

Money Laundering and Terrorist Financing Methods and Suspicious Transaction Reporting

Financial Intelligence & Investigation Bureau

Hong Kong Police Force

Money Laundering and Terrorist Financing

Risk Assessment

Detective Inspector of Police

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Agenda

- Recap of World Bank Tool
- Final Findings
 - Overall Money Laundering Threat
 - Overall Money Laundering Vulnerability
 - Legal Persons and Arrangements
 - Overall Risk
 - Emerging Challenges



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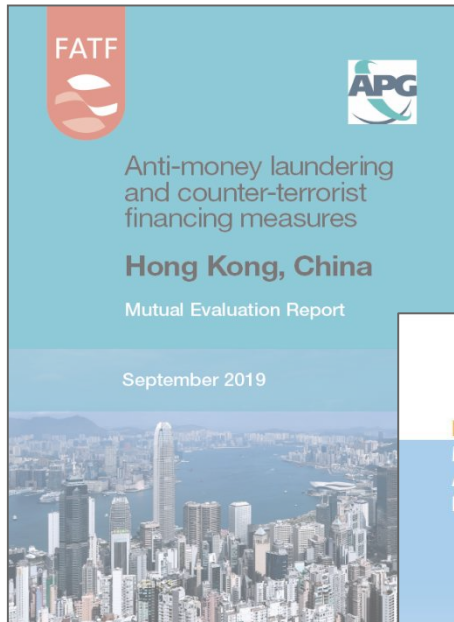
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World Bank Tool



- Adopted by the Steering Committee in 1st HRA
- Financial Action Task Force (FATF) 4th Round Mutual Evaluation Report (MER) on Hong Kong:
 - HKC has a reasonably good level of understanding of its ML/TF risks, which is largely informed by the territory-wide risk assessment exercise (HRA)
(Para. 94, MER of HK)
- Input by all relevant stakeholders



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World Bank Tool

Key Concept

Risk = F (Threat, Vulnerability, Consequence*)



Threat



Vulnerability



Consequence*

* Given the challenges in estimating the consequences, countries may focus primarily on achieving a comprehensive understanding of their threats and vulnerabilities.

(FATF, National Money Laundering and Terrorist Financing Risk Assessment, Feb 2013)

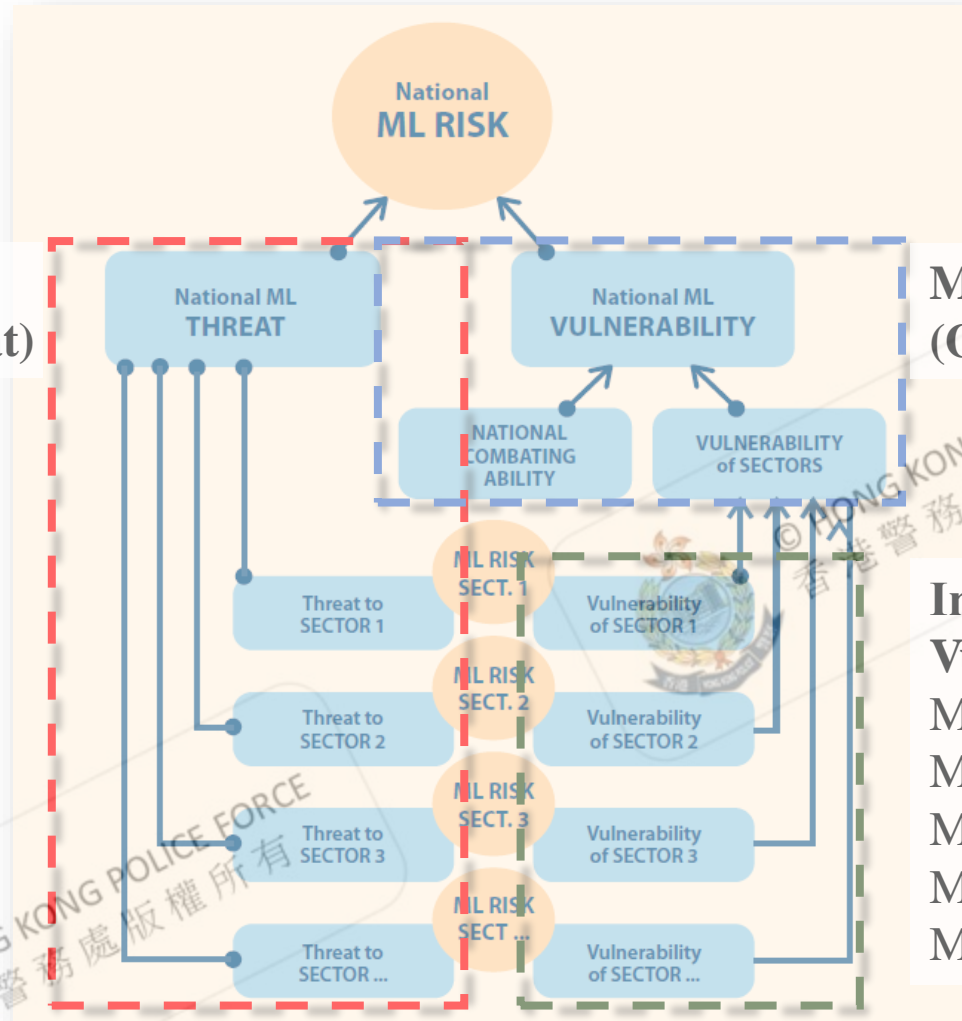


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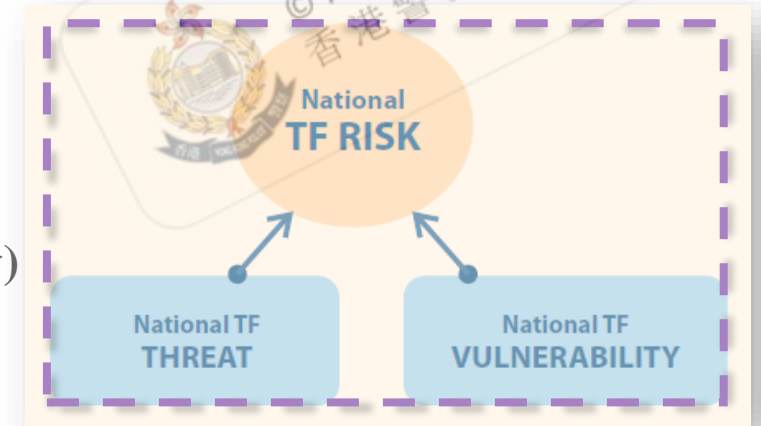


Overview of the World Bank Tool

**Module 1
(Overall Threat)**



**Module 2
(Overall Vulnerability)**



Module 8 (TF)

Individual Sector's Vulnerability:

- Module 3 – Bank
- Module 4 – Securities
- Module 5 – Insurance
- Module 6 – Other Fis
- Module 7 – DNFPBs

(source: 2nd HRA)



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Overall ML Threat: Summary of ML Threat Ratings (1)

Predicate Offence	Rating in 1 st HRA	Rating in 2 nd HRA
Fraud/Deception	High	Status Quo
Dangerous Drugs	Medium-high	
Tax Crimes	Medium (Foreign: Medium-high, Domestic: Low)	
Corruption	Medium (Foreign: Medium-high, Domestic: Low)	
Serious Gambling Offences	Medium	
Goods Smuggling	Medium	
Loansharking	Medium	
Vice	Medium-low	
Theft	Medium-low	



Overall ML Threat: Summary of ML Threat Ratings (2)

Predicate Offence	Rating in 1 st HRA	Rating in 2 nd HRA
Intellectual Property	Medium-low	Status Quo
Human Smuggling/ Trafficking	Medium-low	
Burglary	Low	
Robbery	Low	
Blackmail	Low	



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Overall ML Threat: Summary of Sectoral Threat Ratings

Sector	Rating in 1 st HRA	Rating in 2 nd HRA	
Bank (incl' Virtual Banks)	High	Status Quo	
MSO	Medium-high		
Securities	Medium		
SVFs	Medium		
TCSPs	Medium		
DPMS	Medium-low		
Estate Agents	Medium-low		
Insurance	Medium-low		
Accountants	Medium-low		
Lawyers	Medium-low		
Money Lenders	Medium-low		
Virtual Asset Service Providers	Low		Medium-low
Non-bank Credit Card Companies	N/A		Low
Standalone Financial leasing	N/A	Low	



Overall ML Vulnerability: Summary of Combating Ability

Variables with enhanced rating:

No.	Description	Rating	
		1 st HRA	2 nd HRA
1	Quality of AML Policy & Strategy	0.8	0.9
4	Quality of FIU Intelligence Gathering and Processing	0.7	0.8
5	Capacity and Resources for Financial Crime Investigations (Including Asset Forfeiture)	0.7	0.8
12	Comprehensiveness of Customs Regime on Cash and Similar Instruments	0.3	0.8
13	Effectiveness of Customs Controls on Cash and Similar Instruments	0.3	0.8
14	Effectiveness of Domestic Cooperation	0.8	0.9
16	Availability of Independent Audit	0.8	0.9
17	Level of Financial Integrity	0.7	0.8
22	Availability and Access to Beneficial Ownership Information	0.4	0.8



Overall ML Vulnerability: Summary of Sectoral Vulnerability

Sector	Rating in 1 st HRA	Rating in 2 nd HRA
Bank (incl' Virtual Banks)	Medium-high	Status Quo
MSO	Medium-high	Status Quo
TCSPs	Medium-high	Medium
Securities	Medium	Status Quo
SVFs	Medium	Status Quo
Insurance	Medium-Low	Status Quo
DPMS	Medium-Low	Medium
Accountants	Medium	Medium-low
Lawyers	Medium	Medium-low
Estate Agents	Medium	Medium-low
Virtual Asset Service Providers	Medium	Status Quo
Money Lenders	Medium-low	Status Quo
Non-bank Credit Card	N/A	Low
Standalone Financial leasing	N/A	Low



Overall Sectoral Risk

Sector	Sectoral Threat	Sectoral Vulnerability	Sectoral ML Risk
Banking	High (1 st HRA: High)	Medium-High (1 st HRA: Medium-High)	High (1 st HRA: High)
MSO	Medium-High (1 st HRA: Medium-High)	Medium-High (1 st HRA: Medium-High)	Medium-High (1 st HRA: Medium-High)
Securities	Medium (1 st HRA: Medium)	Medium (1 st HRA: Medium)	Medium (1 st HRA: Medium)
Insurance	Medium-Low (1 st HRA: Medium-Low)	Medium-Low (1 st HRA: Medium-Low)	Medium-Low (1 st HRA: Medium-Low)
TCSP	Medium (1 st HRA: Medium)	Medium (1 st HRA: Medium-High)	Medium (1 st HRA: Medium-High)
SVF	Medium (1 st HRA: Medium)	Medium (1 st HRA: Medium)	Medium (1 st HRA: Medium)
Lawyers	Medium-Low (1 st HRA: Medium-Low)	Medium-Low (1 st HRA: Medium)	Medium-Low (1 st HRA: Medium)
Accountants	Medium-Low (1 st HRA: Medium-Low)	Medium-Low (1 st HRA: Medium)	Medium-Low (1 st HRA: Medium)



Overall Sectoral Risk

Sector	Sectoral Threat	Sectoral Vulnerability	Sectoral ML Risk
VASP (assessed VC in 1 st HRA)	Medium-Low (1 st HRA: Low)	Medium (1 st HRA: Medium)	Medium (1 st HRA: Medium-Low)
Estate Agent	Medium-Low (1 st HRA: Medium-Low)	Medium-Low (1 st HRA: Medium)	Medium-Low (1 st HRA: Medium)
DPMS	Medium-Low (1 st HRA: Medium-Low)	Medium (1 st HRA: Medium-Low)	Medium (1 st HRA: Medium-Low)
Money Lenders	Medium-Low (1 st HRA: Medium-Low)	Medium-Low (1 st HRA: Medium-Low)	Medium-Low (1 st HRA: Medium-Low)
Non-bank Credit Card	Low (1 st HRA: not explicitly assessed)	Low (1 st HRA: not explicitly assessed)	Low (1 st HRA: not explicitly assessed)
Financial Leasing	Low (1 st HRA: not explicitly assessed)	Low (1 st HRA: not explicitly assessed)	Low (1 st HRA: not explicitly assessed)

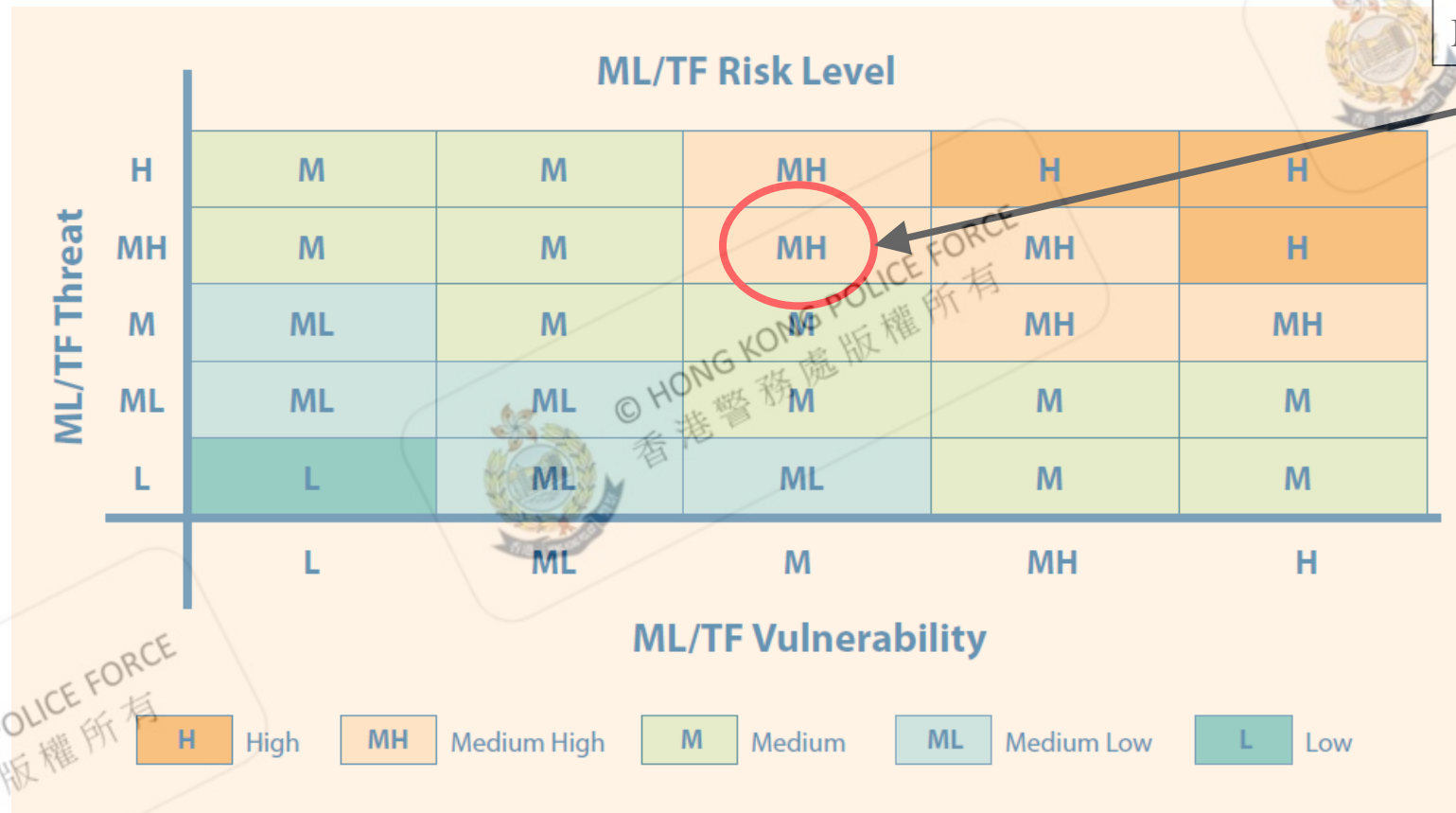


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Overall ML Risk of HK

Overall ML Risk of HK:
Medium-high



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Emerging Challenges

- Increase in the use of Stored Value Facilities (SVFs)
- Exploitation of Virtual Banks
- Threat imposed by Virtual Asset



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