



Regulatory Update

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HONG KONG MONETARY AUTHORITY
香港金融管理局



Financial Services and the Treasury Bureau
The Government of the Hong Kong Special Administrative Region



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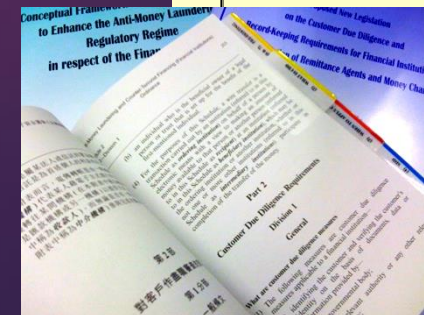
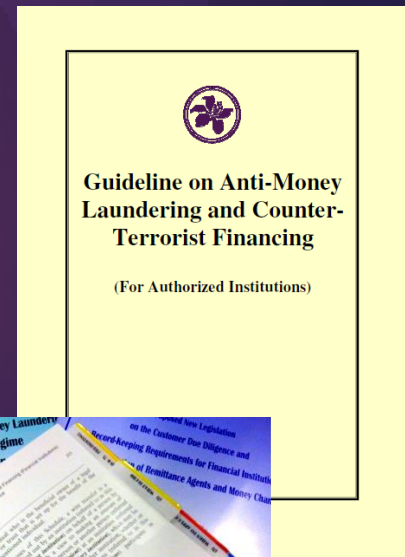
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AMLO & AML Guideline Amendments

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- ▶ **AML (Amendment) Bill 2017**
 - ▶ to complete legislative process early 2018
- ▶ **AML Guideline Amendments (Phase 1)**
 - ▶ Target to complete before 1 March 2018
 - ▶ Cover 4 areas (AMLO-related):
 - ▶ Beneficial ownership thresholds from 10% to 25%
 - ▶ Section 9 of Schedule 2 (not physically present)
 - ▶ Section 12 of Schedule 2 (wire transfer)
 - ▶ Section 18 of Schedule 2 (reliance on intermediaries)

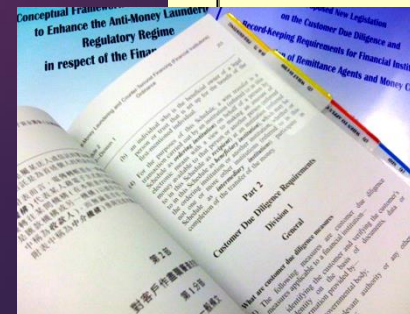
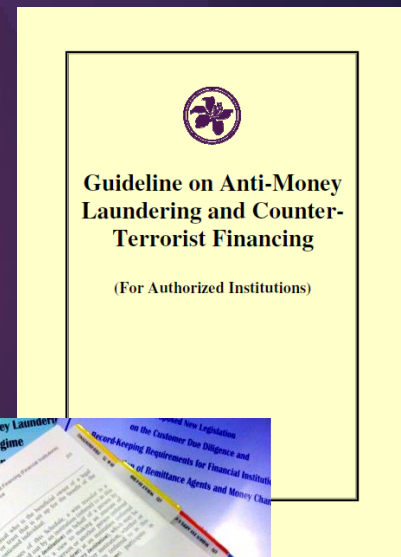




AMLO & AML Guideline Amendments

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- ▶ **AML Guideline Amendments (Phase 2)**
 - ▶ Target to complete in mid 2018
 - ▶ Objective:
 - ▶ Close technical gaps with international standards
 - ▶ Provide more guidance on risk-based approach
 - ▶ Enhance clarity of some requirements
 - ▶ Streamline requirements that may lead to unnecessary burden
 - ▶ Take into account technological development





ML/TF Risk Assessment (National Risk Assessment, NRA)

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- ▶ First territory-wide NRA
- ▶ Adopted the World Bank model
 - Threats & Vulnerabilities
 - Money laundering (ML) & terrorist financing (TF) risks
 - Sectoral risk assessments (e.g. banking sector)
- ▶ Coordinated by the Steering Committee
- ▶ All relevant agencies and sectors participate
- ▶ The draft report is under review



National Risk Assessment (NRA)

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What to expect

- ▶ NRA report to be published in 1Q 2018 (tentative)
- ▶ AIs will need to take into account the NRA report in their institutional risk assessment





National Risk Assessment (NRA)

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NRA and the Financial Action Task Force (FATF) recommendations

- ▶ Countries should identify, assess, and understand the ML/TF risks
- ▶ Apply a risk-based approach (RBA): measures are commensurate with the risks identified
- ▶ Require financial institutions and designated non-financial businesses and professions (DNFBPs) to identify, assess and take effective action to mitigate their ML/TF risks



Mutual Evaluation (ME)

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- ▶ Peer review of compliance with FATF Recommendations
- ▶ 4th round ME of Hong Kong, China in 2018/19
- ▶ Last ME (3rd round) in 2007/08 and removed from follow up in 2012

ME methodology (2013)

- ▶ Technical Compliance
- ▶ Effectiveness (*new to the 4th round*)





Mutual Evaluation (ME)

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- ▶ AML/CFT regime of Hong Kong as a whole
- ▶ Effectiveness is key, as demonstrated in other countries' experiences
- ▶ An evolving process in which the banking sector plays a part
- ▶ Collective effort by public and private sectors
- ▶ Opportunities for improvement



Mutual Evaluation (ME): Effectiveness

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- ▶ Effectiveness defined as “*The extent to which the defined outcomes are achieved*”
- ▶ A hierarchy of defined outcomes: High-Level Objective, Intermediate Outcomes, Immediate Outcomes
- ▶ 11 *Immediate Outcomes (IO)* serve as the operational basis for assessment
- ▶ IO and Technical Compliance are interlinked
- ▶ Most relevant to the banking sector:
 - **IO1**: Risk, Policy and Coordination
 - **IO3**: Supervision
 - **IO4**: Preventive Measures



Mutual Evaluation (ME): Timeline

