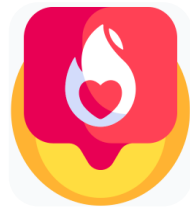
Enhancing the
AML/CFT legal
framework



Strengthening risk-
based supervision
and partnerships



Stepping up outreach
and awareness-
raising



Monitoring new and
emerging risks



Strengthening law
enforcement efforts
and intelligence
capability

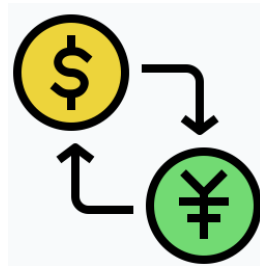


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Risk Assessment of MSO sector

- ◆ Definition of Money Service under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, Cap. 615 (“AMLO”)
- ◆ Landscape of Licensed MSOs



ML Threats & Vulnerabilities of MSO sector

ML Threats

- ◆ 9.9% of ML convicted case
- ◆ 3.6% of crime proceeds laundered via the sector
- ◆ Fraud (e.g. telephone deception, email scam and lottery fraud)
- ◆ Cybercrime

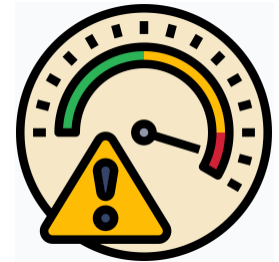
ML Vulnerabilities

- ◆ Cash-intensive nature with global exposure
- ◆ Frequent and cross-border transactions
- ◆ Large-amount transactions by walk-in and one-off customers
- ◆ Use of online platforms
- ◆ Transactions below customer identification and verification thresholds



Overall Risk of MSO Sector

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



Supervision and Enforcement



Risk-based Approach

- Revamped risk profiling methodology
- Appropriate supervisory extent and priority



Entry control

- Background due diligence
- Fit and Proper



Ongoing risk-based supervision

- On-site and offsite inspections
- Disciplinary sanctions



Sanction screening and transaction monitoring system

- Database and screening tool



Unlicensed money service operation

- MSO licensee register
- Monitors higher-risk areas
- Increasing the sentencing level to a fine of HK\$1,000,000 and imprisonment for two years



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Way Forward

To enhance the supervision of the MSO sector by :

- a) strengthen its understanding of MSOs' risk profiles in order to form a solid foundation for effective risk-based supervision
- b) enhance MSOs' capability in particular in ML/TF/PF risk understanding, STR reporting obligations, and TF/PF TFS screening



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Way Forward

To enhance the supervision of the MSO sector by :

- c) encourage the adoption of innovation and new technology
- d) further study the emerging ML/TF/PF threats arising from cybercrime
- e) proactively conduct special theme-based review exercises



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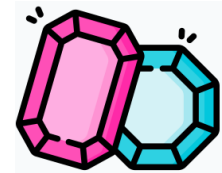
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Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022

Legislative Proposals

1. FATF's recommendations on areas to improve in the follow-up process
 - ◆ Regulation of dealers in precious metals and stones ("DPMS")



2. Addition to the FATF Standards in 2019
 - ◆ To subject "virtual asset" service providers ("VASPs") to the same range of AML/CTF obligations that are currently applicable to financial institutions and designated non-financial businesses and professions ("DNFBPs")



Legislative Proposals (cont'd)

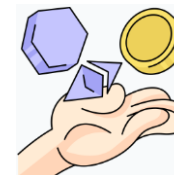
Two-tier Registration Regime for DPMS

- **Category A** registration is required for DPMS who do not intend to and will not engage in any cash transactions at or above HK\$120,000
- **Category B** registration is applicable to DPMS who intend to or may engage in any cash transaction at or above HK\$120,000



Licensing Regime for VASPs

- Designate the business of operating a VA exchange as a “regulated VA activity”
- Require any person seeking to engage in the regulated activity to obtain a VASP licence from the SFC



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Legislative Proposals (cont'd)

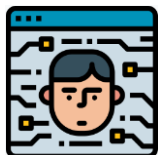
Politically exposed persons (PEPs)

- To extend to PEPs in other parts outside Hong Kong (including the Mainland)
- To enable the adoption of a risk-based approach to determine whether to continue to apply the additional measures for foreign PEPs who are no longer entrusted with a prominent public function



Digital identification systems

- Assist the conduct of CDD in situations where a customer is not physically present for identification and verification purposes (i.e. non-face-to-face situations)



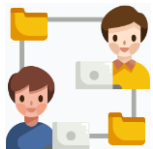
Penalty for unlicensed money service operation

- Raising the sentencing level to a fine of HK\$1,000,000 and imprisonment for two years



Exchange of supervisory information

- To standardize the parameters for exchange of information in the context of AML/CFT supervision among all AMLO regulators



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- The End -

Thank you !

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