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

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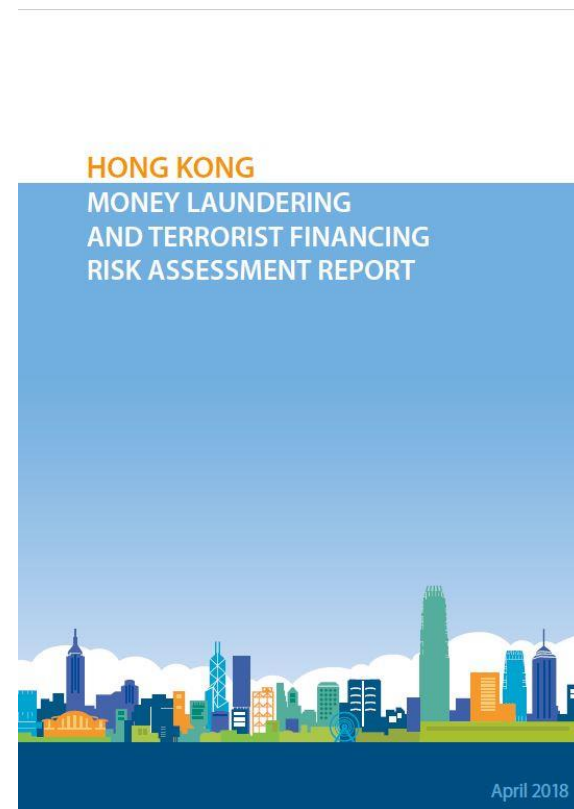
Outline

- Hong Kong's ML/TF Risk Assessment Report
- Government and HKMA AML/CFT policies
- Relevance for Authorized Institutions (AIs)
- 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

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MONEY LAUNDERING AND TERRORIST FINANCING RISK ASSESSMENT REPORT
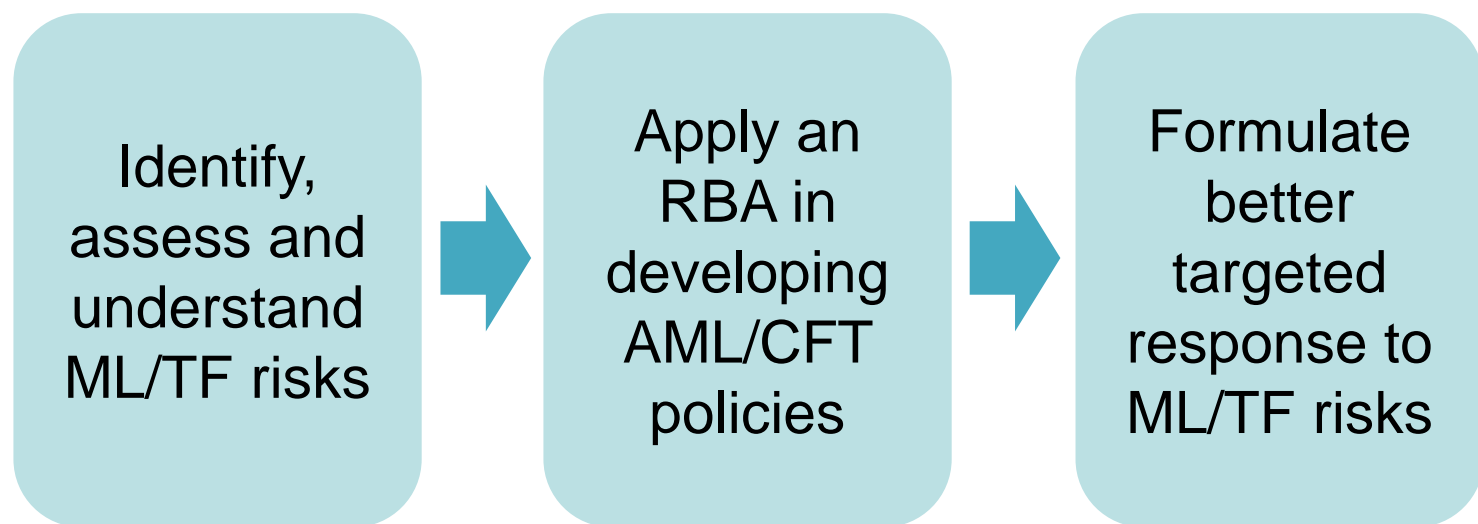
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Risk Assessment Report

- 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 Force
  - Customs and Excise Department
  - Independent Commission Against Corruption
  - Hong Kong Monetary Authority
  - Securities and Futures Commission
  - Insurance Authority
  - Self-regulatory Bodies for DNFBP sectors

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Identify, assess and understand ML/TF risks

→

Apply an RBA in developing AML/CFT policies

→

Formulate better targeted response to ML/TF risks

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 banking 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.

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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 ML/TF risks in banking sector
  - Disrupting ML/TF activities through identification and reporting by AIs on the basis of a fully collaborative relationship with law enforcement agencies
  - Raising effectiveness and efficiency of AIs' AML/CFT Systems
  - Avoiding undue barriers for legitimate businesses and ordinary citizens accessing banking services
  - Assisting AIs to focus resources and effort more effectively and efficiently to reduce unnecessary compliance burden
- Policy recognises the important role of AIs
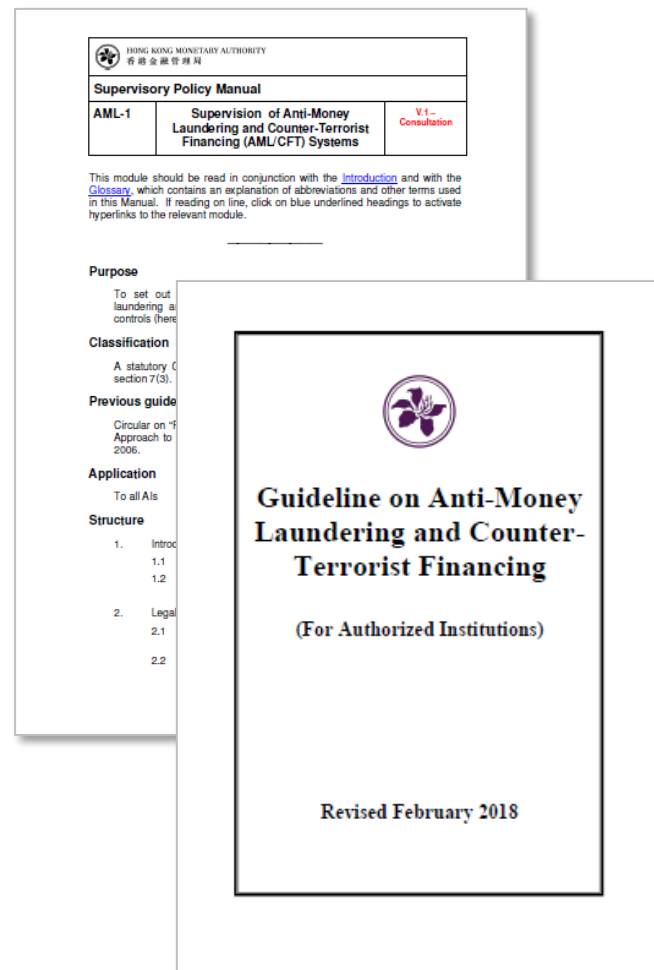
HKMA's AML/CFT Policy

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 banking sector by providing guidance and promoting training and good practices.

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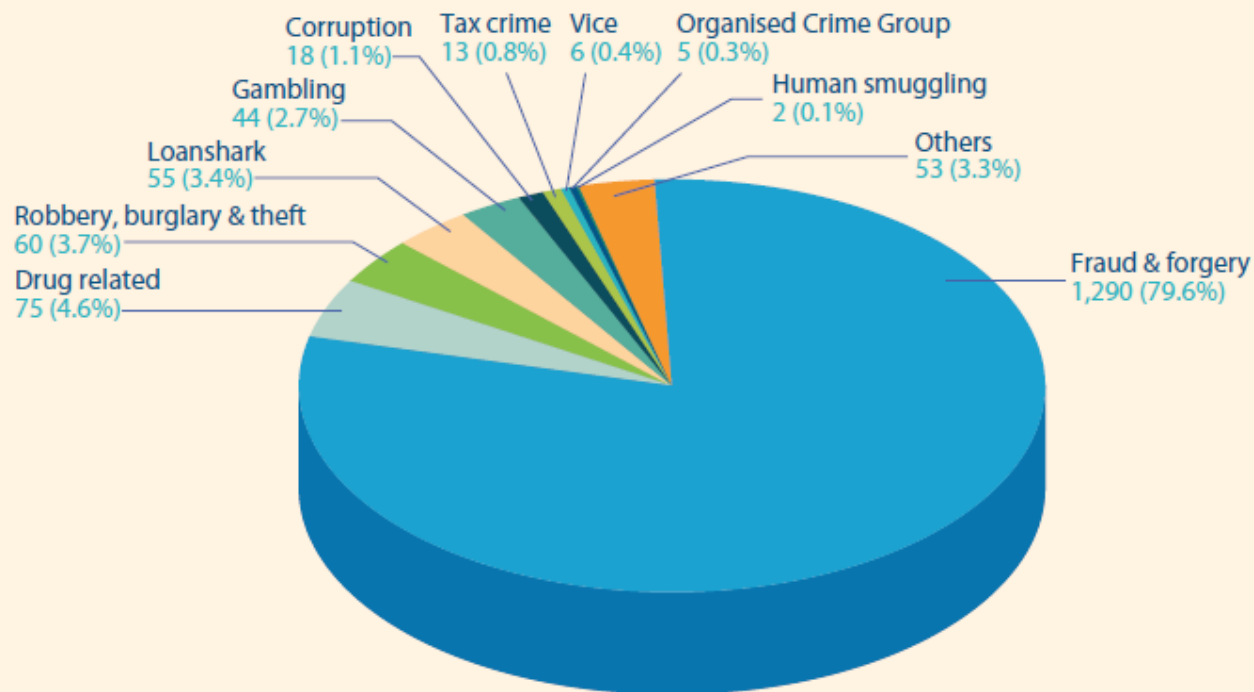香 港 金 融 管 理 局

HKMA's AML/CFT Policy

- HKMA policy and supervisory approach set out in a new Supervisory Policy Manual

- Circulated for consultation on 8 June 2018

- Supersedes an earlier circular in 2006

- 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
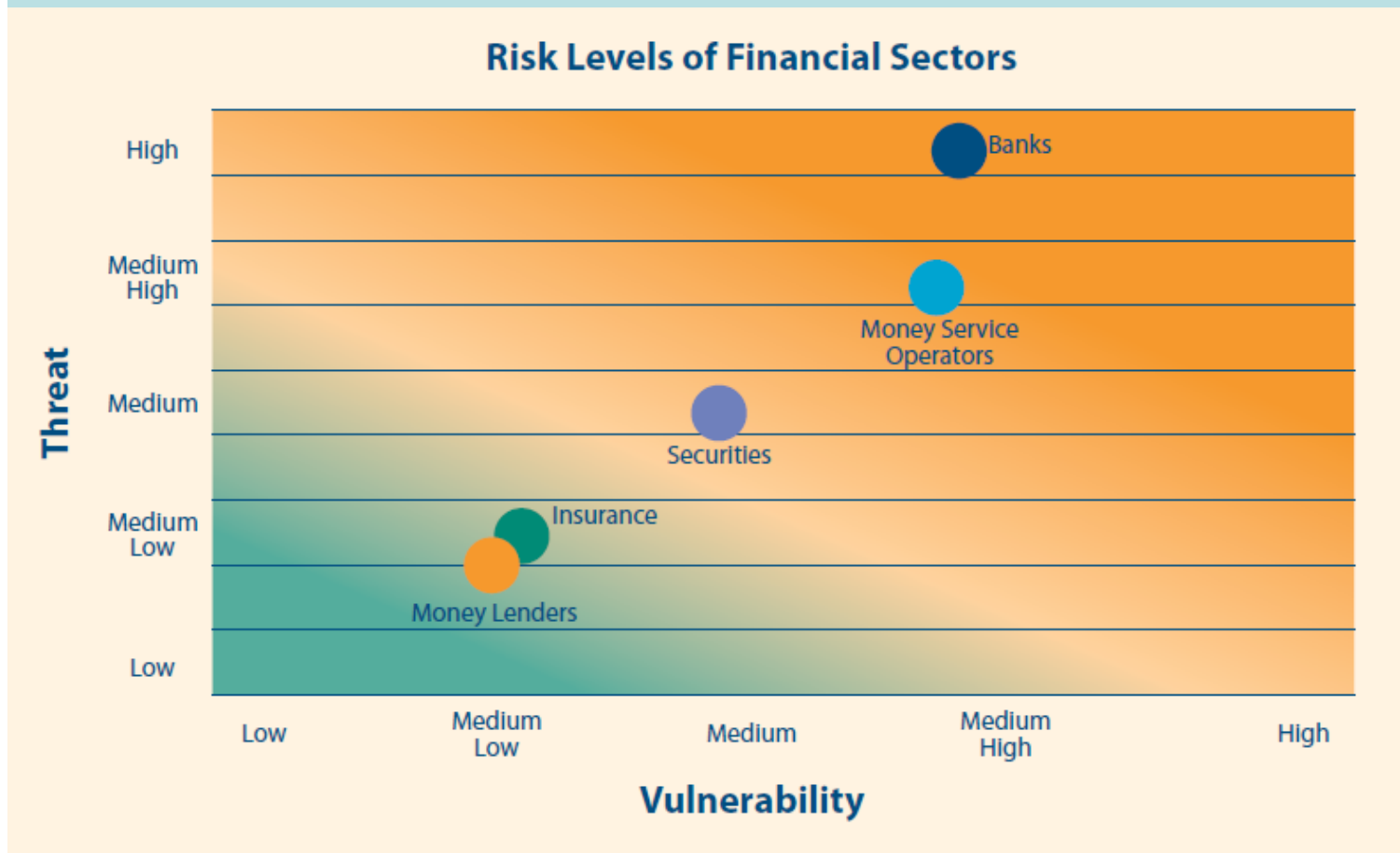
Corruption 18 (1.1%)
Tax crime 13 (0.8%)
Vice 6 (0.4%)
Organised Crime Group 5 (0.3%)
Gambling 44 (2.7%)
Human smuggling 2 (0.1%)
Loanshark 55 (3.4%)
Others 53 (3.3%)
Robbery, burglary & theft 60 (3.7%)
Drug related 75 (4.6%)
Fraud & forgery 1,290 (79.6%)

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

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

Risk Levels of Financial Sectors

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

Key results for the banking sector

Main threats

- Fraud, tax evasion, corruption, sanctions evasion
- Threats arise from domestic and, to a greater extent, external activities

Key results for the banking sector

Vulnerabilities

- ML/TF vulnerabilities exist in various segments and banking products / services
- Private banking, trade finance, international funds transfer and retail and corporate banking

Institutional Risk Assessment (IRA)

- **No** assumption of "replicating the Risk Assessment results" in conducting AIs' own IRA:
  - a "high" ML risk level for the banking sector does <u>not</u> mean each AI's IRA result must also be "high"

- AIs should take into account the main threats and vulnerable areas of business identified in the Risk Assessment

- AIs should study the Risk Assessment Report carefully, consider relevant insights and implications, review and update IRA according to your business model
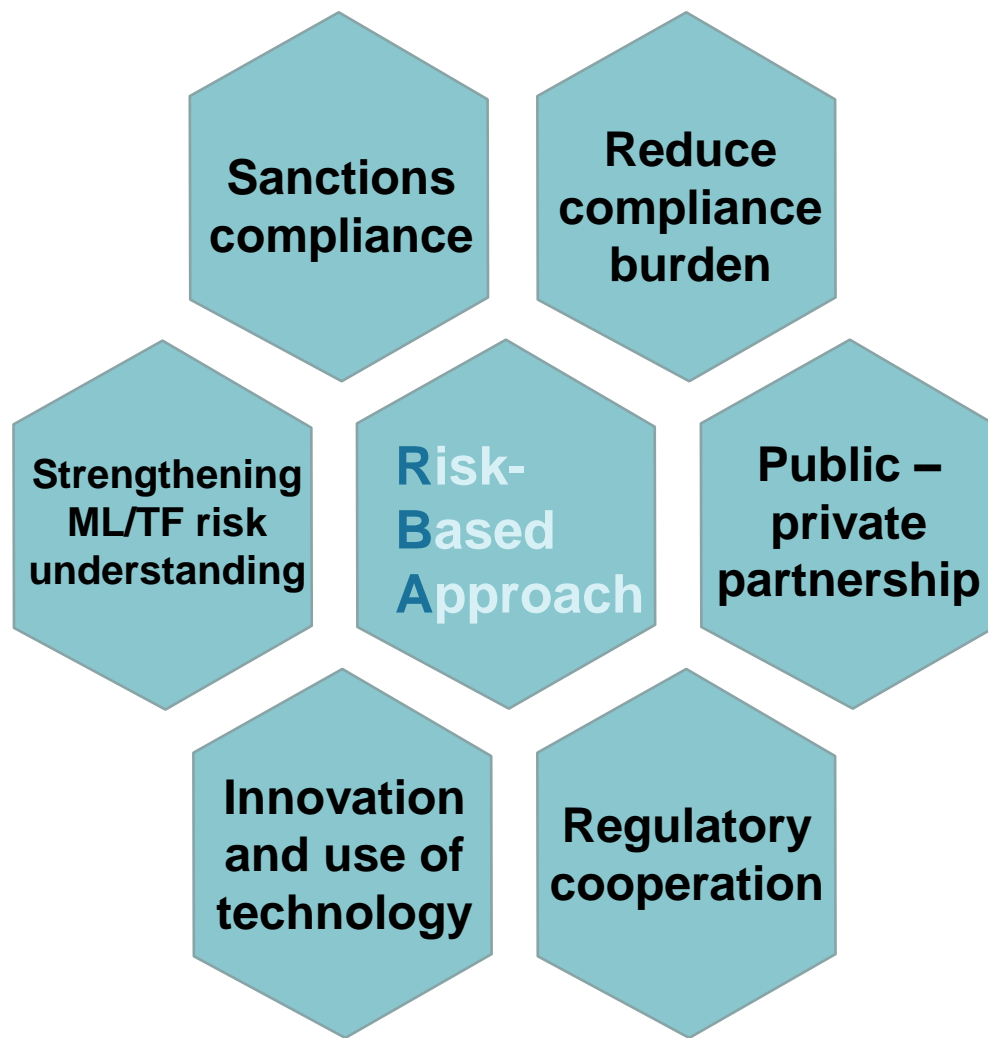
Areas of Work

HKMA work

- Continue to support the industry in understanding ML/TF risk

- Encourage better application of the RBA

- Support public-private partnership, especially in information / intelligence sharing: FMLIT, roundtables

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Areas of Further Work

Sanctions compliance

Reduce compliance burden

Strengthening ML/TF risk understanding

Risk-**B**ased **A**pproach

Public – private partnership

Innovation and use of technology

Regulatory cooperation

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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 of information on technical compliance and effectiveness
  - Preparatory work for the on-site visit of the assessment team

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Hong Kong's ME – Banking Sector

- Expected to be a major focus given the size and importance 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

- October to November 2018
  - Process has already started

- Assessors will meet with representatives of banking 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

- ## 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?

Q&A

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