



香港海關

Customs and Excise Department

Compliance Functions & Statutory Obligations of Money Service Operators

17 December 2024

Trade Controls Branch

Money Service Supervision Bureau

AML/CFT/CPF Regulatory Regime

Cap. 615 Anti-Money Laundering
and Counter-Terrorist Financing
Ordinance
(AMLO)



**AMLO
Cap. 615**

**Guideline
for MSOs**

Guideline on Anti-Money
Laundering & Counter-
Financing of Terrorism
(For MSOs)



Drug Trafficking
(Recovery of Proceeds)
Ordinance



Organized
and
Serious Crimes
Ordinance



United Nations
(Anti-Terrorism Measures)
Ordinance



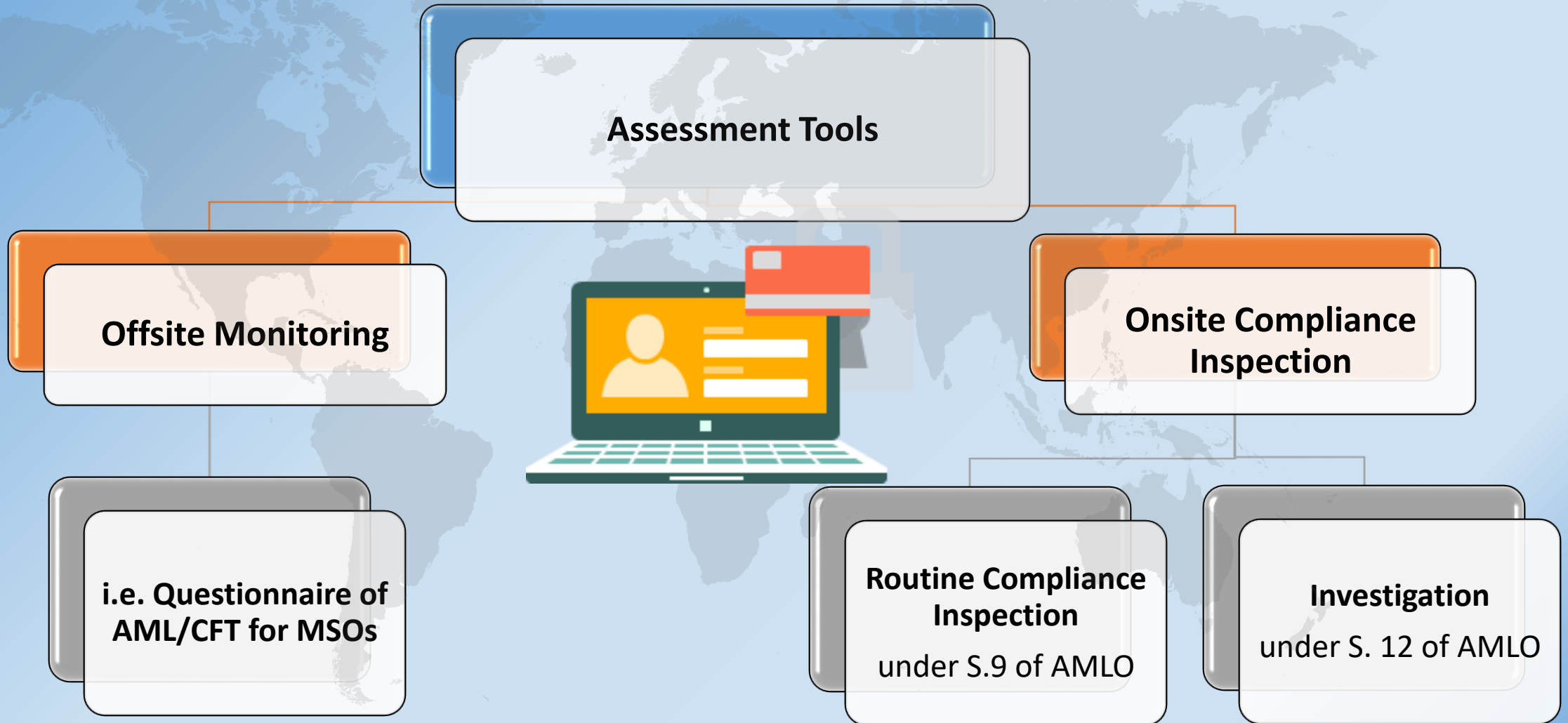
United
Nations
Sanctions
Ordinance



Weapons of Mass Destruction
(Control of Provision of Services)
Ordinance



Overview of MSSB Risk-based Supervisory Approach



Routine Compliance Inspection

Section 9, AMLO

"Powers to enter, inspect, make copies / record details of any specified business record, and make inquiries of the MSO concerning any specified business record / transaction."

➡ Utilize a Central Database for Master Client List

Section 10, AMLO

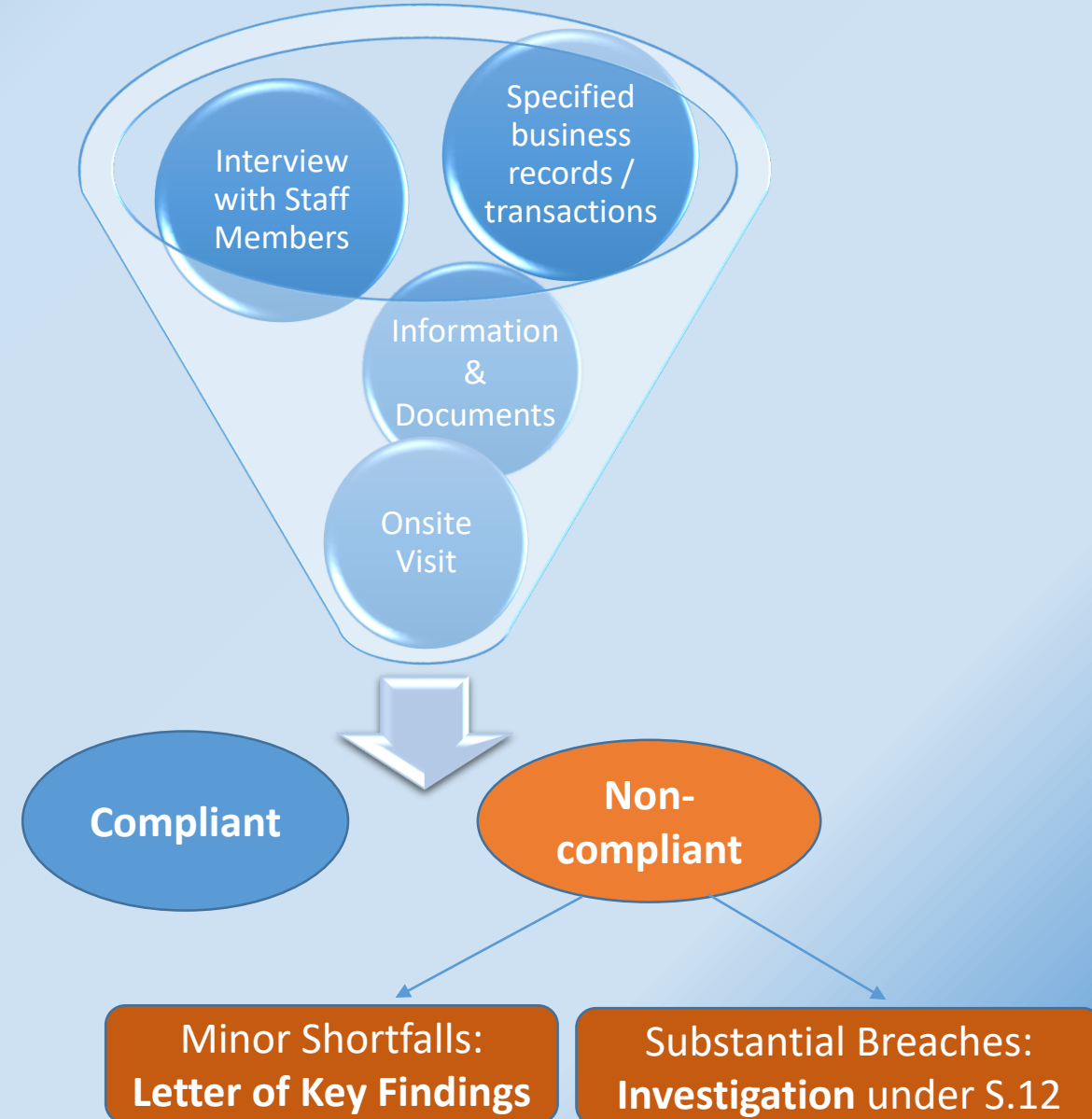
Produces false or misleading record/ document/ answer in purported compliance with a requirement:



Criminal Offence

On indictment to a fine of \$1,000,000 and to imprisonment for 2 year

On summary conviction to a fine at level 6 and to imprisonment for 6 months



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Investigation

Appointment of Investigators---S. 11, AMLO

- has reasonable cause to believe that an offence under the AMLO may have been committed
- for the purpose of considering whether to exercise any power under section 21 or 43 of the AMLO

Powers of Investigators – S.12, AMLO

In writing require a covered person to-

1. Produce of any record or document
2. Attend before the investigator at the specified time and place
3. Answer any question
4. Give explanation or further particulars



Failure to comply with a requirement imposed under section 9 or 12 commits an offence.

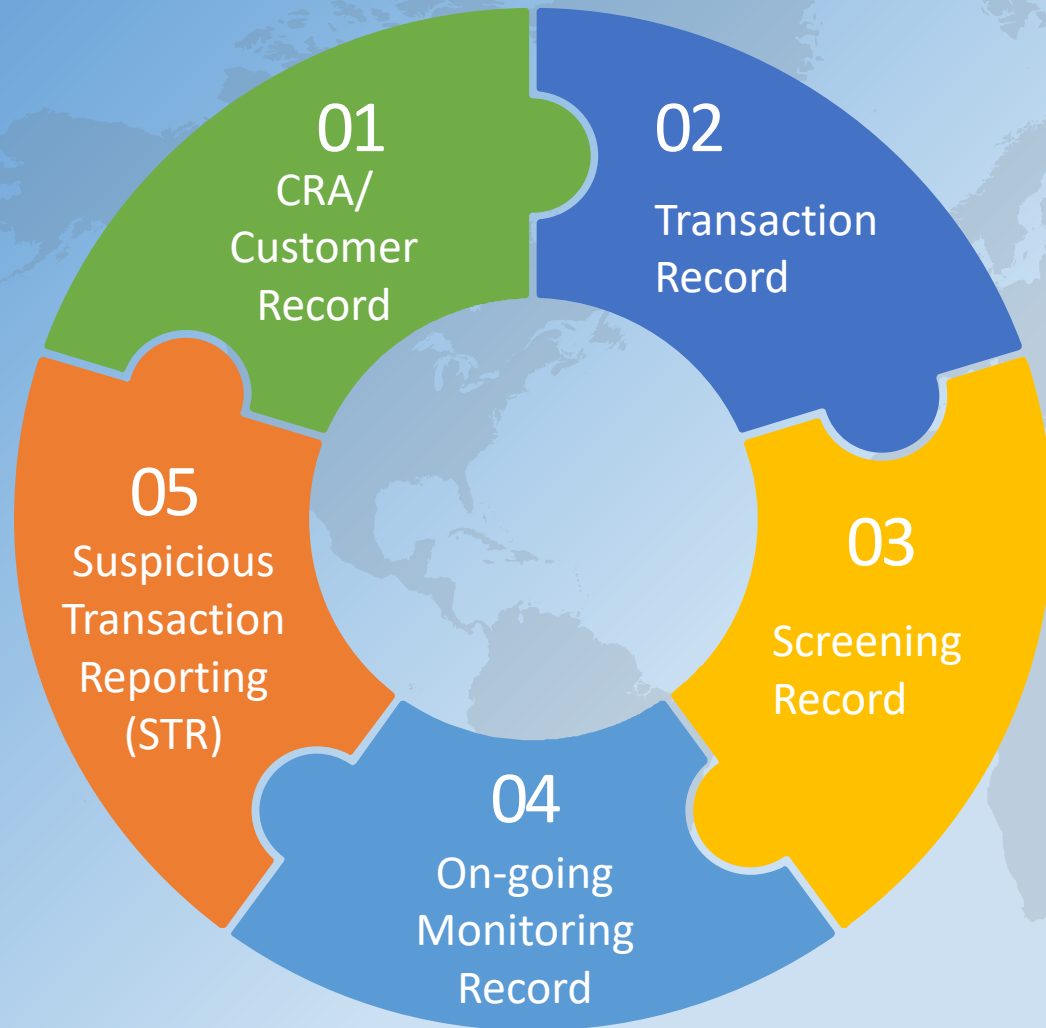


Deficiencies Identified from Compliance Inspection

Customer Record	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Verify customer's identity (i.e. legal person) <input checked="" type="checkbox"/> Obtain written authorization if one purports to act on behalf of another person
Transaction Record	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Record addresses (originator & recipient) <input checked="" type="checkbox"/> Retain records permit reconstruction of complete transaction (i.e. WhatsApp orders, counterparty settlements)
Screening Record	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Record the date when screening was conducted <input checked="" type="checkbox"/> Screening conducted towards recipients & agents <input checked="" type="checkbox"/> Alert reviews with record kept to demonstrate procedures
Customer Risk Assessment ("CRA") Record	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Use of CRA / scoring matrix with application of RBA <input checked="" type="checkbox"/> Customers risks rated according to effective risk assessment framework
Enhanced Due Diligence ("EDD")	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Documentary proof to verify transaction purpose/ SoF/ SoW <input checked="" type="checkbox"/> Transaction monitoring with meaningful parameters/ threshold set <input checked="" type="checkbox"/> Counterparties' risks taken into account
Suspicious Transaction Reporting ("STR")	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Sufficient management awareness and training on STR reporting <input checked="" type="checkbox"/> Quantified risk assessment methodology and STR reporting chain



Circular to MSO on Record Keeping Requirements



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MSSB/MIS_04/2022

16 June 2022

Circular

Circular to Money Service Operators Anti-Money Laundering / Counter-Terrorist Financing Record-keeping Requirements

The Customs and Excise Department (“C&ED”) would like to remind Money Service Operators (“MSOs”) of the importance of keeping accurate and up-to-date records and documents in relation to money service business, in compliance with the requirements set out in the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (“AMLO”) and the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Money Service Operators) (“the Guideline”).



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Supervisory Findings of Customer Due Diligence Related Issues



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MSSB/MIS_03/2023
22 November 2023

Circular

Circular to Money Service Operators

Anti-Money Laundering / Counter-Terrorist Financing (“AML/CFT”)

Supervisory Findings of Customer Due Diligence (“CDD”) Related Issues

This circular highlights the deficiencies or inadequacies identified by the Customs and Excise Department (“C&ED”) from compliance inspections of licensees’ AML/CFT policies, procedures and controls (collectively referred to as “AML/CFT systems”). We also provide expected regulatory standards and non-exhaustive examples of good practices to assist money service operators (“MSOs”) in reviewing the adequacy of their AML/CFT systems.

Identified Issues:

- ◆ **CDD/CRA:** failed to follow up on inconsistent information provided by customers
- ◆ **Identification and verification of a BO:** failed to identify, and take reasonable measure to verify all beneficial owners
- ◆ **Identification and Verification of PPTA:** failed to identify the corporate customer and treated a PPTA as the customer



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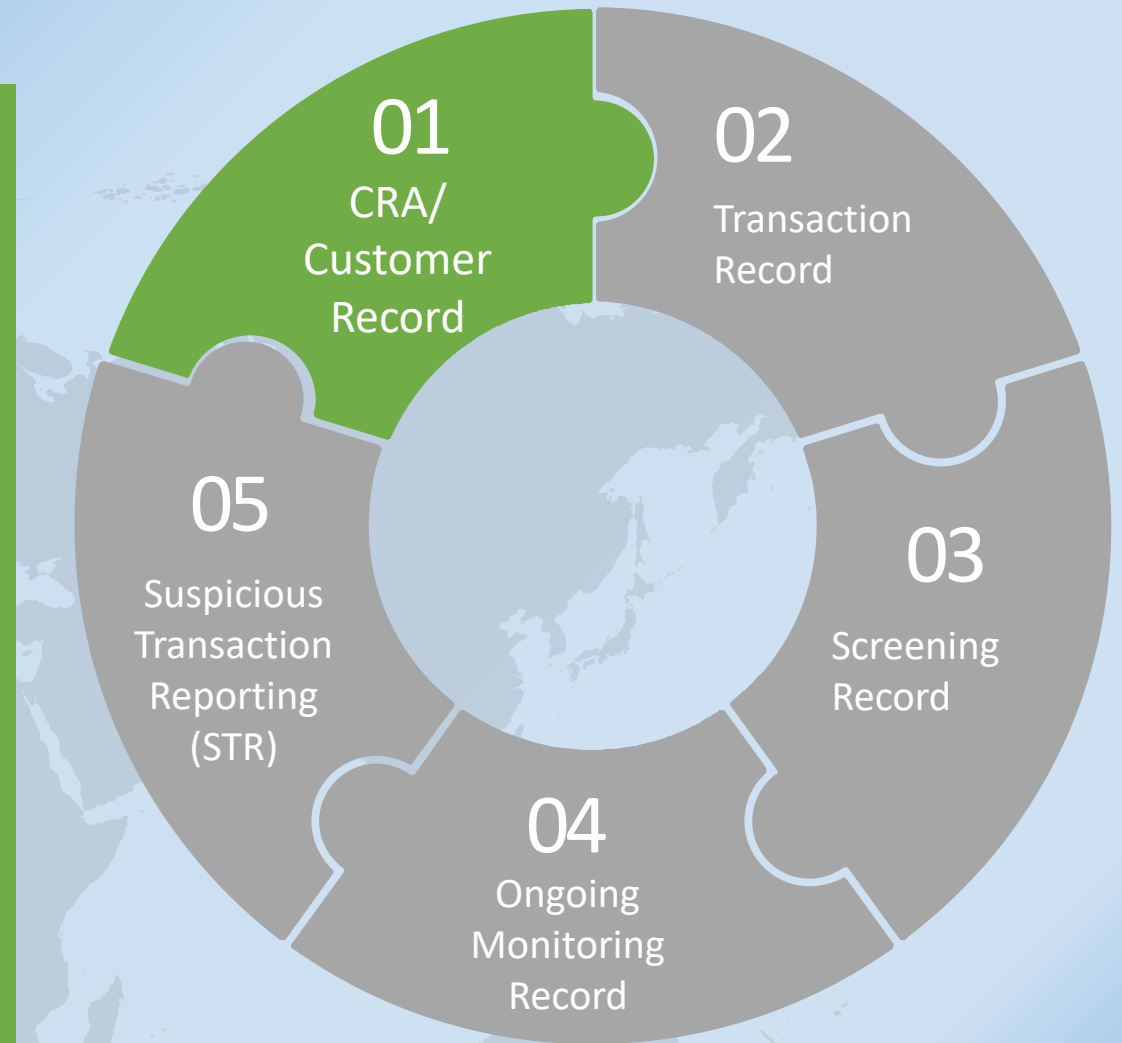
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Customer Record

At the outset of establishing a business relationship/ before carrying out an occasional transaction:

- ◆ Obtain the original or a copy of the document, record of the data/ information obtained in the course of identifying and verifying the identity of:
 - a. the customer
 - b. the beneficial owner of the customer
 - c. person purport to act on behalf of the customer
 - d. other connected parties to the customer

*** MSO should make appropriate enquiries where there are indications that the customer is **not** acting on his own behalf
(Chapter 4.4.4 of Guideline of AML/CFT for MSOs)

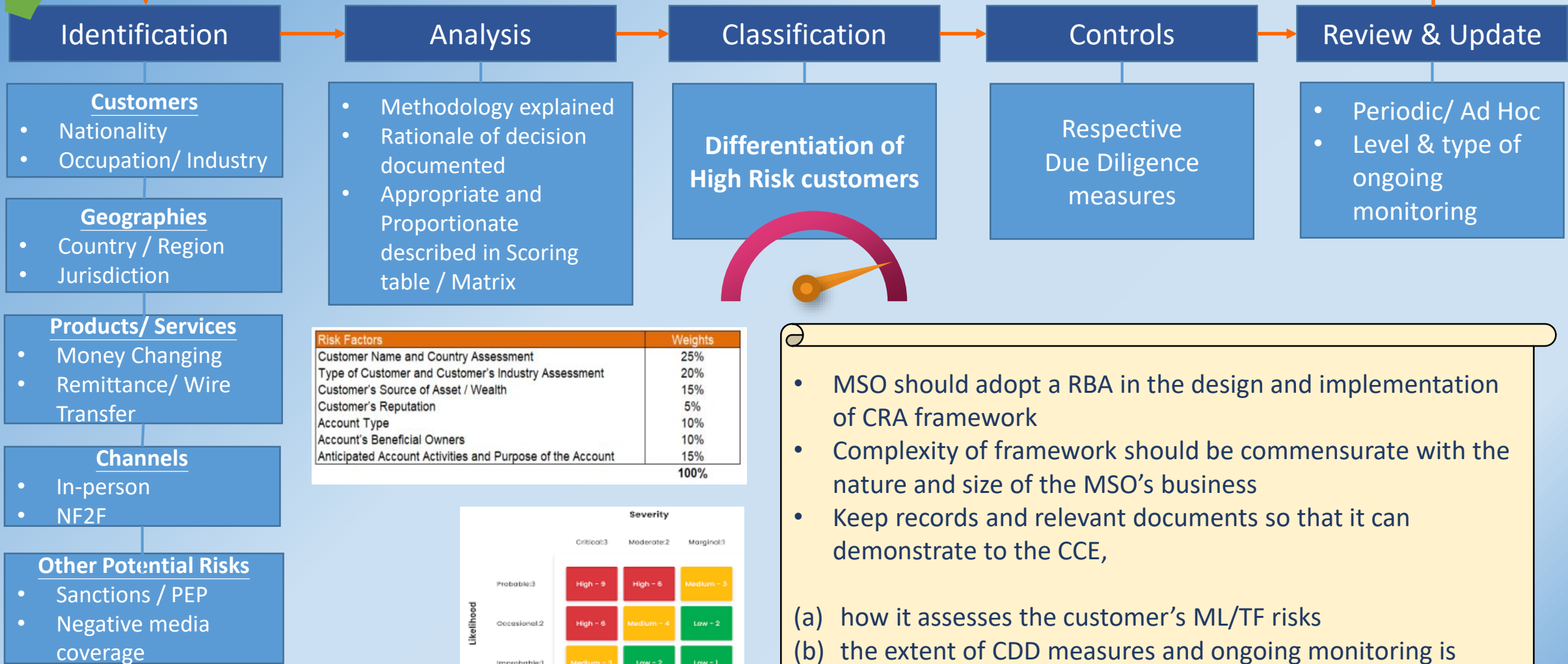


★ Source of Fund
★ Source of Wealth



Customer Risk Assessment [CRA]

CRA/
Customer
Record



Risk Factors	Weights
Customer Name and Country Assessment	25%
Type of Customer and Customer's Industry Assessment	20%
Customer's Source of Asset / Wealth	15%
Customer's Reputation	5%
Account Type	10%
Account's Beneficial Owners	10%
Anticipated Account Activities and Purpose of the Account	15%
	100%

		Severity		
		Critical:3	Moderate:2	Marginal:1
Likelihood	Probable:3	High - 9	High - 6	Medium - 3
	Occasional:2	High - 6	Medium - 4	Low - 2
	Improbable:1	Medium - 3	Low - 2	Low - 1

- MSO should adopt a RBA in the design and implementation of CRA framework
- Complexity of framework should be commensurate with the nature and size of the MSO's business
- Keep records and relevant documents so that it can demonstrate to the CCE,

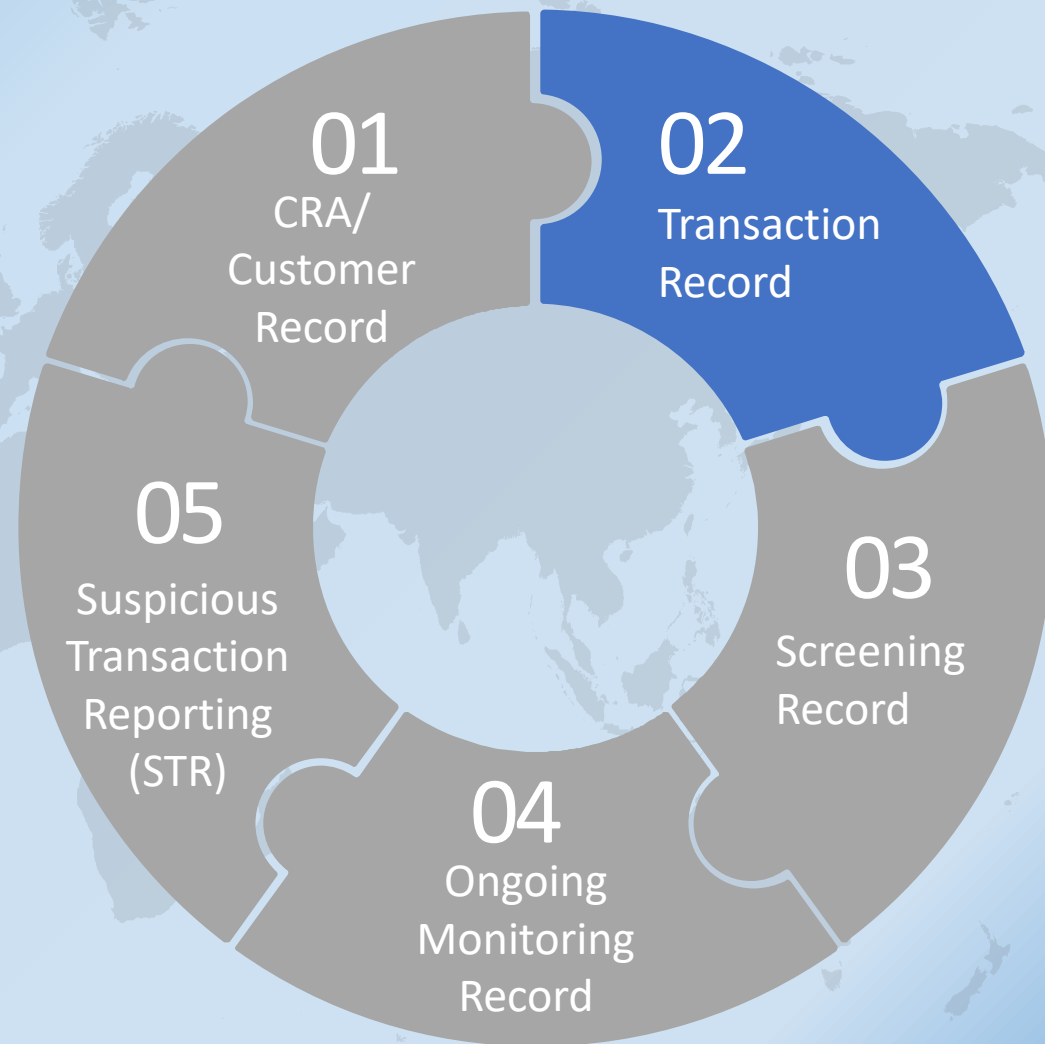
- how it assesses the customer's ML/TF risks
- the extent of CDD measures and ongoing monitoring is appropriate based on that customer's ML/TF risks



Transaction Record

Including but not limited to :

- ◆ Records on sending/ receipt of instruction using any instant messaging software/ mobile application
- ◆ Sufficient to permit reconstruction of individual transaction

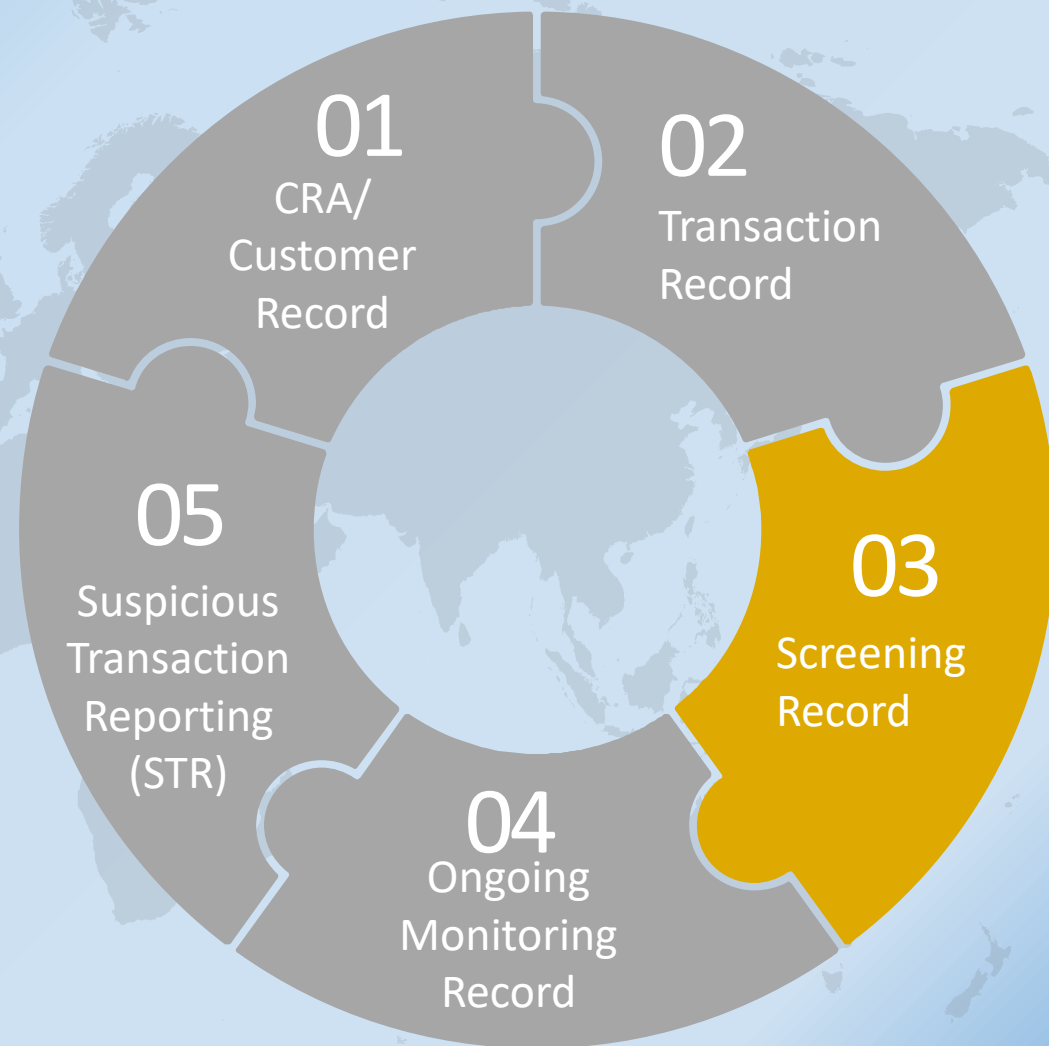


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Screening Record

- ◆ PEP list and Sanction Lists
- ◆ Screening conduct against the customer, any beneficial owner of the customer and all relevant parties in a transaction (including the recipient and intermediary)
- ◆ Enhanced checking result



Definition of “Non-Hong Kong PEP” and “Former Non-Hong Kong PEP”



Non-Hong Kong PEP

- An individual who is or has been entrusted with a prominent public function in a place outside Hong Kong
- A spouse, a partner, a child or a parent of that individual
- A close associate of that individual



Former Non-Hong Kong PEP

- An Individual who, being a non-Hong Kong PEP, has been but is not currently entrusted with a prominent public function in a place outside Hong Kong
- A spouse, a partner, a child or a parent of that individual
- A close associate of that individual



EDD measures for non-Hong Kong PEP



MSO to establish procedures

→ Screening against commercially available databases

Customer or a beneficial owner of a customer is a non-Hong Kong PEP

- Apply all following EDD measures:
1. Obtain senior management approval;
 2. Take reasonable measures to clarify the customer's or the BO's SoW and SoF;
 3. Conduct enhanced ongoing monitoring of the business relationship

Risk Assessment towards Former Non-Hong Kong PEP

MSO should conduct an appropriate assessment on the ML/TF risk associated with the PEP status taking into account various risk factors, including but not limited to:



1



The level of (informal) influence that the individual could still exercise

2



The seniority of the position that the individual held as the PEP; and

3



Whether the individual's previous and current function are linked in any way





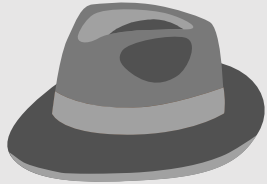
Ongoing Customer Monitoring

- review of customer records periodically or upon trigger events

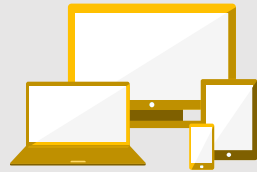


Ongoing Transaction Monitoring

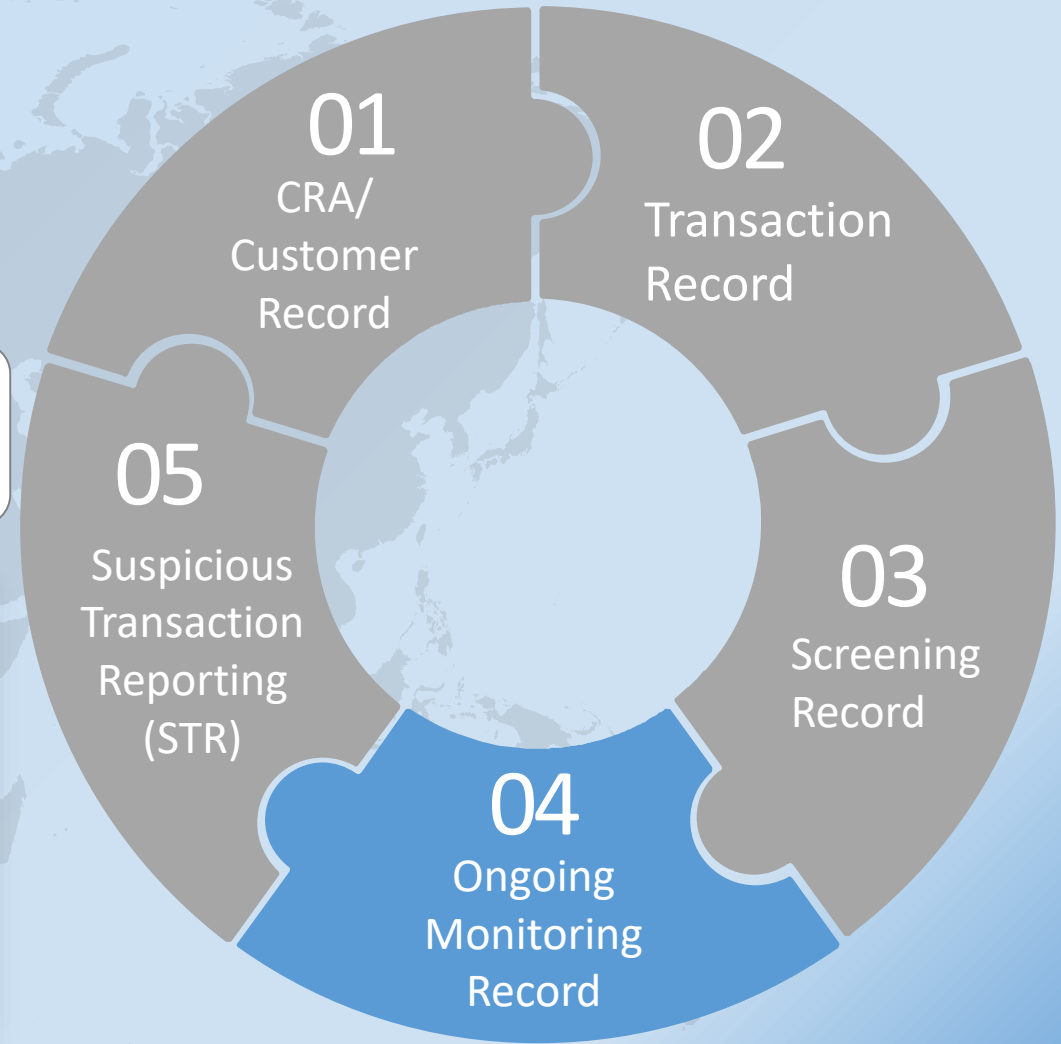
- complex, unusually large in amount
- no apparent economic or lawful purpose



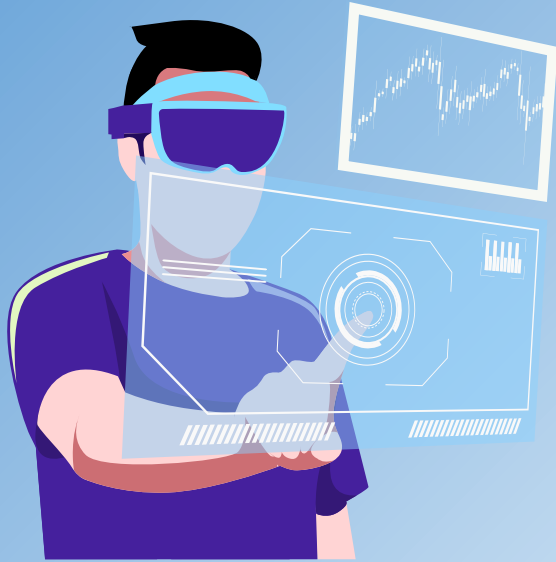
Examine Background & purpose of transaction, findings and steps taken by MSO



Rationale of any decision should be documented in writing



Transaction Monitoring System



- Accurate CDD Records
- Effective Risk Assessment

Data Inputs

Flagging of Unusual Transactions/
Activities

- Rule-based Parameters (e.g.: automated system)
- Identify Key Patterns
- Profiling
- Data Capturing
- Watch lists

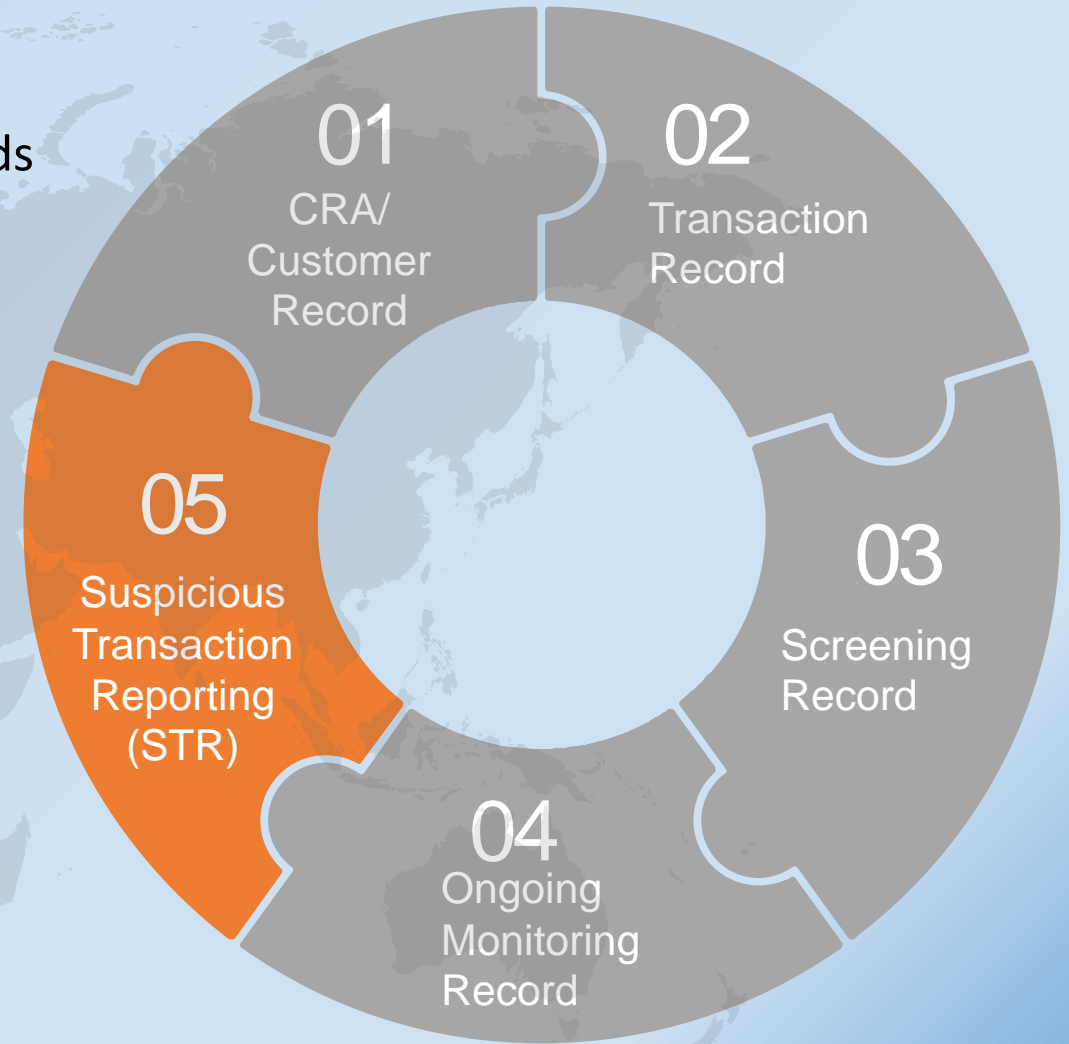
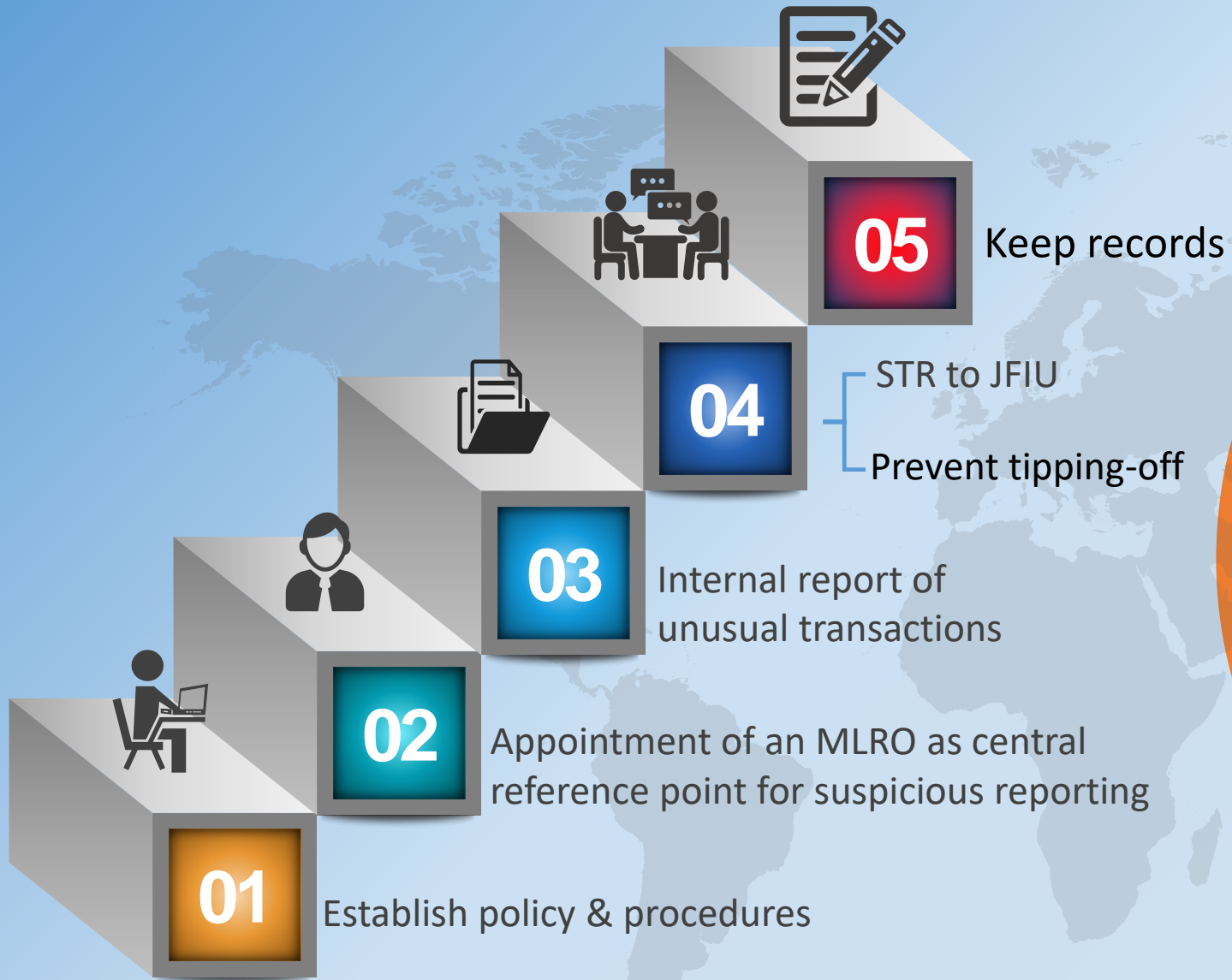
- Evaluation
- Investigation
- Escalation

Results

Ongoing
Monitoring
Record

Further Actions

* Documented Rules' Definitions and Escalation Processes
* Defined Transaction Monitoring Responsibilities within the MSO



Ongoing CDD Monitoring

Customer Due Diligence

Customer Risk Assessment

Enhanced Due Diligence

Red Flags/
Suspicious Transaction

STR

Customer Records

Transaction Records

Monitoring System

Monitoring Infrastructure

Ongoing Transaction Monitoring



Institutional Risk Assessment



Delivery Channel Risks



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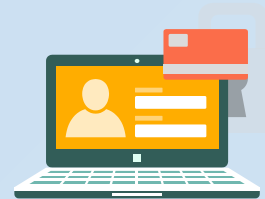
MSSB/MIS_05/2021

13 December 2021

Circular

**Circular to Money Service Operators
Anti-Money Laundering / Counter-Terrorist Financing
Money Laundering and Terrorist Financing Risks
Associated with Delivery Channels**

In view of recent incidents involving unfulfilled cross-border / cross boundary remittance by Money Service Operators (“MSOs”) in which customers’ funds were frozen by the regulatory bodies or law enforcement agencies in other jurisdictions, the Customs and Excise Department (“C&ED”) would like to remind MSOs to exercise increased vigilance on possible activities or transactions that are suspected to be related to the money laundering and terrorist financing (“ML/TF”), and to reiterate the importance of institutional risk assessment (“IRA”) conducted by MSOs, particularly on their delivery channel risks outside Hong Kong. ^{Note 1}



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Money Laundering and Terrorist Financing Risks Associated with Third Party Payments



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MSSB/MIS_01/2024

17 September 2024

Circular

Circular to Money Service Operators

Anti-Money Laundering/Counter-Terrorist Financing

Money Laundering and Terrorist Financing Risks

Associated with Third Party Payments

The Customs and Excise Department (“C&ED”) would like to draw Money Service Operators’ (“MSOs”) attention to the recent press briefing held by the Ministry of Public Security of the Mainland¹, which reported on the effectiveness of measures taken to combat serious crimes derived from Macao’s “money exchange gangs”². The briefing highlights joint efforts of the Ministry of Public Security and the Public Security Police Force of Macao against cross-boundary money exchange syndicates which operate several criminal networks involved in illegal activities related to money laundering (“ML”) and underground money exchange with parallel trading of Renminbi and other currencies.

The C&ED notes with concern that the syndicated ML activities in neighbouring regions pose heightened threats to the MSO sector given the geographic proximity and closely connected financial activities among the Mainland, Hong Kong and Macao. Cross-boundary remittance service offered by MSOs, particularly inward remittance initiated by transient customers, could be exploited as a conduit for transfer of crime proceeds. In addition, the vulnerabilities of some MSOs are exacerbated by their **acceptance of payment from third parties**³, as criminals would attempt to use third party payments for transactions in order to obscure the identity of the beneficial owner or the source of illicit funds.

Expected standards on key control measures

- Take reasonable steps to learn about your customers and identify the beneficial owner of transactions
- MSOs which accept third party payments should put in place clear and detailed policies and procedures for scrutinizing them
- MSOs which are unable to put in place adequate control measures to mitigate the inherently high risks and meet the relevant regulatory requirements should not accept any third party payment

Money Laundering and Terrorist Financing Risks Associated with Third Party Payments

Due diligence process for assessing third party payments

- ✓ critically evaluate the reasons of and the need for third party payments;
- ✓ take reasonable measures on a risk-sensitive basis to verify the identities of the third parties and ascertain the relationship between the third parties and the customers;
- ✓ obtain approval from senior management for the acceptance of a third party payment;
- ✓ document the findings of enquiries made and corroborative evidence obtained during the due diligence process as well as the approval of a third party payment



MSOs should apply enhanced scrutiny to those third parties which might pose higher risks, and establish the relevant customer's or beneficial owner's source of funds involved in the corresponding transactions

**relatively low risks include immediate family members (e.g. a spouse, parent or child)*

Consumer Protection

香港

洗錢及恐怖分子資金籌集
風險評估報告



2022年7月

HONG KONG

MONEY LAUNDERING
AND TERRORIST FINANCING
RISK ASSESSMENT REPORT



July 2022

Consumer Protection

THE STRAITS TIMES

BUSINESS

MAS suspends use of non-bank and non-card channels for remittances to China



The temporary suspension on the use of non-bank and non-card channels will take effect from Jan 1 to March 31, 2024.



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Source: The Straits Times

“Merchants should provide consumers with accurate and practical information, promote consumer rights and consolidate consumer confidence.” - Mr. Algernon Yau, Secretary for Commerce and Economic Development



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THANK YOU!



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<https://eservices.customs.gov.hk/MSOS/>



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