Hong Kong's ML/TF Risk Assessment ("National Risk Assessment" or "NRA")

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National Risk Assessment

➢ **Revision of FATF Recommendations in 2012**

➢ **Risk-based Approach (RBA)**
  - ➢ "Essential foundation" of AML/CFT framework
  - ➢ Over-arching requirement applicable to all relevant FATF Rec
  - ➢ Preventive measures commensurate with risk
  - ➢ Efficient allocation of resources

➢ **Adoption of RBA requires a clear understanding of ML/TF risk (i.e. risk assessment)**

Assessing risks and applying a risk-based approach

➢ **Countries** should <u>identify, assess, and understand</u> the money laundering and terrorist financing risks for the country, and should take action, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring the risks are mitigated effectively. Based on that assessment, countries should <u>apply a risk-based approach</u> (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. This approach should be <u>an essential foundation</u> to efficient allocation of resources across the anti-money laundering and countering the financing of terrorism (AML/CFT) regime and the implementation of risk-based measures throughout the FATF Recommendations……

➢ Countries should require **financial institutions and designated non-financial businesses and professions (DNFBPs)** to identify, assess and take effective action to mitigate their money laundering and terrorist financing risks.

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Key Concepts & Terms
(ML/TF Risk Assessment)

Risk is a function of

Threat

- People, object or activity with potential to cause harm

- Criminals, terrorist groups, funds

Vulnerability

- Things that can be exploited by threats or that may support or facilitate its activities

- Factors that represent weaknesses in certain features of a country's AML/CFT systems and controls

- **A sector; a financial product; or a type of services**

Consequence

- Impact or harm that may cause

- Effect of underlying crimes or terrorist activities on financial systems, institutions, economy and society

- **Coordinated and overseen by Steering Committee**
- **Participated by all relevant agencies and sectors**
- **Use advanced risk assessment tool**
- **Banking sector assessment**
  - Commenced in mid 2014
  - Data / information collection in March 2015
  - Focus group meetings in September 2015
- **NRA report to be published in 2H 2016 (tentative)**
- **Policy formulation and prioritise our resources**
- **AIs need to take into account the NRA report in your institutional risk assessment when it is published**
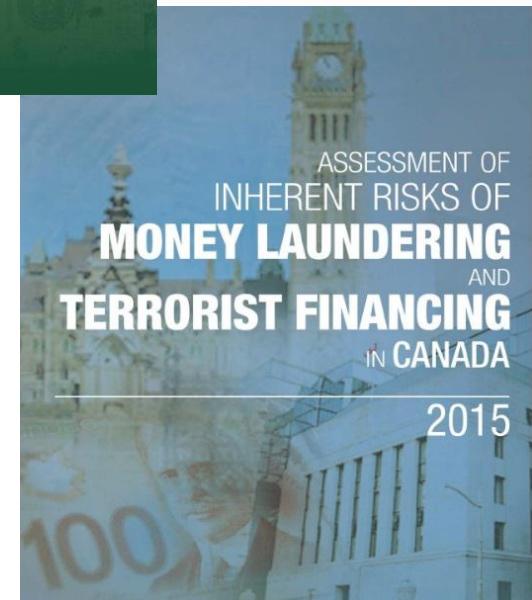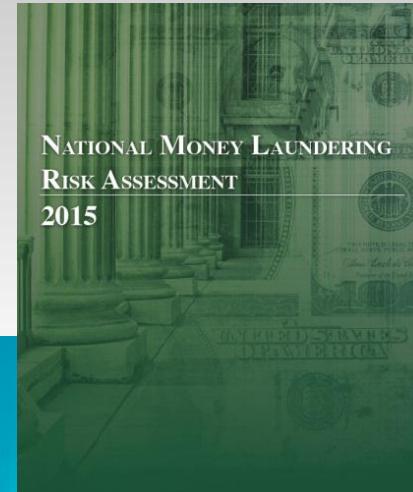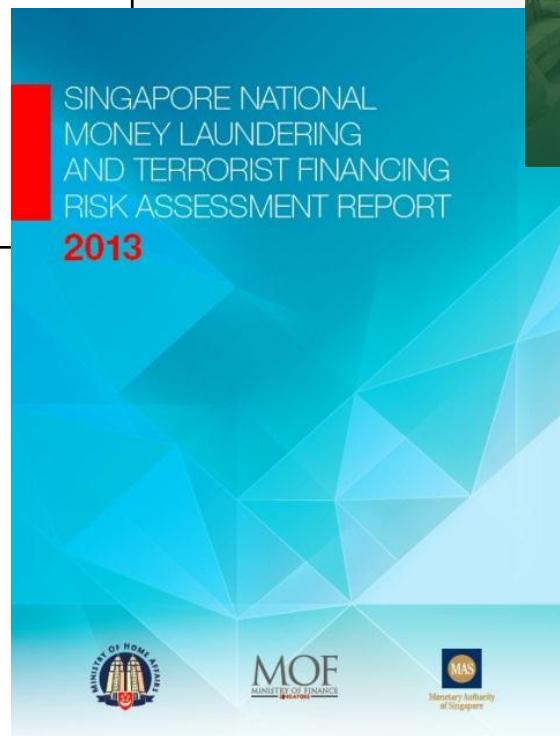
Key Take Away

➢ **Adoption of RBA requires a clear understanding of ML/TF risk**

➢ **A deficient institutional risk assessment will have cascading effect on the effectiveness of AI's AML/CFT systems and controls**

➢ **AIs will need to take into account the NRA results in their institutional risk assessments**

Thank You