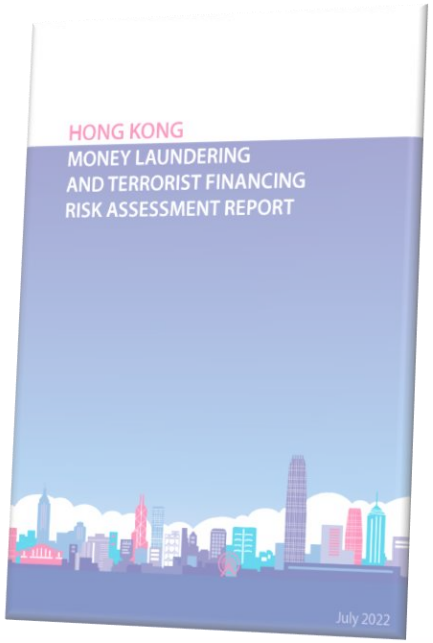
2nd Money Laundering and Terrorist Financing Risk Assessment Report of Hong Kong



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Agenda

- World Bank Tool
- Risk Assessment Report
  - Overall Money Laundering Threat
  - Overall Money Laundering Vulnerability
  - Legal Persons and Arrangements
  - Overall Risk
  - Terrorist Financing and Proliferation Risk
  - Emerging Challenges

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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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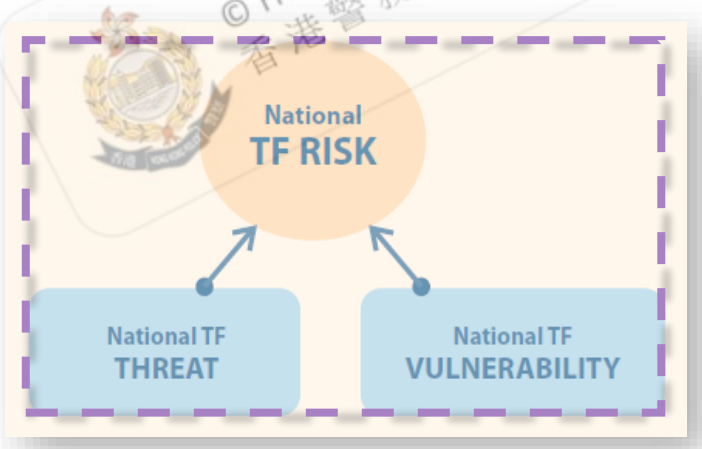
Overview of the World Bank Tool

Module 1 (Overall Threat)

Module 2 (Overall Vulnerability)

Individual Sector's Vulnerability:

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



Module 8 (TF)

(source: 2nd HRA)

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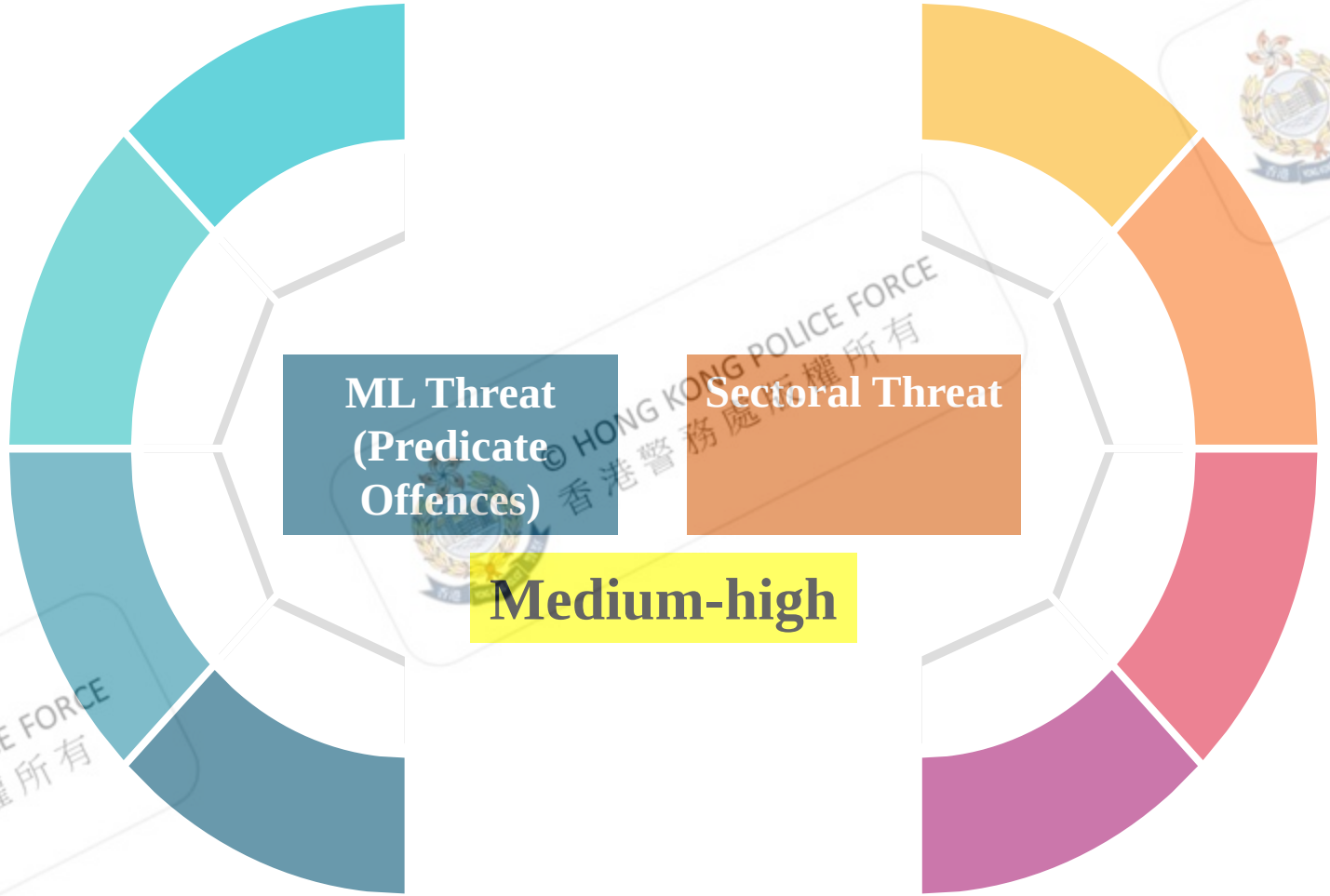
Module 1- Overall ML Threat

- Prevalence
- Scope, Complexity and Sophistication of ML
- Magnitude of Proceeds Generated
- Regional & International Situation



- Size of Sector / Share in Economy
- ML Investigation related figure
- Conviction, Restraint and Confiscation
- Regional & International Situation

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

Predicate Offence	Rating in 1st HRA	Rating in 2nd 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	

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

Predicate Offence	Rating in 1st HRA	Rating in 2nd 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 1st HRA	Rating in 2nd 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

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Overall ML Threat: Key Observations

- ML threat portfolio of HKC remains status quo
- Fraud/Deception continued to be most prevalent followed by drug offences
- Foreign tax and foreign corruption continued to be major global and regional concerns and were assigned an escalated threat rating of medium-high
- Other offences such as vice, loansharking, theft, burglary and robbery are confined to domestic level and bear lower ML threat
- Overall ML threat is assessed as '**Medium-high**', where foreign predicates continue to pose a higher threat than domestic ones

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Overall ML Vulnerability: Summary of Sectoral Vulnerability

Sector	Rating in 1st HRA	Rating in 2nd 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

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Overall Sectoral Risk

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

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Overall Sectoral Risk

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

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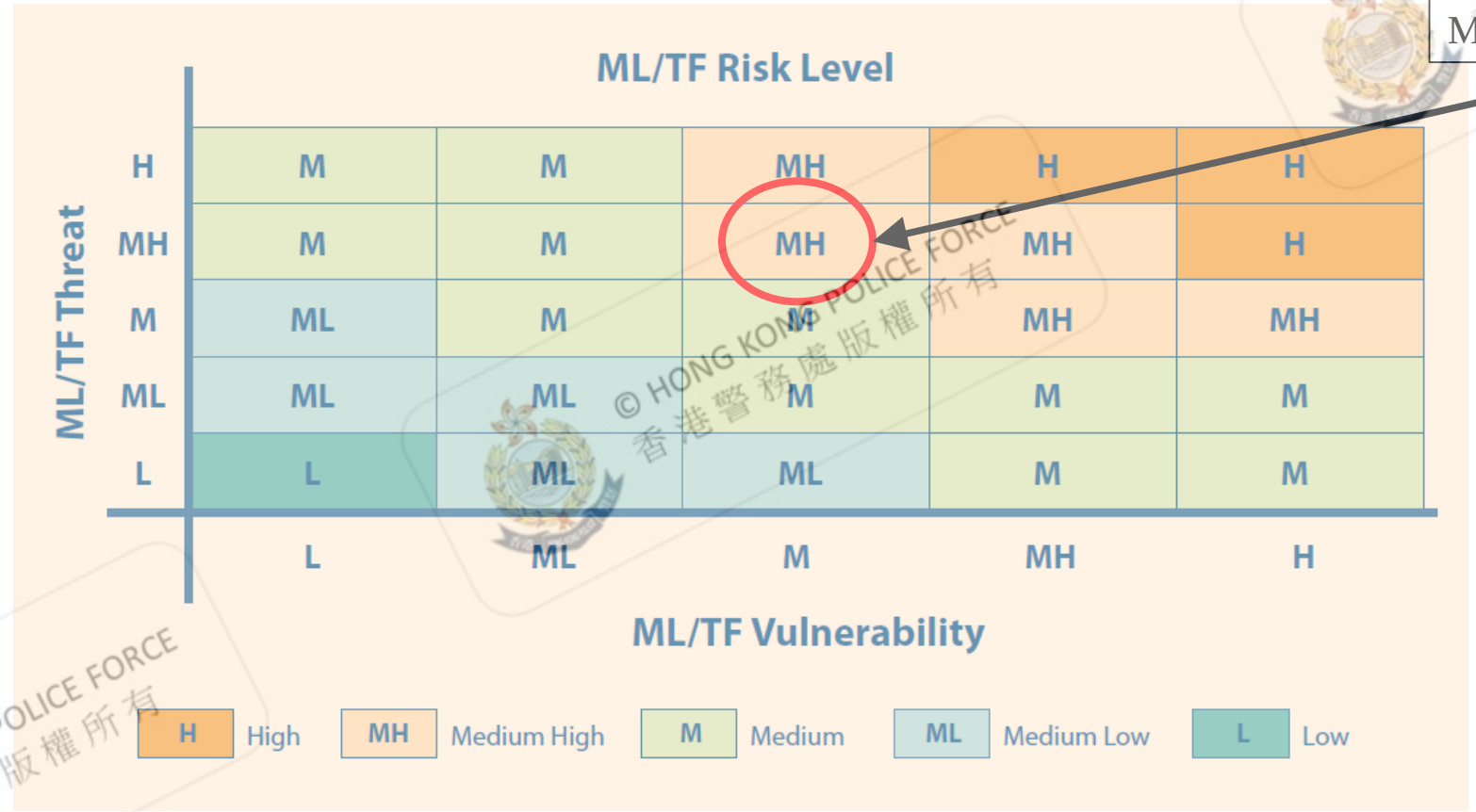
Overall ML Risk of HK

Overall ML Risk of HK: Medium-high



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Terrorist Financing Risk

- **Overall: Medium-Low (1st HRA: Medium-Low)**
- **Terrorism Threat (Medium-Low)**
- **Terrorist Financing Threat (Medium-Low)**
  - No confirmed case of TF
- **Terrorist Financing Vulnerability (Medium-low)**
  - Legislation and policy changes
  - Enhanced domestic cooperation and dedicated resources

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Proliferation Financing

- **Key risk features**
  - Free capital flow + geographical location + Ease of market entry and company formation
  - Gaps observed for smaller entities and more recently regulated sectors
  - Not subject to any sanctions imposed by the United Nations Security Council (UNSC)
  - No evidence of PF-related funds, assets and economic resources
  - Ability to conduct complex investigations

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