



## **Appendix 2 – Examples of good practices**

The SFC identified a number of good practices adopted by some LCs in the course of its inspections. LCs are encouraged to consider whether any of these practices should be adopted in their AML/CFT measures and controls. The examples below are not exhaustive nor should they be treated as the only methods for meeting the legal and regulatory requirements.

### **(A) Institutional risk assessment (IRA)**

1. An LC carried out an IRA which assessed the inherent ML/TF risks that its business lines were exposed to and the internal controls in place for mitigating these risks. Based on the result, a detailed action plan with recommended priorities was drawn up to address residual ML/TF risks. The LC made use of a questionnaire to collect information for the IRA about customer segments, the products and services offered, geographic locations involved as well as delivery and distribution channels. It also analysed policies and procedures for all key aspects of the AML/CFT systems including CDD, sanctions screening as well as suspicious transaction monitoring and reporting. The result of the IRA together with the action plan were communicated to senior management and signed off by both the LC's Head of Compliance and its Chief Executive Officer.

### **(B) Customer risk assessment**

2. An LC's relationship managers calculated individual customers' risk scores based on the firm's scoring system. The scores were subject to review by the firm's compliance team to consider whether there were other circumstances which might heighten the ML/TF risk (eg, where the customers were subjects of enforcement actions or criminal convictions), and the compliance team would then adjust the risk levels upwards where appropriate.

### **(C) Initial and ongoing CDD**

3. An LC had a policy of mandating face-to-face meetings and discussions with prospective customers who might present a higher ML/TF risk during the customer acceptance process.
4. Under a risk-based approach, some LCs acquired due diligence reports from external service providers to obtain additional information to establish the source of wealth and the source of funds for customers who were identified to be PEPs or otherwise assessed to be of higher risk.
5. To ensure the proper performance of annual reviews of high-risk customers, management were required to sign off on the annual CDD review results. Management responsibility for the review and approval of the review results was clearly set out in written policies and procedures which were communicated to all staff.
6. Some LCs performed daily PEP screening and adverse news searches for all of their customers to identify new hits which might increase customers' ML/TF risk levels.



#### **(D) Suspicious transaction monitoring**

7. Some LCs defined comprehensive parameters and thresholds for transaction monitoring in a wide range of situations which might give rise to suspicions. More stringent monitoring thresholds were applied to customers assessed to be of higher ML/TF risk, thereby increasing the frequency and intensity of the reviews of their transactions. The parameters included the monitoring of fund transfers to or from high-risk jurisdictions, large single incoming or outgoing fund transfers, large cumulative incoming or outgoing fund transfers, transaction amounts which are not commensurate with the customer's net worth and frequent fund deposits into and withdrawals from a customer account with no or low trading activity.
8. An LC performed annual reviews of the parameters and thresholds used in its automated transaction monitoring system to ensure its effectiveness in identifying potentially suspicious transactions and reducing false positives. The reviews covered, amongst other things, the percentage of the total number of relevant transactions (eg, cash deposits made by customers) which had triggered alerts. The LC also considered the need to adjust the parameters or thresholds if the percentage was found to be too low or too high.
9. An LC adopted a policy of not accepting any third-party fund deposits. For direct fund deposits, the LC would require customers to produce evidence to show the source of funds when the amount exceeded a certain threshold, and would monitor patterns of deposits by individual customers for any signs of "smurfing"<sup>1</sup>.
10. When evaluating the reasonableness of third-party fund deposits, apart from making enquiries with the customers, one LC would also obtain corroborative evidence (eg, loan agreements) from the customers or other sources to verify their purported relationship with the third parties and the reasons for the third-party deposits. It also provided a comprehensive set of red flags to enable staff to identify and assess whether the third-party fund deposits are potentially suspicious under the circumstances.

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<sup>1</sup> "Smurfing" refers to structuring a large transaction as a series of smaller transactions in amounts below the threshold which would subject them to scrutiny.