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Customs and Excise Department

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

22 May 2023

Money Service Supervision Bureau

Trade Controls Branch



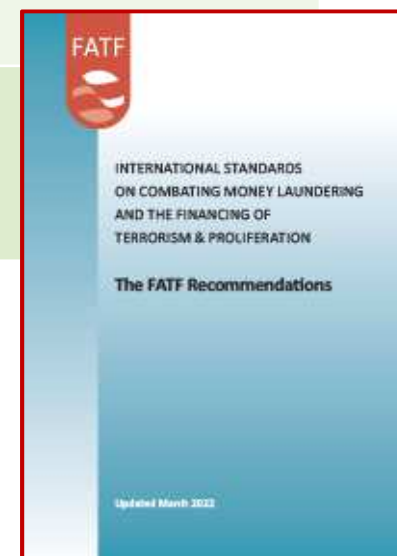
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Hong Kong Money Laundering and Terrorist Financing Risk Assessment (HRA)

Background

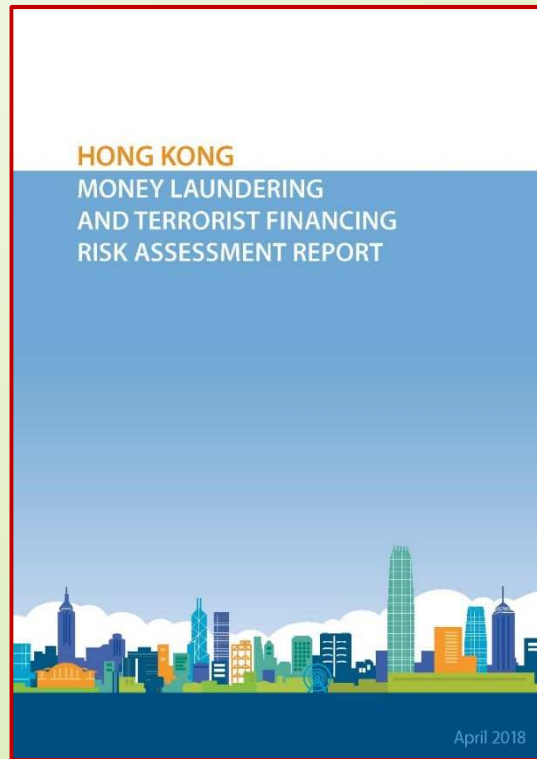
HONG KONG

- 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

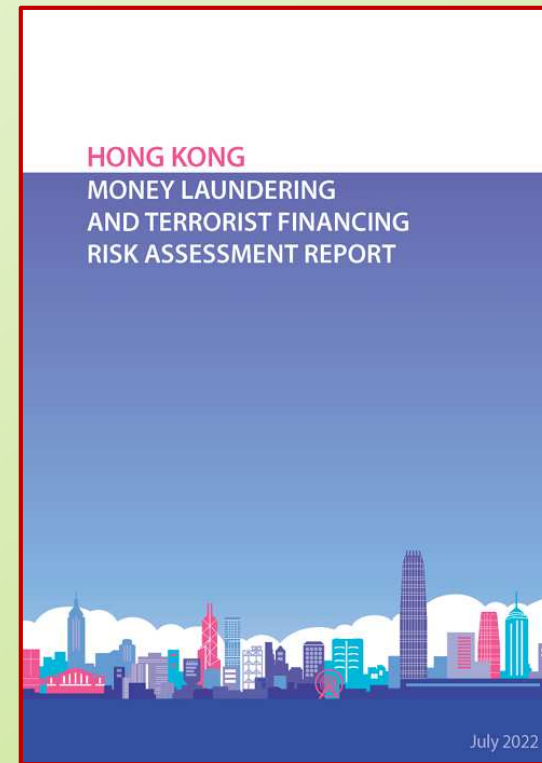


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Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report (HRA)



2018 1st HRA

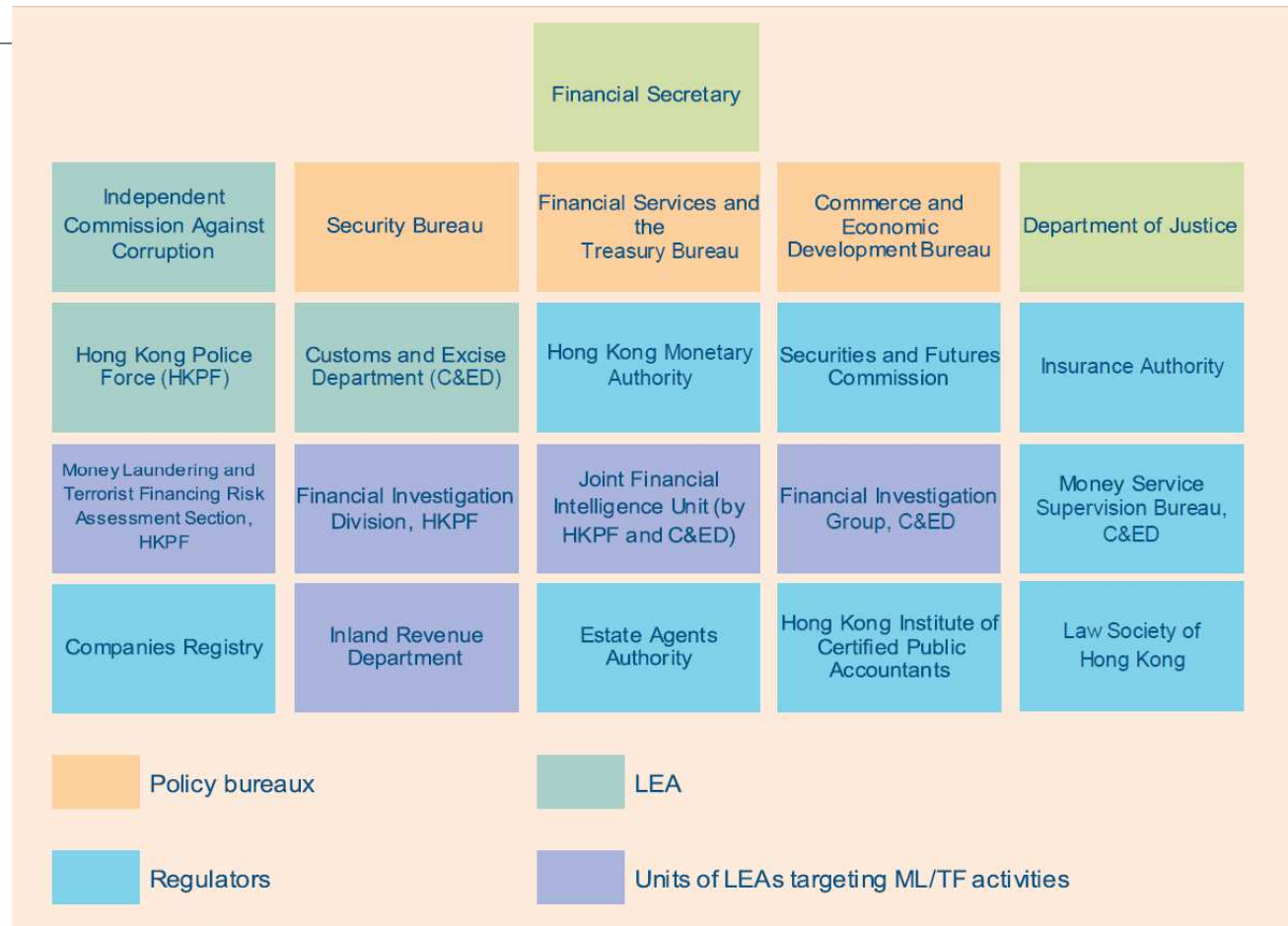


2022 2nd HRA



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

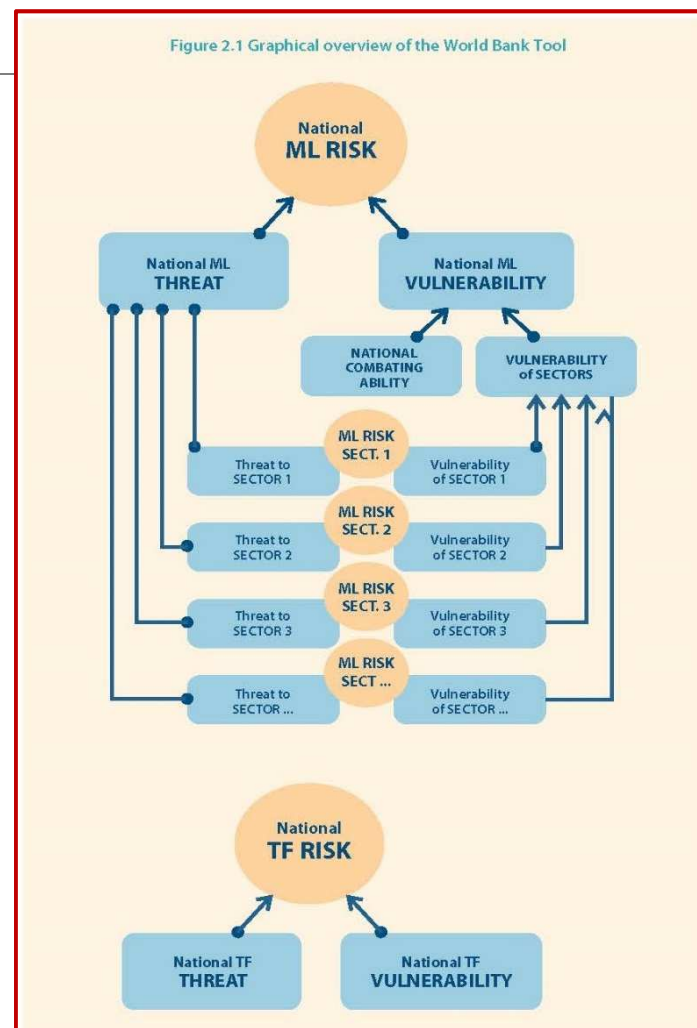
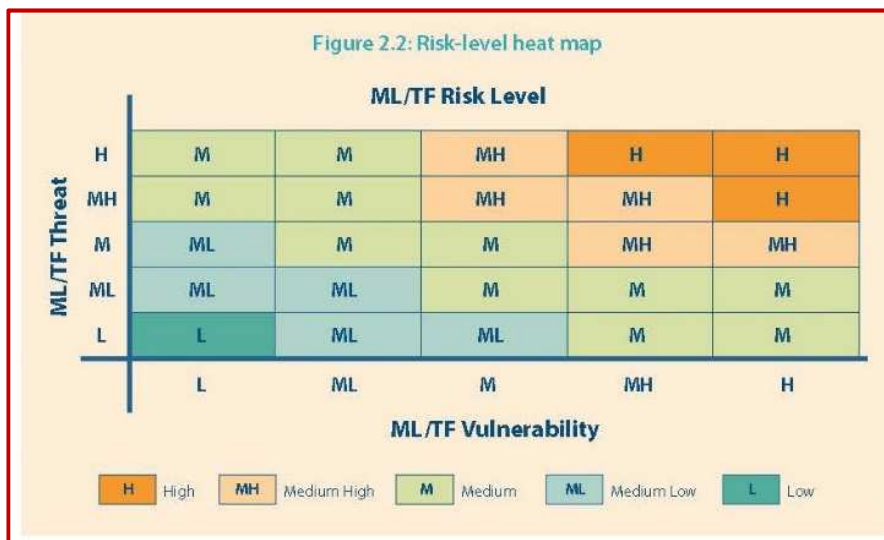


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Risk Assessment Methodology

FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment

World Bank National Risk Assessment Tool



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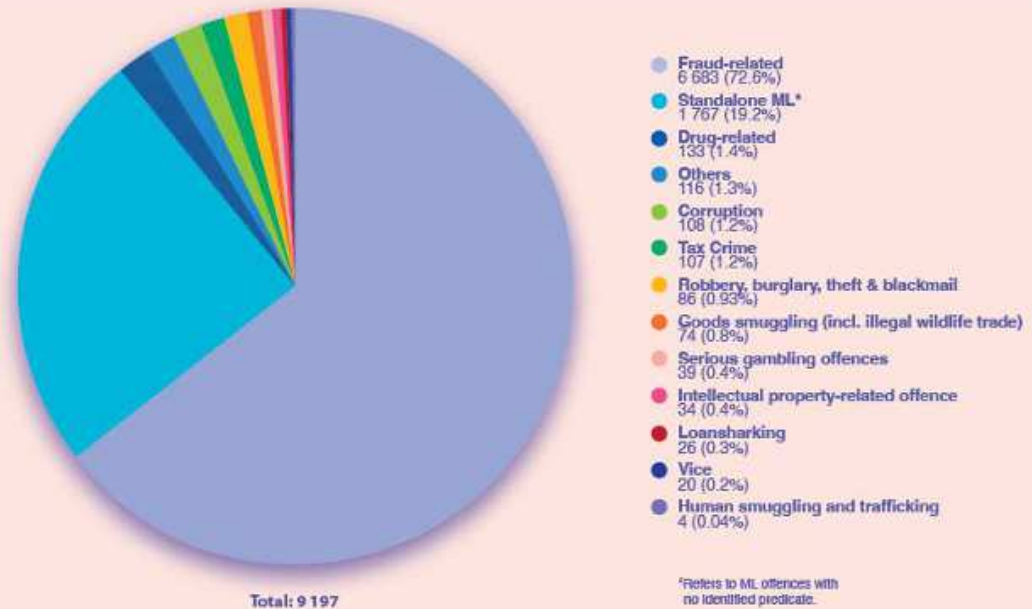
Key Findings – Money Laundering (ML)

Hong Kong's ML Threat

Medium-high

What are the
predicate offences
of ML cases?

Figure 4.1: Breakdown of ML Investigations initiated in 2016-2020
by predicate offences



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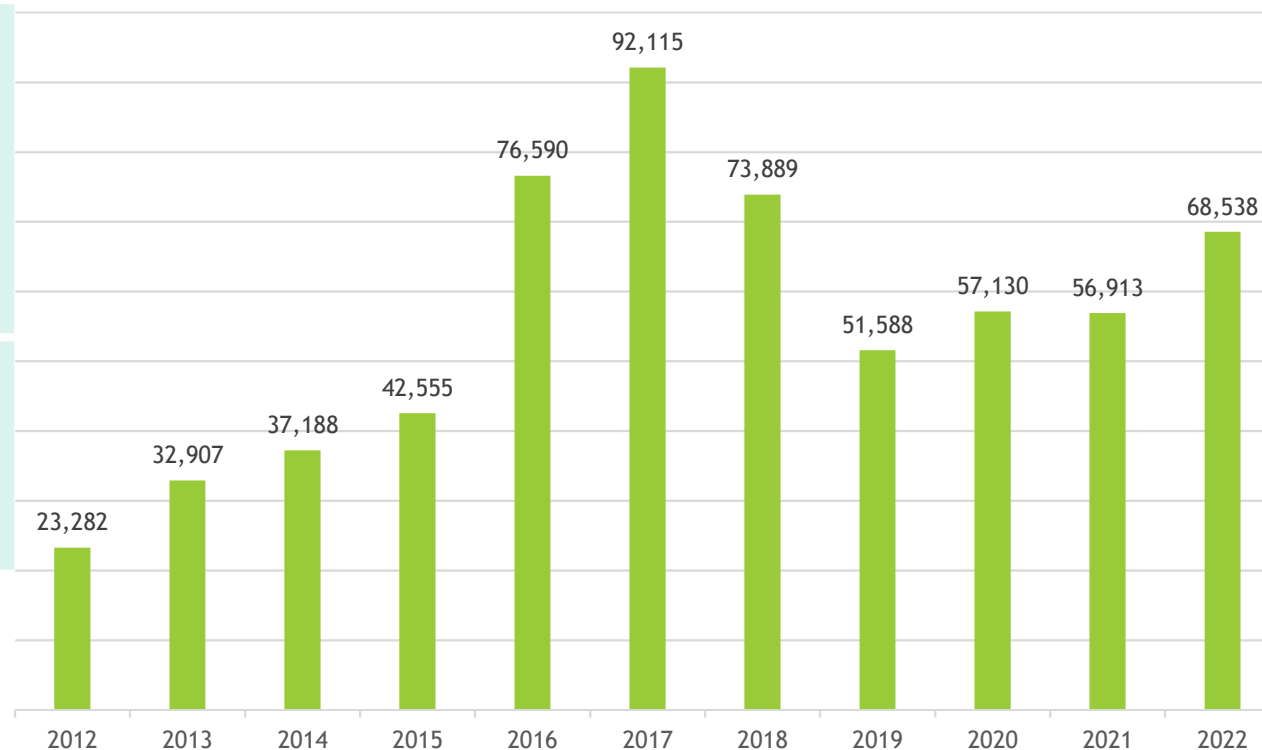
Key Findings – Money Laundering (ML)

Hong Kong's ML Vulnerabilities

Numbers of STRs 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



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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

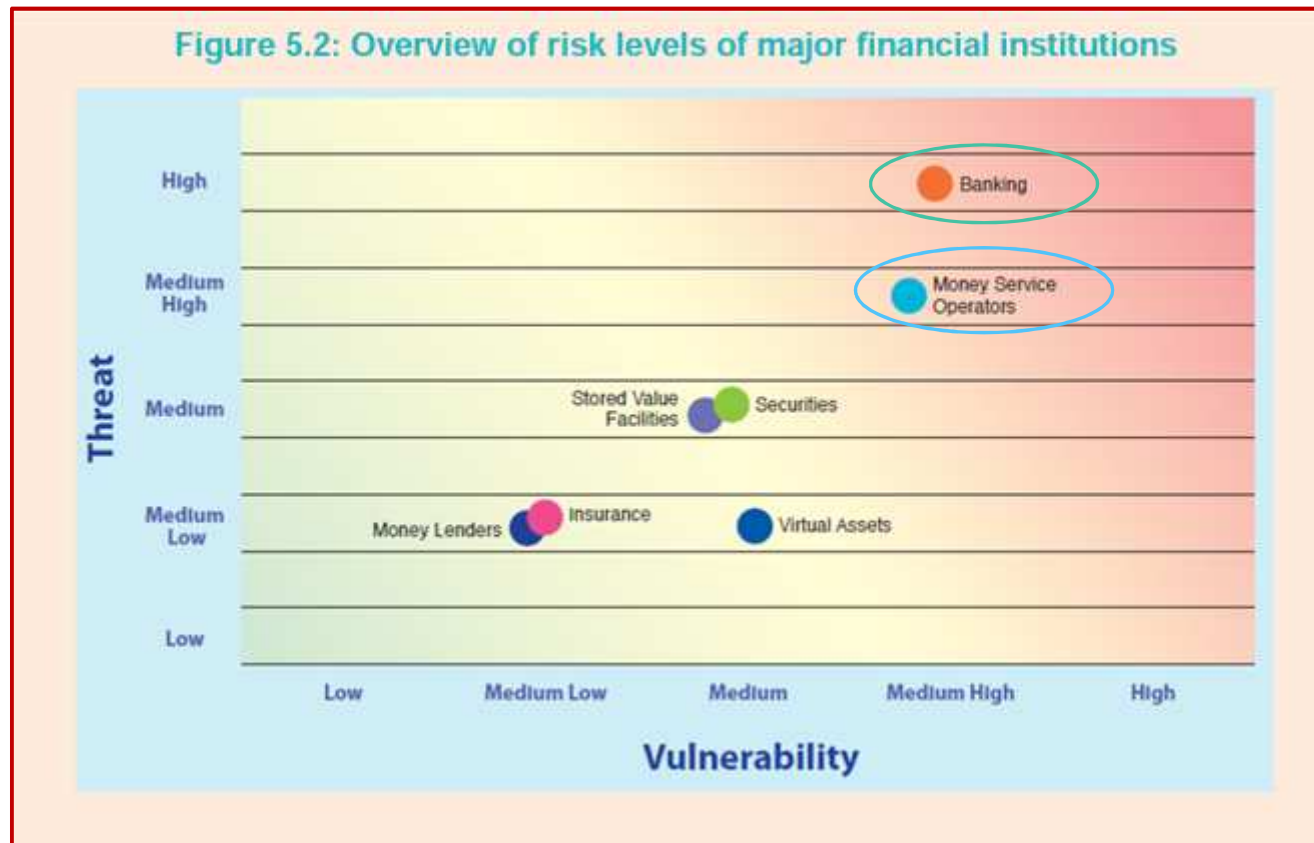


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Key Findings – Money Laundering (ML)

Hong Kong's ML Threat - Financial Sectors



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

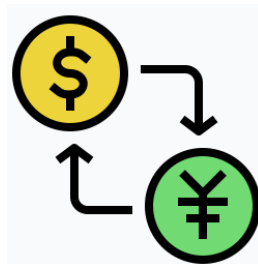


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Risk Assessment of MSO sector

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



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ML Threats & Vulnerabilities of MSO sector

ML Threats

- ◆ Used in the placement and layering stages of ML
- ◆ 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**



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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Proliferation Financing (PF)

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)...



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Key Findings – Proliferation Financing (PF)

Overall PF Risk of Hong Kong

A medium-low level of PF threat

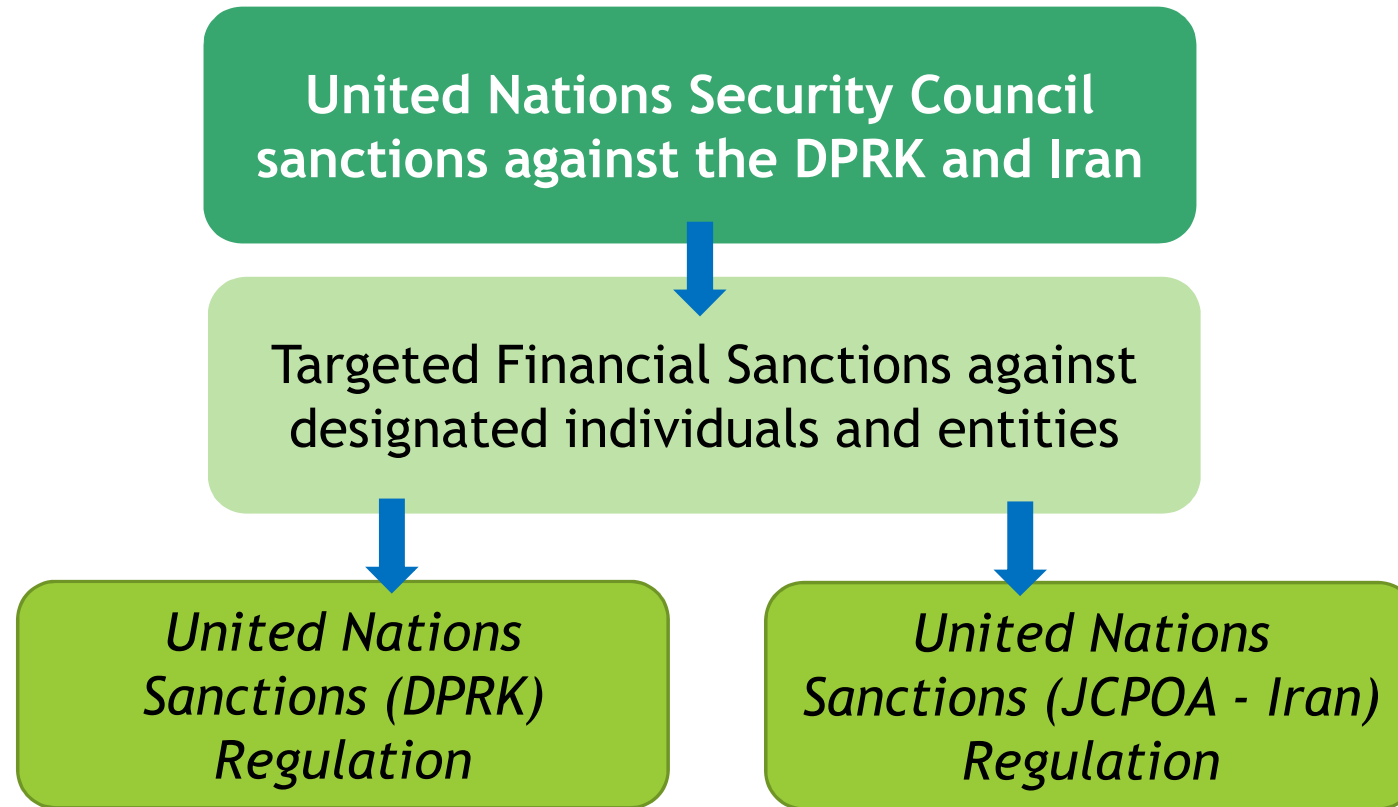
A medium-low level of PF vulnerability

A medium-low level of PF risk



Combatting PF

Targeted Financial Sanctions (TFS)



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Combatting PF

Targeted Financial Sanctions

Regime	Designated Persons	Designated Entities	Last Update by UN
DPRK (North Korea)	80	75	Sep 2022
Iran	23	61	Jan 2016

Website of the Commerce and Economic Development Bureau for the sanction lists:

<https://www.cedb.gov.hk/tc/policies/united-nations-security-council-sanctions.html>



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Counter PF Regime in Hong Kong

Relevant legislations:

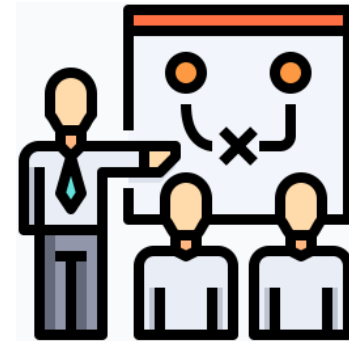
- ◆ Regulations made under the UNSO to DPRK and Iran
- ◆ Weapons of Mass Destruction (Control of Provision of Services) Ordinance (“WMDO”) (Cap. 526)
 - S.4 of WMDO prohibits a person from providing any services connected to PF
 - The provision of services includes the lending of money or other provision of financial assistance.



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Potential Risk of Evasion

- ◆ Tactics of evasion by designated persons / entities:
 - (1) use of shell or front companies;
 - (2) use of dummy accounts;
 - (3) fraudulent intermediaries;
 - (4) fraudulent businesses



TFS Screening

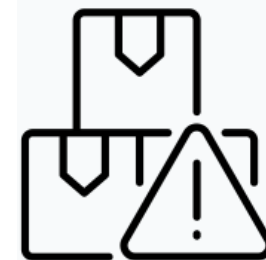
MSOs should not establish business relationship or conduct transactions with sanctioned individuals or entities.

MSOs should implement an effective screening mechanism, which should include screening customers and their beneficial owners against the most up-to-date sanction lists.

STR reporting to JFIU



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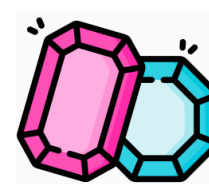


Anti-Money Laundering and Counter- Terrorist Financing Ordinance – Cap. 615

AMLO Amendments

FATF's recommendations on areas to improve in the follow-up process

- ◆ Regulation of “virtual asset” service providers (“VASPs”) & dealers in precious metals and stones (“DPMS”)



AMLO Amendments

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
- Regulated by Dealers in Precious Metals and Stones Supervision Bureau (DPSB) of C&E (www.drs.customs.gov.hk)



Licensing Regime for VASPs

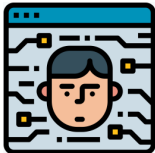
- VASPs will be required to observe the AML /CFT requirement
- Regulated by SFC



AMLO Amendments

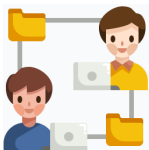
Politically exposed persons (PEPs)

- Extend to PEPs in other parts outside Hong Kong (including the Mainland)
- Enable the adoption of a RBA to determine whether to continue to apply the additional measures for former PEPs



Digital identification systems

- Assist CDD in non-face-to-face situations
- Example - iAM Smart



智方便
iAM Smart

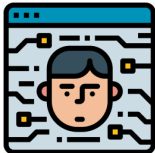


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AMLO Amendments

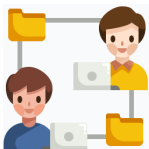
“Beneficial Owner” in relation to a trust

- Including the beneficiary or a class of beneficiaries & the trustee of a trust



CDD threshold

- Including a virtual asset transfer involving virtual assets that amount to no less than \$8,000

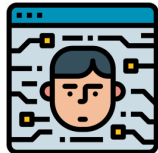


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AMLO Amendments

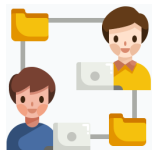
Penalty for unlicensed money service operation

- 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

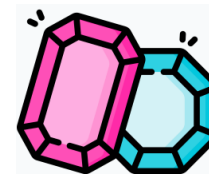


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Anti-Money Laundering and Counter- Terrorist Financing Ordinance – Cap. 615

AMLO Amendments

- ◆ Amendment Bill passed in Dec 2022
- ◆ DPMS regime/Penalty against UMSO/Confidentiality clauses effective from 1 Apr 2023
- ◆ Other amendments effective from 1 Jun 2023



Amendments of AML/CFT Guideline

- C&ED published draft Guideline on MSOS on 20 April 2023
- Sectoral consultation was ended on 11 May 2023
- Gazettal of the Guideline is scheduled on 25 May 2023 and will be effective from 1 June 2023



Amendments of AML/CFT Guideline

1. Generic amendments

- applicable to all FIs;
- initiated from AMLO Amendment Bill 2022

2. Sector-specific amendments

- applicable to specific sector - MSO



Generic Amendments

- Consequential amendments stemmed from amended AMLO
 - Foreign PEP -> Non-Hong Kong PEP
 - BO in relation to trust -> beneficiary/a class of beneficiary/trustee
 - recognized digital identification system



Key Sector-Specific Amendments

Institutional Risk Assessment - Chapter 2

- Beefing up of the IRA methodologies on ML/TF/PF
- Requiring the documentation of IRA process



Key Sector-Specific Amendments

Targeted Financial Sanctions (Ch. 6)

- Beefing up of the screening requirements with detailed guidance
- Covering all parties of a wire transfer and remittance transaction (including recipient of funds)



Key Sector-Specific Amendments

High Risk Situation & Red Flags to report STR (Ch. 4 & 7)

- Beefing up of the illustrative examples of high risk situations to conduct EDD
- Providing reference of “Red Flags” for filing STRs
- Filing STRs in any jurisdiction affected by the suspicious wire transfer





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- The End -

Thank you !

Contact Information

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