



Supervisory Feedback

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**AML and Financial Crime Risk Division
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Hong Kong Monetary Authority**



HONG KONG MONETARY AUTHORITY
香港金融管理局

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Governance and Oversight



- Variations in format / structure across different types of institutions, but should be appropriate to nature, scale and complexity
 - Formal structure
 - Clarity in terms of reference and responsibilities
 - Documentation of key issues discussed and decisions made

Our observations

- Insufficient oversight over
 - control framework developed or run by Head Office / Group
 - processes taken up by intragroup / 3rd party service providers
- Careful management of backlog required



Hong Kong ML/TF Risk Assessment (HRA)



- Ongoing exercise to inform the ML/TF risks of Hong Kong and different sectors
- 1st HRA published in April 2018
 - already analysed how different banking products and services were vulnerable to ML activities
 - remain largely relevant today
- 2nd HRA (tentatively to be published in late 2021)
 - focusing on emerging threats and vulnerabilities since 2018
 - COVID-19, remote on-boarding, new payment methods etc.
- Inputs from private sector are crucial
 - draft reports circulated for industry's comment last week



Understanding of Risks – Basis for RBA



- Access to accurate, timely and objective information about ML/TF risks is a prerequisite for an effective risk-based approach (RBA)
 - We expect understanding throughout the institutions on the importance and use of risk information
 - target resources and drive RBA
 - effective mitigation of higher risks
 - Discussion on risks starts all examination processes
 - Relevant staff must be able to articulate what the institutions' ML/TF risks are, how information is being used to update their understanding



Understanding of Risks – IRA



Our observations

- Lack of information and analysis to support institutional risk assessment (IRA)
 - Mechanical processes: insufficient quantitative and qualitative analysis
 - Lack of forward-looking elements
 - “Description” rather than “assessment”
- Same control measures applied to customers with different risks in terms of business and transaction profile



Customer Risk Assessment (CRA)



- Commensurate with nature and size of institutions' business
- RBA should be embedded in the CRA framework design; institutions should articulate the rationale, how it reflects their risk understanding and risk appetite
- Adequate audit trail so that rationale behind a grading could be explained

Our observations

- Unable to differentiate underlying risks of customers
- Lack of holistic assessment, restricted range of factors taken into consideration



Transaction Monitoring (TM)



Our observations

- Insufficient understanding of TM system
 - Direct application of Group system without local “know how” that can explain results
- No regular assessment on TM system
 - Appropriateness of parameters and scenarios used
 - Data feeds and integrity
- Alert closure: lack of documentation of justifications
 - Unable to demonstrate the level of investigation undertaken or explain a particular decision / course of actions



Transaction Monitoring – Optimization



- Application of optimization mechanism should be subject to adequate validation and scrutiny
- Clear understanding on how the mechanism works and its impact

Our observations

- Inadequate oversight over application of optimization mechanism
 - Limited pre-launch assessment
 - No regular assessment on performance of TM system with application of optimization



Suspicious Transaction Reporting (STR)



- Documentation of decisions made; assessment of the risks and mitigating measures
- Mechanism to track completion of post-STR review against timeline prescribed by the institution

Our observations

- Inadequate documentation
 - Decision making processes: rationale for reporting or not reporting STRs
- Post-STR reviews
 - Unclear rationale of mitigating measures applied
 - Delay in review



Availability and Access to Quality Data



- Direct bearing on the effectiveness of control systems
 - Better data quality – help reduce false alarms which do not reflect real risks
 - Access to and analyse data from different sources – build a more comprehensive picture on risk profile which facilitate targeted approach to combat ML/TF

Our observations

- Inaccurate and inconsistent data in institutions' system
 - Input errors, insufficient guidance of data requirements, poor change management
- Limited use of data and information from different sources





Thank You



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