

AML Systems and Controls of Licensed Corporations

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Potential use of the securities sector for money laundering



Potential use of the securities sector for money laundering

Illegal funds laundered through the securities sector may be generated by illegal activities both from:

- Outside the sector: securities transactions may be used by

SFC's AML supervisory framework



AML supervisory framework

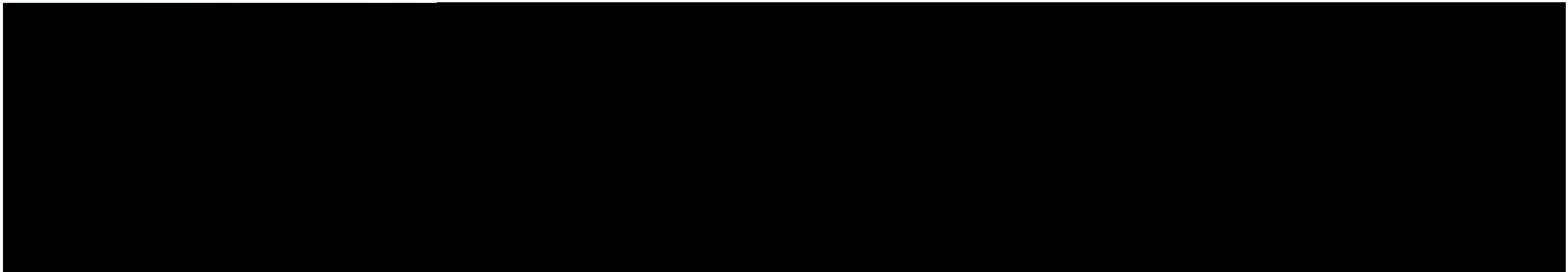
To formulate guidelines to keep pace with the latest international standards and local laws and regulations, and publish the names of designated terrorists, etc.

To raise the awareness of the industry and provide training through seminars and a dedicated website section

To conduct off-site monitoring and on-site inspections

To take action against serious breaches of AML requirements





Customer due diligence (CDD) and ongoing monitoring

Record keeping

Identification and reporting of suspicious transactions

Staff screening, education and training



CDD and ongoing monitoring

- 1) Risk-based assessment
- 2) On-going due diligence

Record keeping

- Records on transactions, both domestic and international
-

Recognition and reporting of suspicious transactions

- To be covered in next section



Staff screening, education and training

- 1) Training policies and procedures in place
- 2)

Identification and reporting of suspicious transactions



Identify suspicious transactions

- The obligation to report under the Drug Trafficking (Recovery of Proceeds) Ordinance, the Organized and Serious Crimes Ordinance or the United Nations (Anti-Terrorism Measures) Ordinance rests with the individual who becomes suspicious of a person, transaction or property
- Appropriate measures should be taken to identify suspicious transactions in order to satisfy the legal obligations of reporting funds or property known or suspected to be proceeds of crime or terrorist property to the Joint Financial Intelligence Unit (JFIU)



Identify suspicious transactions

- The most forgotten element of the CDD process
- A

Identify suspicious transactions

- Provide customised guidance to front line and other relevant staff
- Clear escalation procedures and reporting lines for further investigation
- Designated AML officer to take an active role
- System-generated alerts / exception reports in appropriate circumstances

Identify suspicious transactions

- Third party payments

Only requiring the client to provide certain written

Inadequate suspicious transaction reporting

Number of reports filed with the JFIU

	2006	2007	2008	2009	2010	As at 10/2011
Firms registered with the SFC	121	220	242	372	662	402



Inadequate suspicious transaction reporting

Number of reports filed with the JFIU

- Despite the increase in the number of reports filed in previous years, the number of reports from the securities sector is still relatively low
- The reports were mainly made by a relatively small number of firms



Inadequate suspicious transaction reporting

— The relatively low number of reports may be due to the following:

Failure to generate exception reports on large or irregular transactions

Failure to design suitable exception reports by reference to the suspicious transaction indicators and the specific nature of its business

Failure to perform timely reviews of existing customer records

Failure to adopt enhanced CDD measures for higher risk categories of customers

Failure to adopt clear escalation procedures in respect of suspicious transactions for the sake of investigation and follow-up action

Failure to establish clear internal guidelines for assisting staff in identifying and reporting suspicious transactions



Deficiencies identified during on-site inspections

Deficiencies identified during on-site inspections

Written AML policies and procedures

- Lack of “proper” written policies and procedures tailored to the firm’s own circumstances and AML risk exposure

CDD

- Lack of policies and procedures for identifying types of customers posing a higher risk of money laundering
- Failure to perform timely reviews of existing customer records to re-classify the risk profiles of customers



Deficiencies identified during on-site inspections

Identification and reporting of suspicious transactions

- Failure by AML compliance officers to play an active part in monitoring potentially suspicious transactions and/or document the work done
- Failure to document the assessment of potentially suspicious transactions reported by staff to the AML Compliance Officer
- Lack of policies and procedures to deal with the money-laundering risk of third party payments and to assess whether such arrangements were suspicious transactions

Concluding remarks

- The Anti-Money Laundering and Counter-Terrorist Financing



Thank you