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# Risk Assessment and Mitigation of Money Laundering, Terrorist Financing

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14 Dec 2023

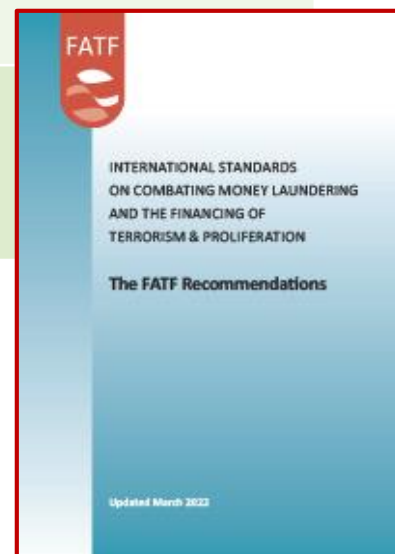
Money Service Supervision Bureau

Trade Controls Branch

# Background

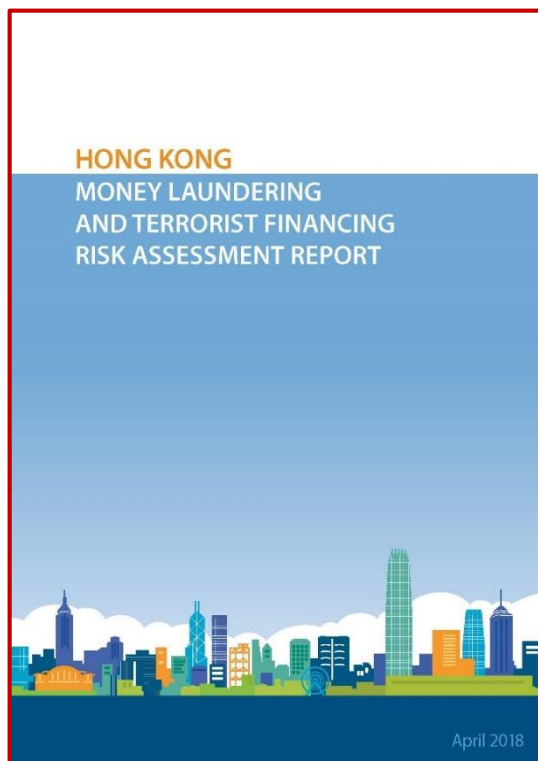
## HONG KONG

- 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

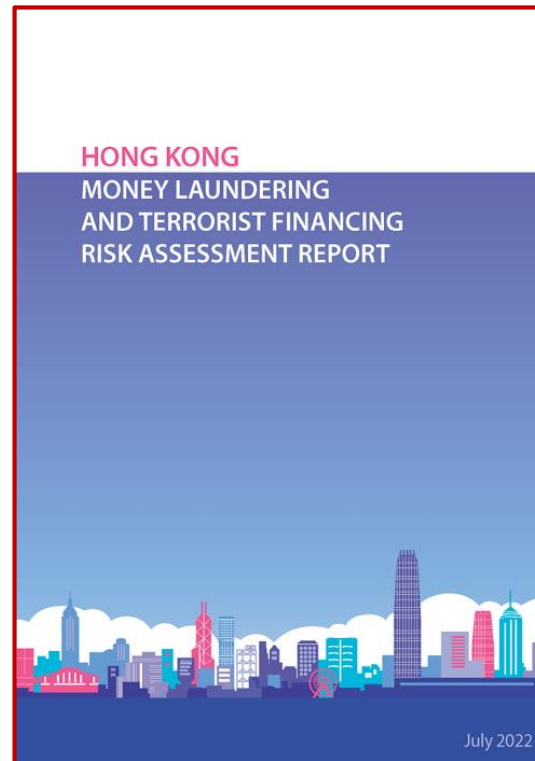


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# Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report (HRA)



2018 1<sup>st</sup> HRA



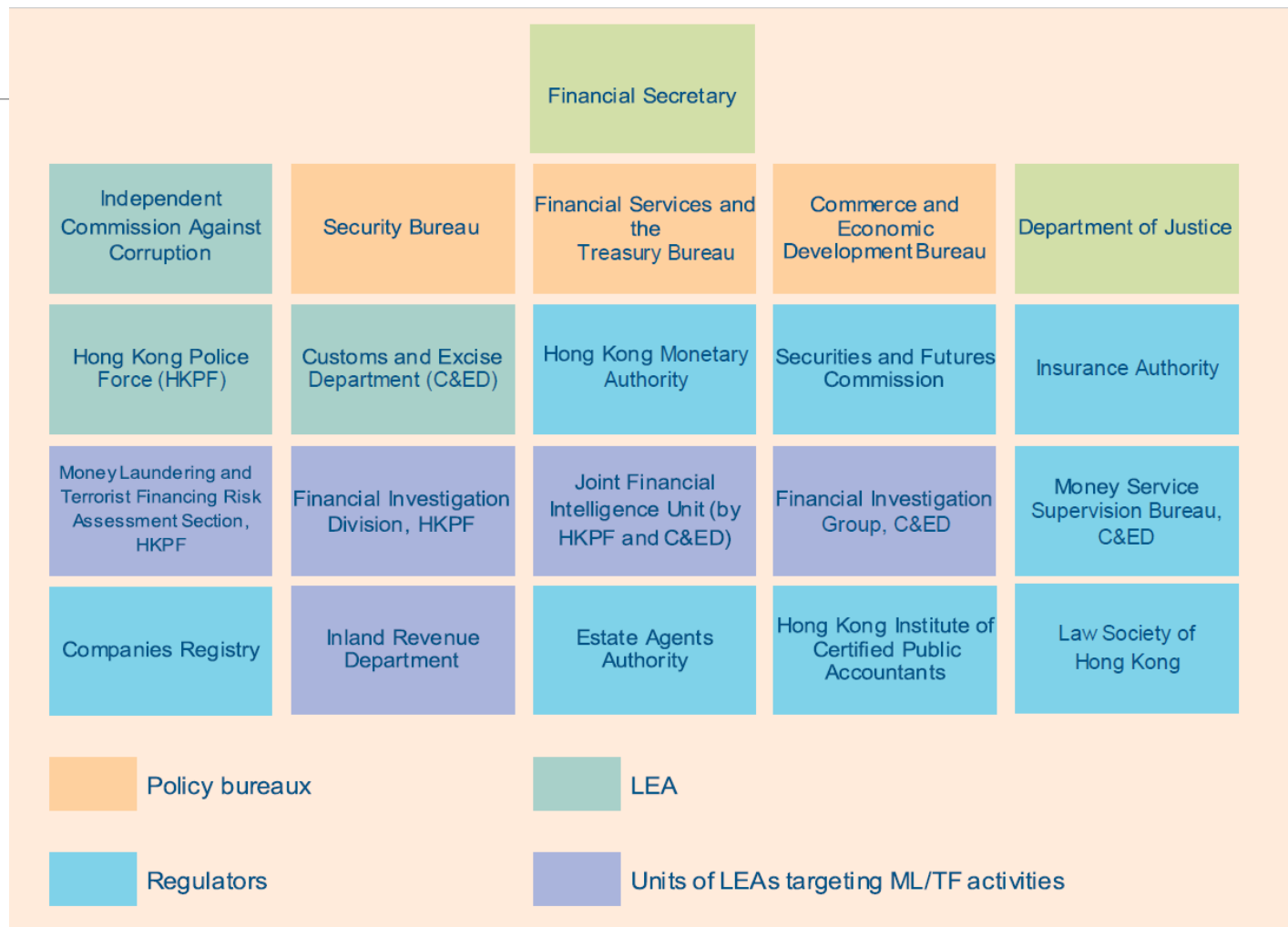
2022 2<sup>nd</sup> HRA



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# Key Stakeholders

## AML/CFT Policies and Strategies



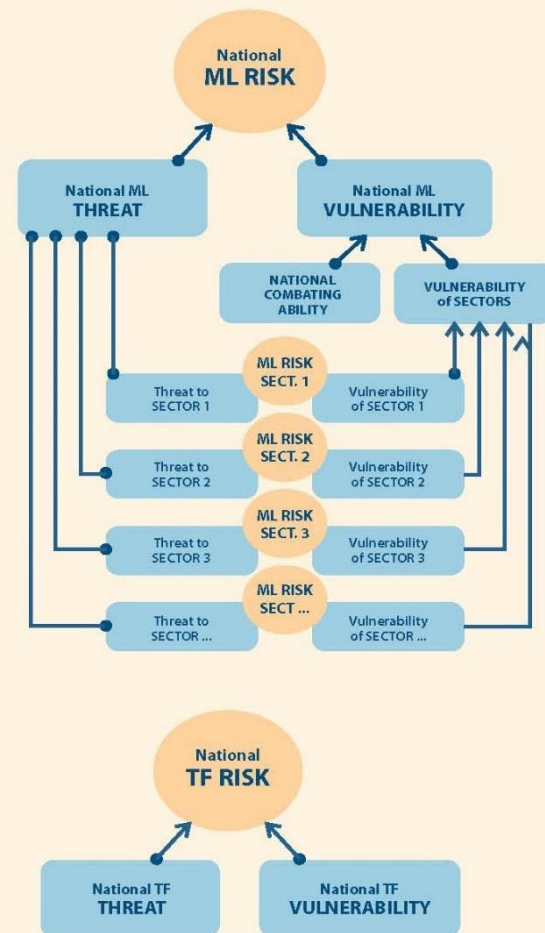
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# Assessment Methodology

- FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment
- World Bank National Risk Assessment Tool

Figure 2.1 Graphical overview of the World Bank Tool



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# Risk Assessment Methodology

Figure 2.2: Risk-level heat map



# Key Findings – Money Laundering (ML)

## Hong Kong's ML Threat

Medium-high

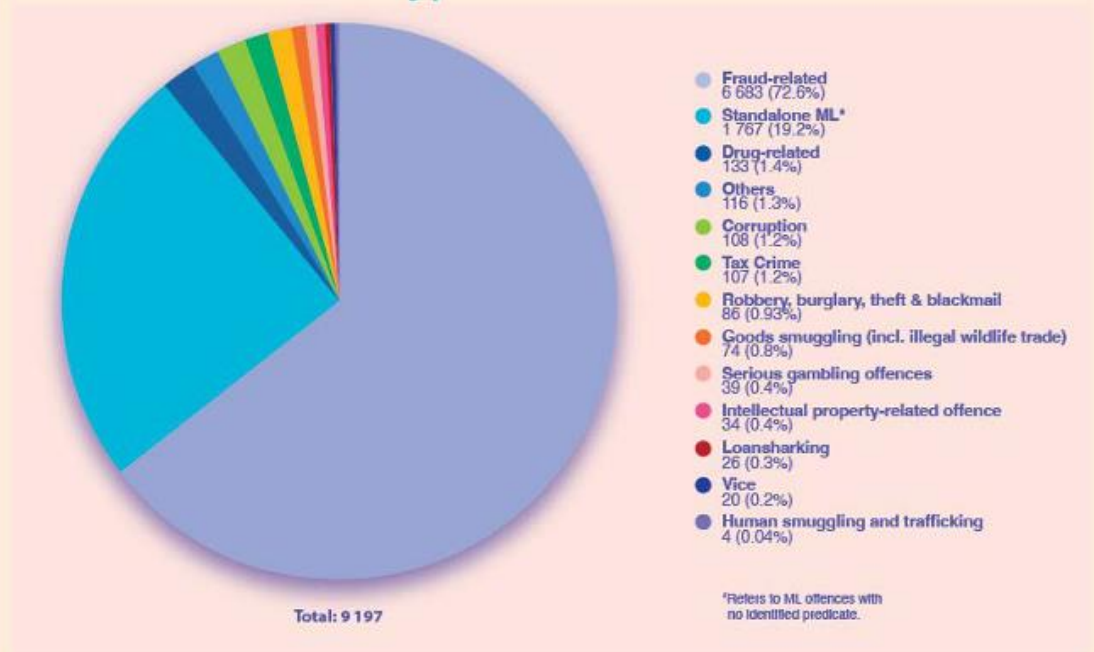
What are the  
predicate offences  
of ML cases?



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



# Key Findings – Money Laundering (ML)

## Hong Kong's ML Vulnerabilities

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

Improvement in the quality of the reports received



\* As at 30 Nov 2023



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# Key Findings – Money Laundering (ML)

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Hong Kong's Ability to Combat ML

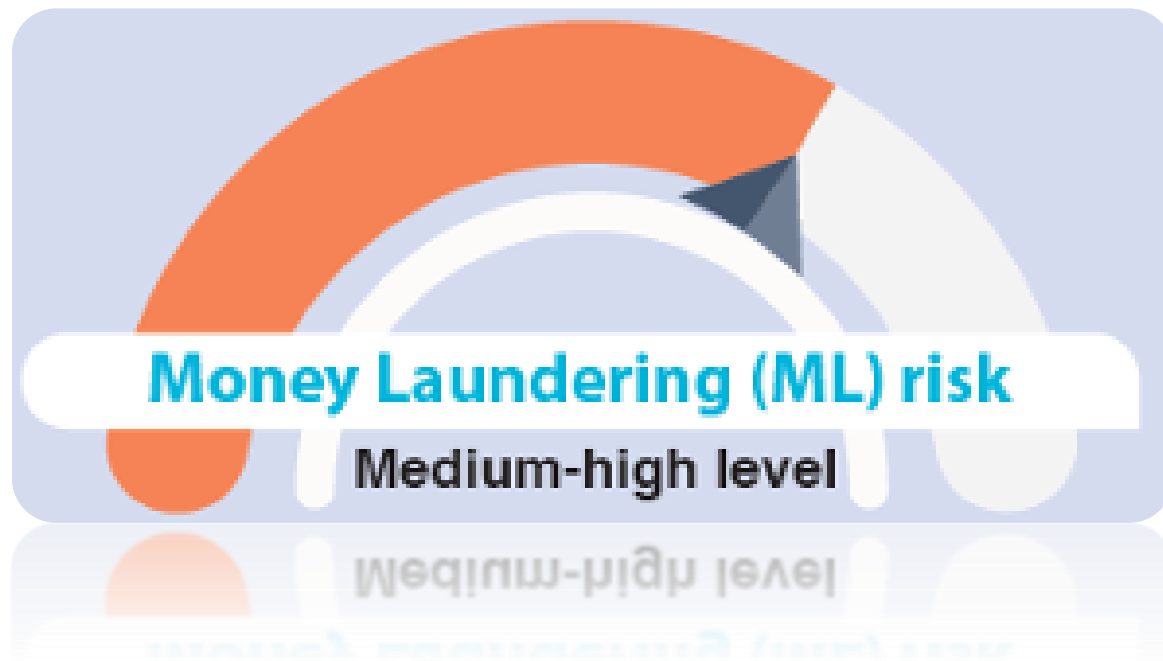
High



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# Key Findings – Money Laundering (ML)

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ML Threat : Medium-high

ML Vulnerability : Medium



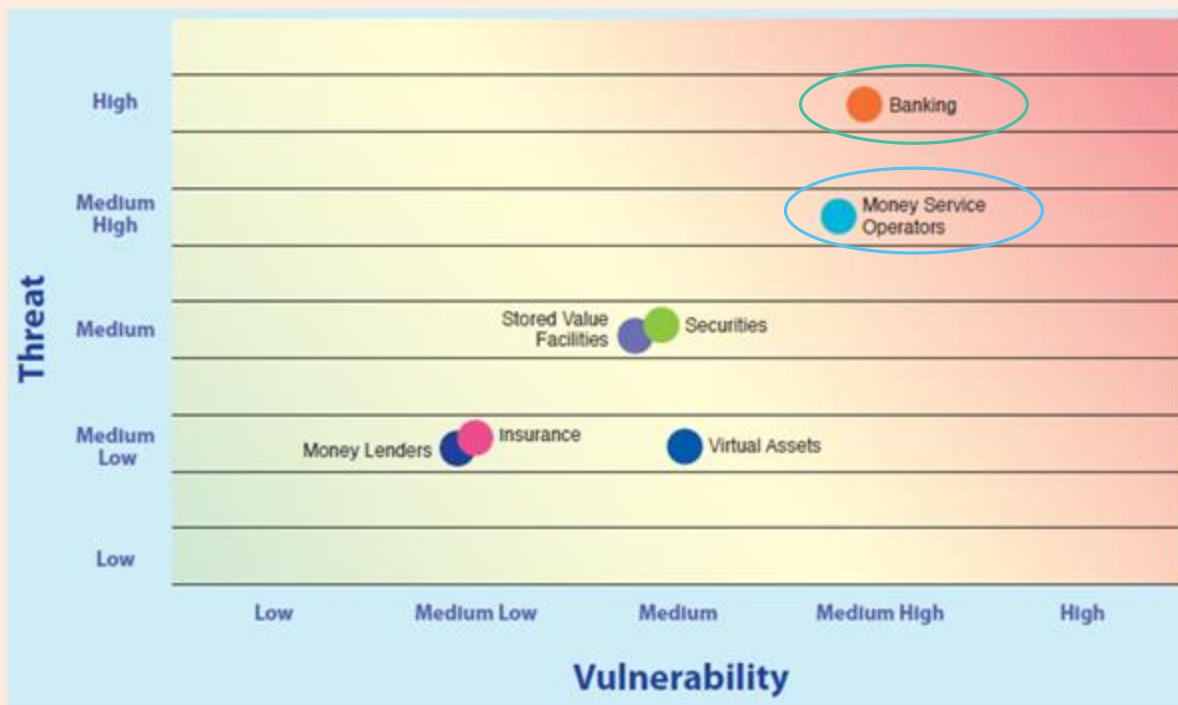
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# Key Findings – Money Laundering (ML)

## Hong Kong's ML Risk - Financial Sectors

Figure 5.2: Overview of risk levels of major financial institutions



# Key Findings – Terrorist Financing (TF)

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TF Threat : Medium-low

TF Vulnerability : Medium-low



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# Way Forward

## Five Major Areas of Work

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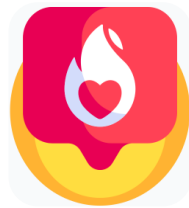
Enhancing the  
AML/CFT legal  
framework



Strengthening risk-  
based supervision



Stepping up outreach  
and awareness-raising



Monitoring new and  
emerging risks



Strengthening law  
enforcement efforts

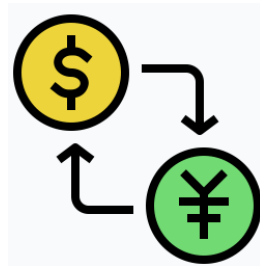


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# Risk Assessment of MSO sector

- ◆ 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

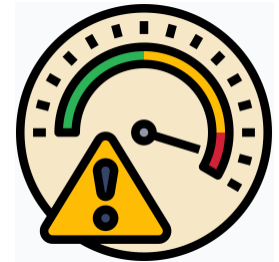
## ML Vulnerabilities

- ◆ 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**



# Way Forward

To enhance the supervision of the MSO sector by :

- a) strengthen the 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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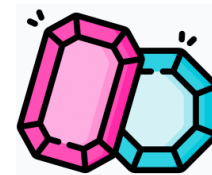


# Anti-Money Laundering and Counter- Terrorist Financing Ordinance – Cap. 615

## 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”)



AML/CFT  
Amendment Bill  
passed in LegCo

Dec 2022

Licensing regime  
for VASP

Jun 2023

Apr 2023

Registration  
regime for DPMS  
& other  
amendments

Revised AMLO  
Guideline for  
MSOs



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# 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](http://www.drs.customs.gov.hk))



## Licensing Regime for VASPs

- VASPs will be required to observe the AML /CFT requirement
- Regulated by SFC
- MSOs not exempted from VASP licensing regime

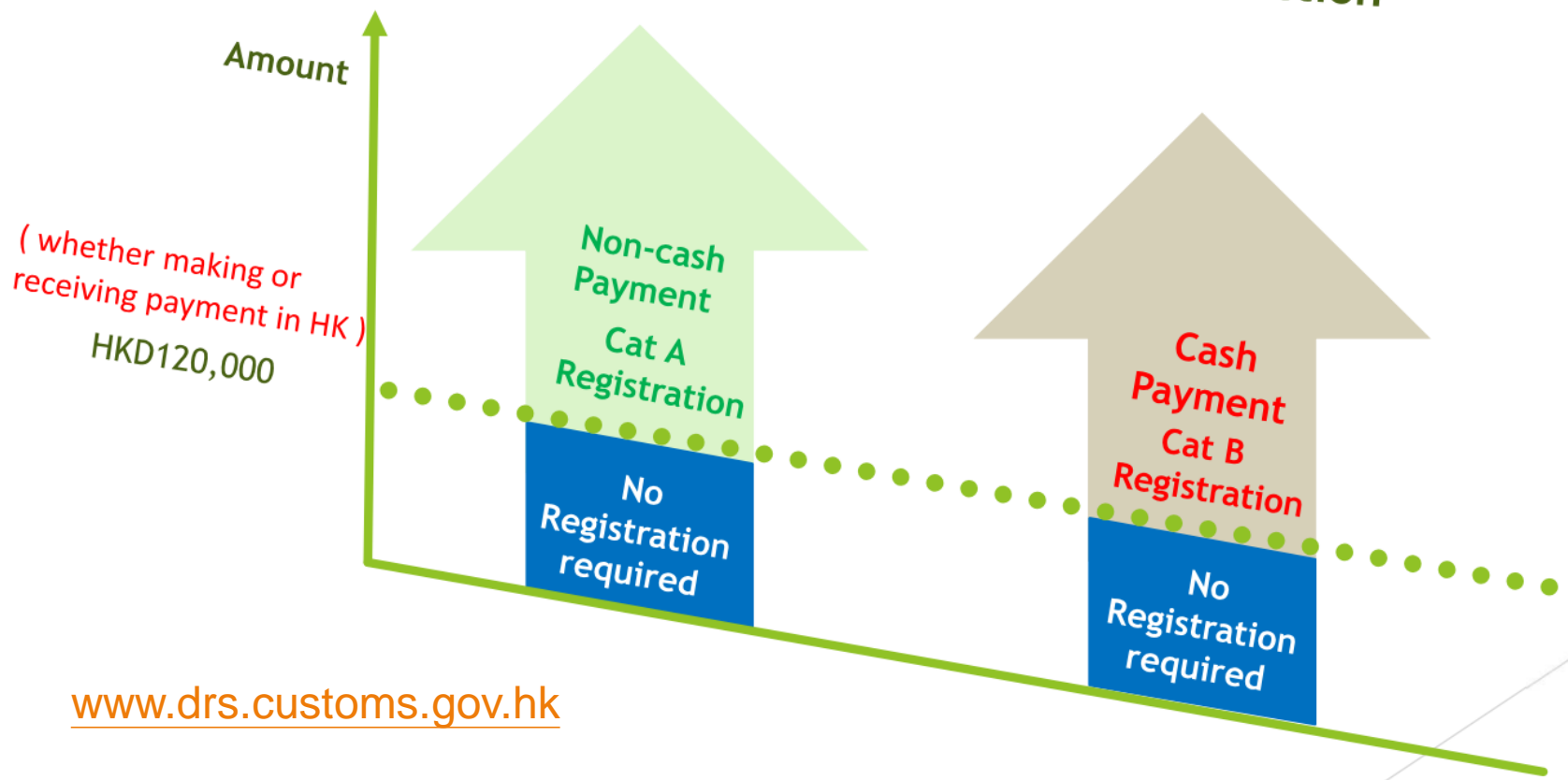


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# Registration Regime - Category A and Category B

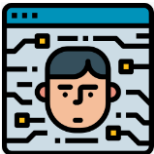
## Precious Metals and Stones transaction



# AMLO Amendments

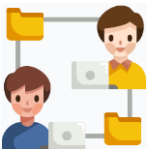
## Politically exposed persons (PEPs)

- 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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# Amendments of AML/CFT Guideline

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## 1. Generic amendments

- applicable to all FIs;
- initiated from AMLO Amendments

## 2. Sector-specific amendments

- applicable to specific sector - MSO



# Generic Amendments

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- Consequential amendments stemmed from amended AMLO
  - Foreign PEP -> Non-Hong Kong PEP
  - recognized digital identification system



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# **Key Sector-Specific Amendments**

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## 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

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## Targeted Financial Sanctions (Ch. 6)

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



# Key Sector-Specific Amendments

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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 !

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## Contact Information

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