



Hong Kong's Money Laundering / Terrorist Financing (ML/TF) Risk Assessment: Stored Value Facility Sector

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Hong Kong Monetary Authority



HONG KONG MONETARY AUTHORITY
香港金融管理局

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Outline



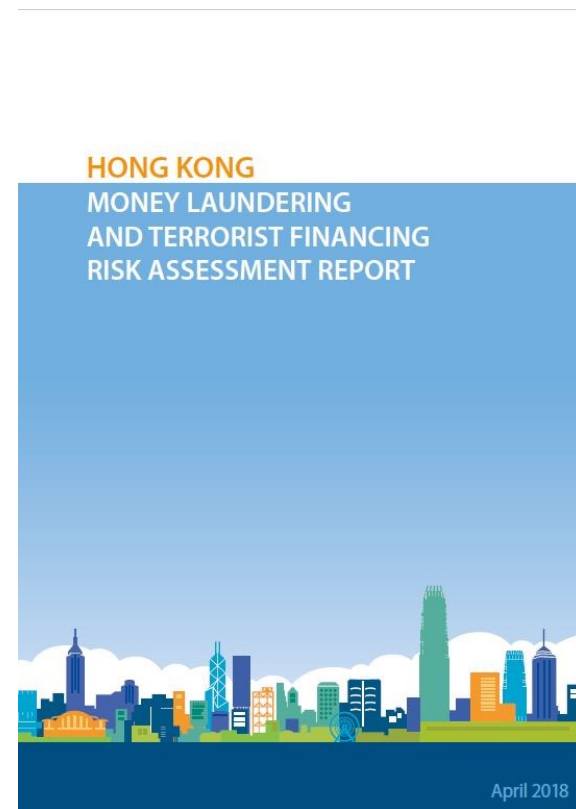
- Hong Kong's ML/TF Risk Assessment Report
- Government and HKMA AML/CFT policies
- Relevance for SVF licensees
- Areas of work
- Mutual Evaluation
- Q&A



Risk Assessment Report



- Covers 12 sectors including financial sub-sectors and non-financial sectors
- Published in April 2018
(https://www.fstb.gov.hk/fsb/aml/en/doc/hk-risk-assessment-report_e.pdf)
- Examines the ML/TF threats and vulnerabilities facing various sectors and Hong Kong as a whole



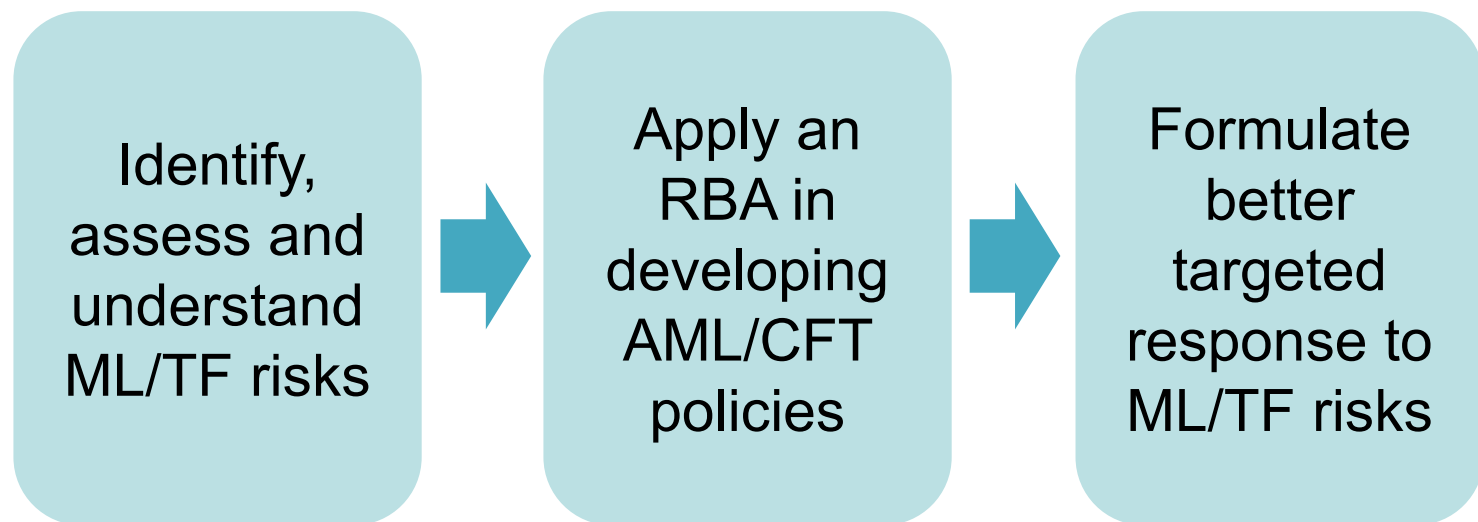
Risk Assessment Report



- First territory-wide risk assessment
- Coordinated by the Steering Committee
- All relevant agencies participated:
 - Financial Services and the Treasury Bureau
 - Security Bureau
 - Commercial and Economic Development Bureau
 - Department of Justice
 - Hong Kong Police
 - Customs and Excise Department
 - Independent Commission of Against Corruption
 - Hong Kong Monetary Authority
 - Securities and Futures Commission
 - Insurance Authority
 - Self-regulatory Bodies for DNFBP sectors



FATF Recommendation 1 – Assessing Risks & Applying a Risk-based Approach (RBA)



Risk Assessment Report



- Not a one-off exercise
- Risk is dynamic and must be kept under constant review
- There will therefore be further assessments at intervals
- HKMA will update its assessment for the SVF sector
- Similar assessments overseas have tended to evolve significantly



Hong Kong's AML/CFT Policy



The Government is committed to upholding a robust AML/CFT regime that:

- a) Fulfills the international AML/CFT standards;
- b) Deters and detects illicit fund flows;
- c) Combats ML/TF and restrains and confiscates illicit proceeds effectively;
- d) Reduces ML/TF vulnerabilities in Hong Kong;
- e) Adopts an RBA in applying compliance obligations to businesses and individuals;
- f) Fosters strong external and international collaboration to disrupt global ML/TF threats; and
- g) Promotes awareness and builds capacity of private sector stakeholders in combatting ML/TF risks.



Enhancing the AML/CFT Regime



Five major areas of work:

- a) Enhancing AML/CFT legal framework to address gaps in legislation;
- b) Strengthening risk-based supervision to ensure targeted regulation of riskier areas;
- c) Sustaining outreach and capacity-building to promote awareness and understanding of ML/TF risks;
- d) Monitoring new and emerging risks; and
- e) Strengthening law enforcement efforts and intelligence capability to tackle domestic and international ML/TF, and enhance restraint and confiscation of the proceeds of crime.



HKMA's AML/CFT Policy



- HKMA's AML/CFT policy flows from the Government's policy and is founded on an RBA
- HKMA's AML/CFT policy objectives:
 - Addressing risks in SVF sector
 - Disrupting ML/TF through identification and reporting by SVF licensees on the basis of a fully collaborative relationship with law enforcement
 - Raising effectiveness and efficiency of SVF licensees' AML/CFT Systems
 - Avoiding undue barriers for legitimate businesses and ordinary citizens accessing SVF products and services
 - Assisting SVF licensees to focus resources and effort more effectively and efficiently to reduce unnecessary compliance burden
- Policy recognises the important role of SVF licensees



HKMA's AML/CFT Policy



HKMA seeks to:

- Meet international standards;
- Embed the RBA through targeted support to deliver a stronger territory-wide response;
- Support Government and law enforcement efforts to combat ML/TF activities;
- Dovetail with the AML/CFT efforts of other agencies, both in Hong Kong and internationally, through cooperation with other financial regulators and law enforcement agencies as well as active participation in the FATF, APG and other international bodies; and
- Raise awareness and build AML/CFT capacity in the SVF sector by providing guidance and promoting training and good practices.



HKMA's AML/CFT Policy



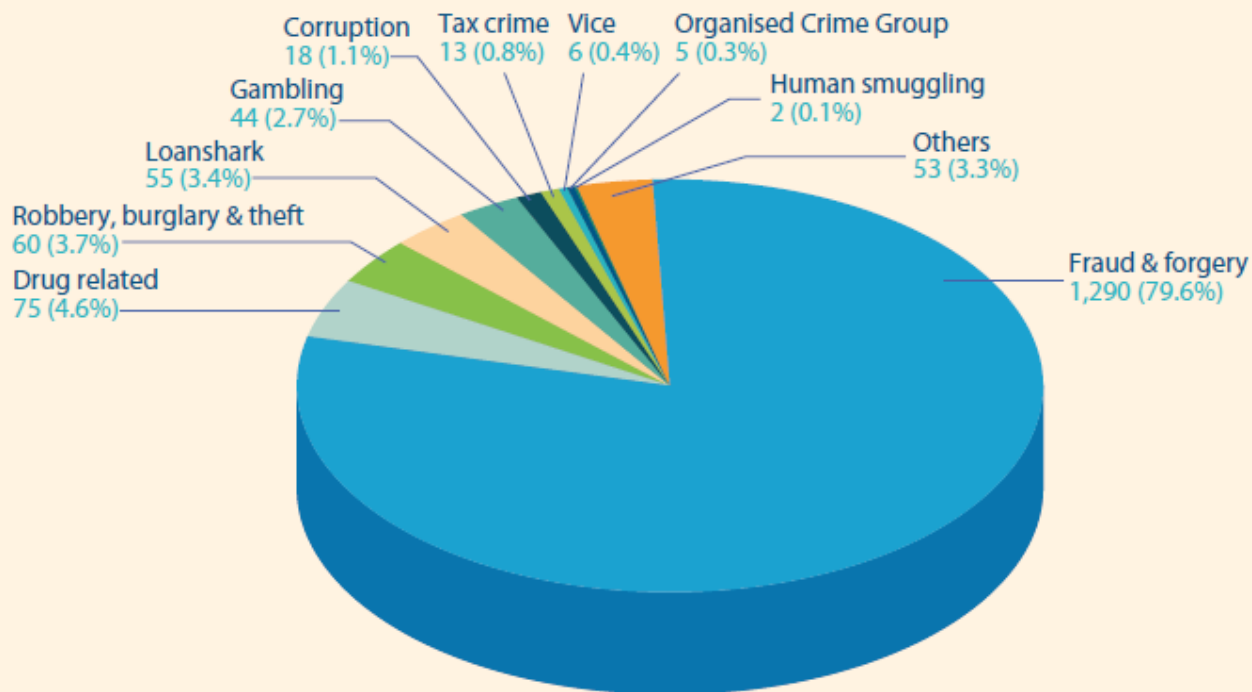
- HKMA policy and supervisory approach set out in a new guideline
- Consultation in June/July 2018
- To be read in conjunction with the AML Guideline
- Intention: not to replace or overlap with the AML Guideline or to impose new requirements



Major Predicate Offences



Breakdown of 1,621 identified predicate offences associated with 1,908 ML cases in 2011 - 2015



Source: Figure 4.1 of Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report

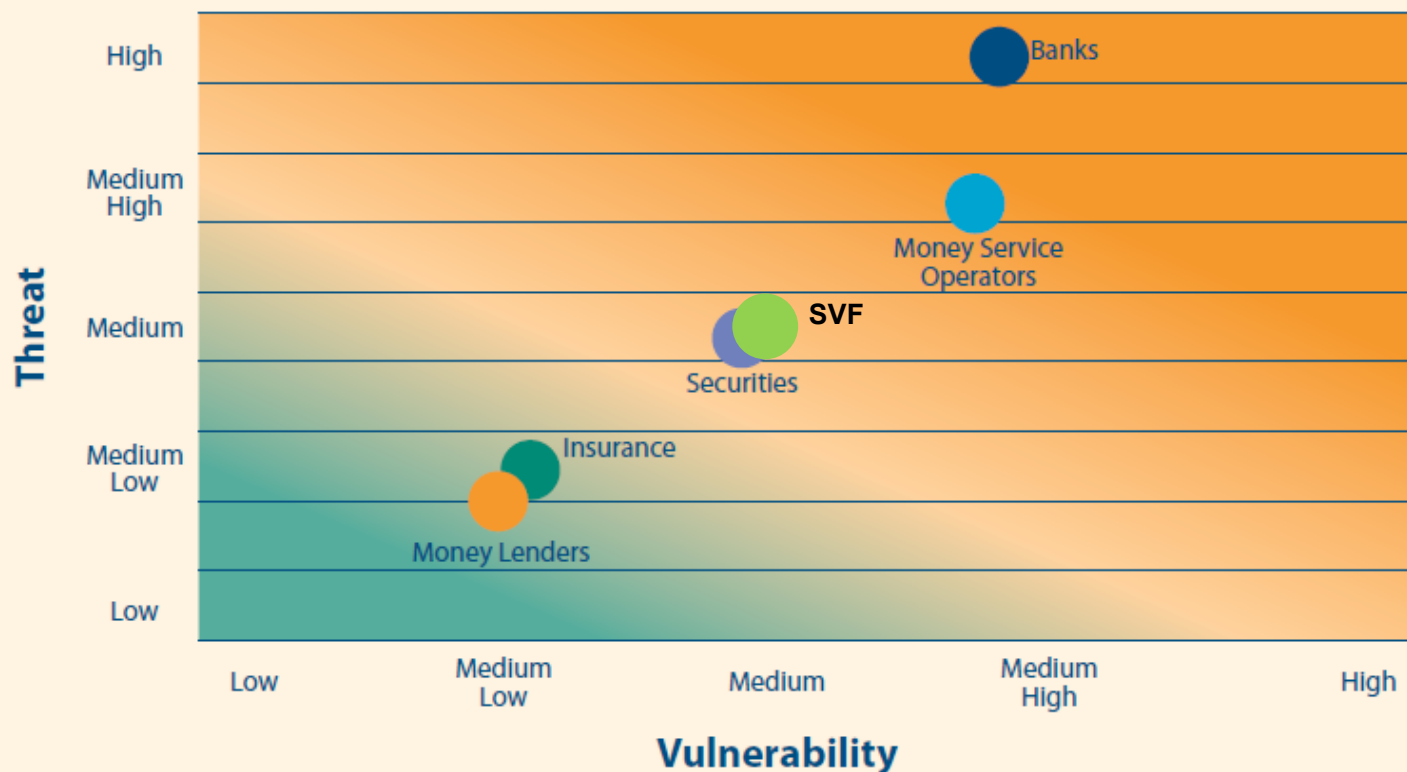


Relevance for SVF Licensees



Vulnerability level, threat level and overall ML risks of financial sectors

Risk Levels of SVF and Financial Sectors



Source: Figures 5.1 and 7.1 of Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report



Relevance for SVF Licensees



Key results for the SVF sector

Main threats



- Fraud is identified as by far the most prevalent predicate offence for ML
- Given increasing acceptance of SVFs as means of payment, the inherent threat of these facilities being used as a vehicle for ML should not be underestimated



Relevance for SVF Licensees



Key results for the SVF sector

Vulnerabilities

- Functionality and geographic reach of certain SVF products could increase acceptance vulnerability to ML
- E.g. cash withdrawal or cross-border fund transfers





Institutional Risk Assessment (IRA)

- **No** assumption of “replicating the Risk Assessment results” in conducting SVF licensees’ own IRA: a “medium” ML risk level for the SVF sector does not mean each SVF licensee’s IRA result must also be “medium”
- SVF licensees should take into account the main threats and vulnerable areas of business identified in the Risk Assessment
- SVF licensees should study the Risk Assessment Report carefully, consider relevant insights and implications, review and update IRA according to your business model



Institutional Risk Assessment



Observation from recent submission of IRA

- Understanding of risk profile
- Coverage of relevant risk factors
- Quantitative and qualitative analysis
- Evaluation of appropriateness and effectiveness of relevant risk mitigating measures



Areas of Work



HKMA work

- Continue to support the industry in understanding ML/TF risk
- Encourage better application of the RBA
- Support innovation and use of technology



Areas of Further Work



Hong Kong's Mutual Evaluation (ME)



- Assess technical compliance with the FATF Standards and level of effectiveness of AML/CFT systems
- H2/2018 to H1/2019 (last ME 2007 – 2008)
- Work with Government and other agencies in preparation including
 - published Hong Kong's ML/TF Risk Assessment Report in April
 - Update information on technical compliance and effectiveness
 - Preparatory work for the on-site visit of the assessment team



Hong Kong's ME – SVF Sector



- Expected to be an emerging focus given the increasing acceptance as a payment method in Hong Kong's economy
- HKMA continues to accord a high priority to AML/CFT work
 - Work closely with all relevant stakeholders, domestically and internationally, to develop and provide responses that are agile and adaptable
 - Recognise innovation and making the best use of technology
 - Ensure response always relates to effectiveness



Hong Kong's ME – On-site Visit



- October to November 2018
 - Process has already started
- Assessors will meet with representatives of SVF sector
 - To assess the effectiveness and discuss risks
 - Not an investigation nor an inspection of individual private sector entities
 - Briefings will be arranged for selected representatives



Immediate Outcome 4 – *FIs and DNFBPs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicious transactions*



- How well do FIs and DNFBPs
 - Understand their risks and obligations and apply mitigation measures commensurate with these risks?
 - Apply CDD and record keeping measures?
 - Apply the enhanced or specific measures for (a) PEPs, (b) correspondent banking, (c) new technologies, (d) wire transfers rules, (e) targeted financial sanctions relating to TF and (f) higher risk countries identified by the FATF?
 - Meet STR obligations?
 - Apply internal controls and procedures to ensure compliance with AML/CFT requirements?

<http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%2022%20Feb%202013.pdf>





Q&A

