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

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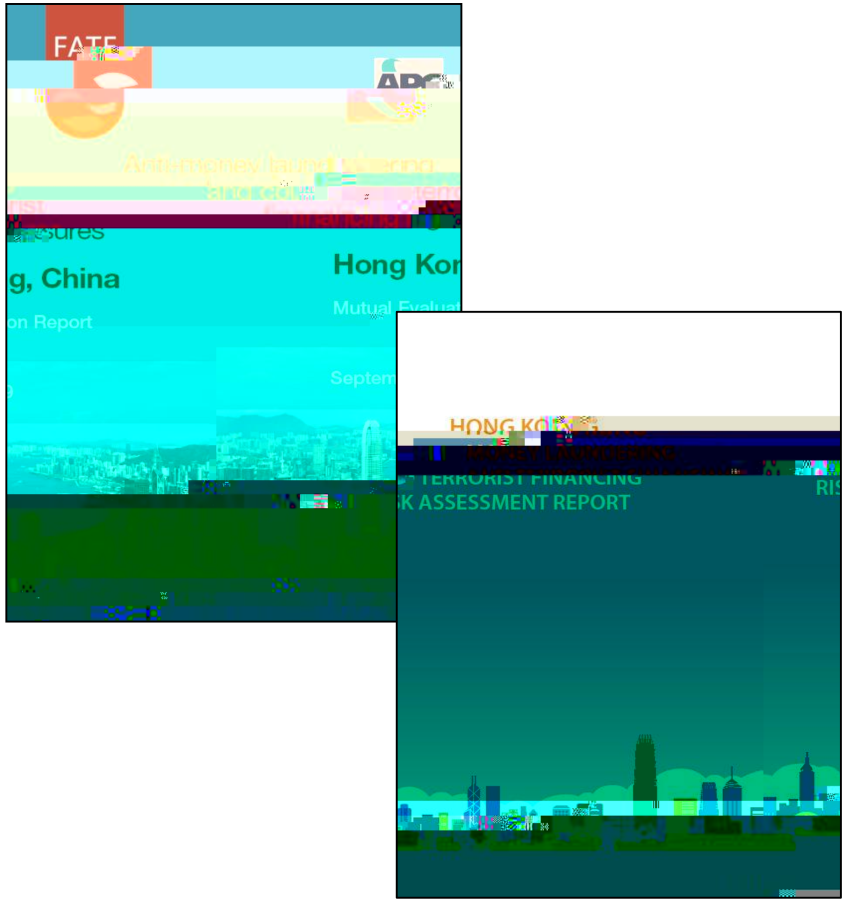
Important Notice

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

World Bank Tool



Adopted by the Steering Committee in 1st HRA

Financial Action Task Force (FATF) 4th Round Mutual

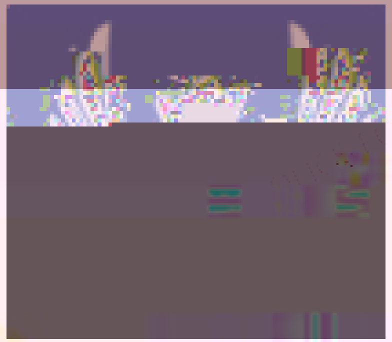
World Bank Tool

Key Concept

Risk = F (Threat, Vulnerability, Consequence*)

Threat

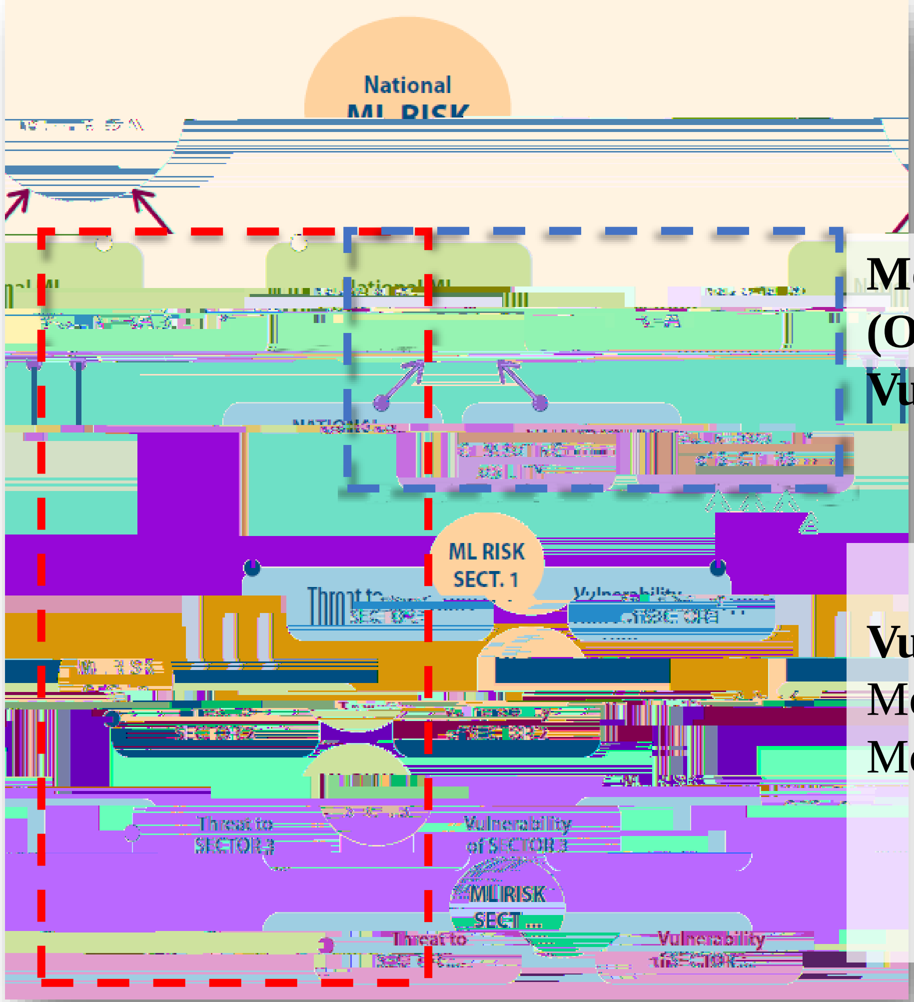
Vulnerability



Consequence*

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

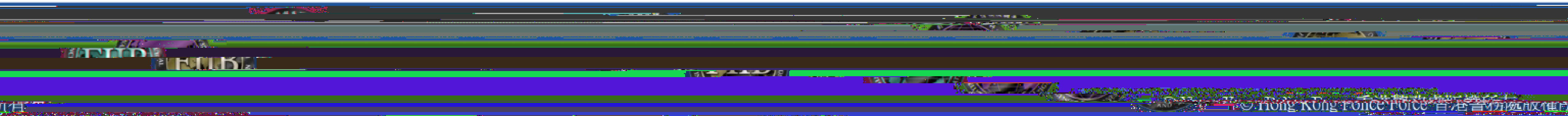
(FATF, National Money Laundering and Terrorist Financing Risk Assessment, Feb 2013)



Module 2
(Overall
Vulnerability)

Vulnerability:
Module 3 – Bank
Module 4 –

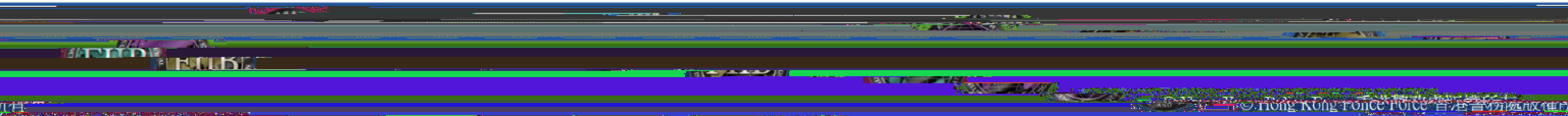
Prevalence



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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ML threat portfolio of HKC remains status quo

Fraud/Deception continued to be most prevalent followed by drug offences

Foreign

Sector	Rating in 1st	

Overall Sectoral Risk

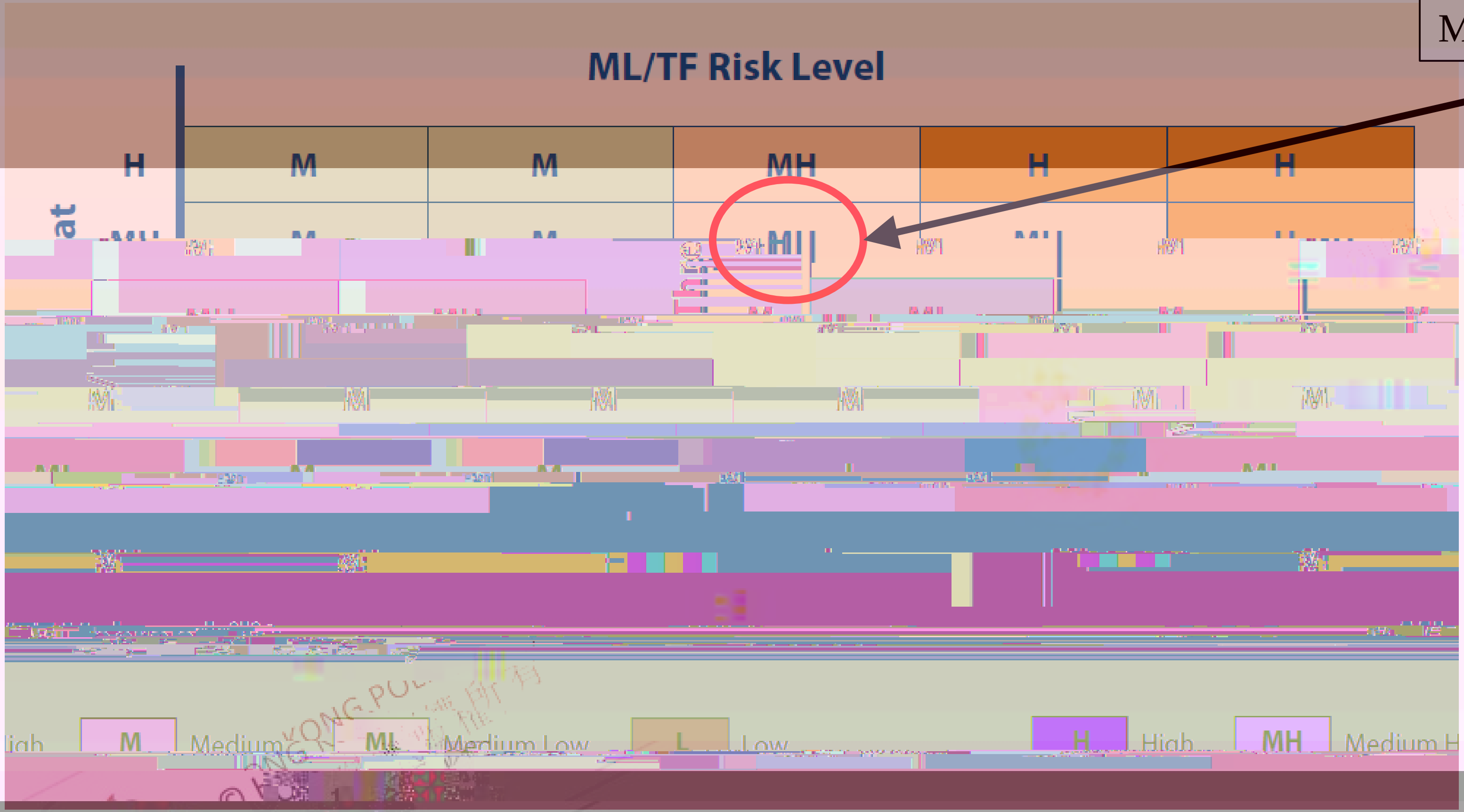
Sector	Sectoral Threat	Sectoral Vulnerability	Sectoral ML Risk
Banking	**High** (1st HRA: High)	**Medium-High** (1st HRA: Medium-High)	**High** (1st HRA: High)
MSO	**Medium-High** (1st HRA: Medium-High)	**Medium-High** (1st HRA: Medium-High)	**Medium-High** (1st HRA: Medium-High)
Securities	**Medium** (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)

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)

Overall ML Risk of HK

Overall ML Risk of HK:
Medium-high



Terrorist Financing Risk

Overall: Medium-Low (1st HRA: Medium

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)