



High-Level Seminar on Anti-Money Laundering

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12 April 2013



Key Functions of Modern Banking

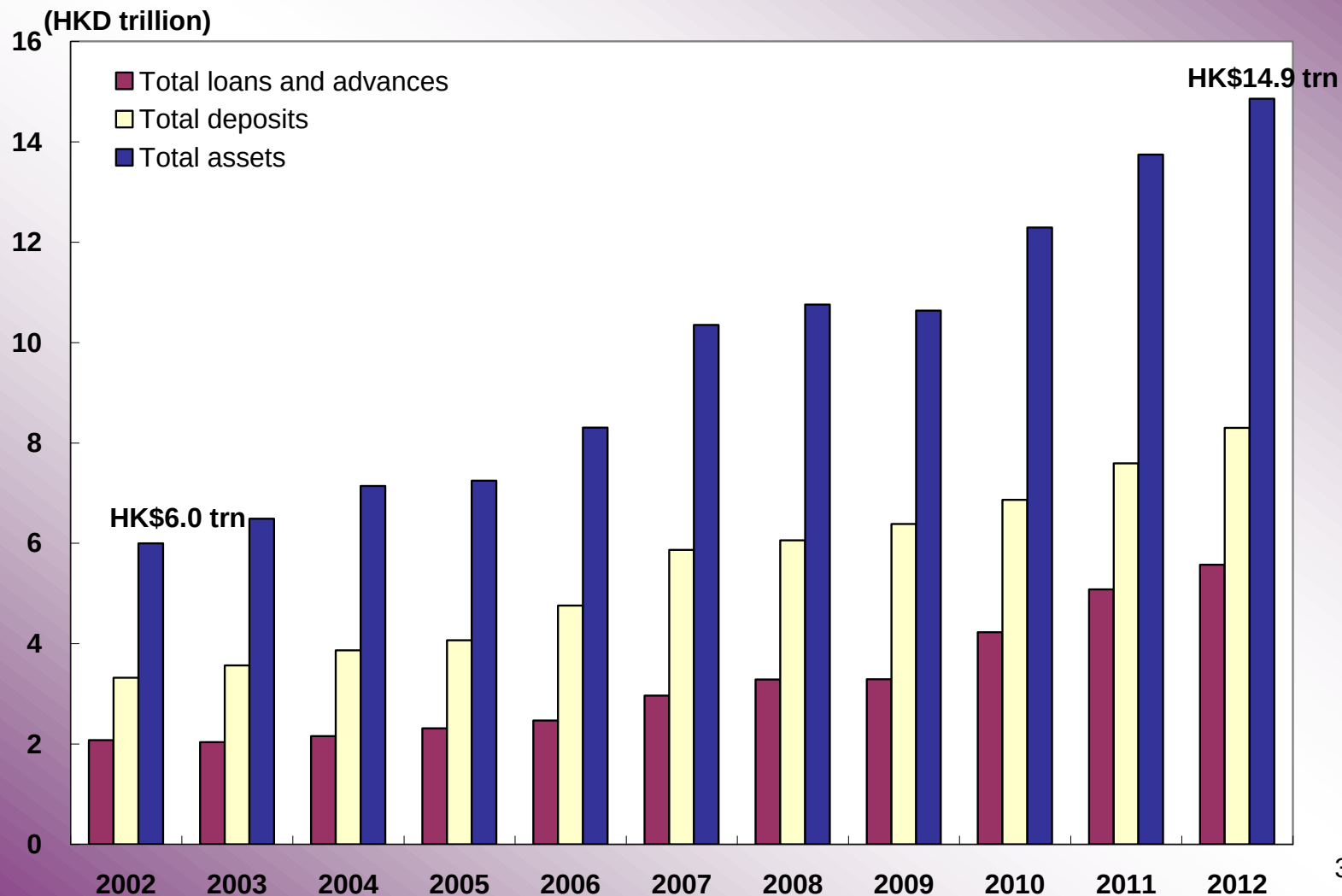
- **Credit Intermediation and Maturity Transformation**
- **Payment**
- **Wealth Management**

Capability needs constant upgrading to protect franchise



Hong Kong as an International Financial Centre (1)

Continued growth of bank deposits, loans and assets

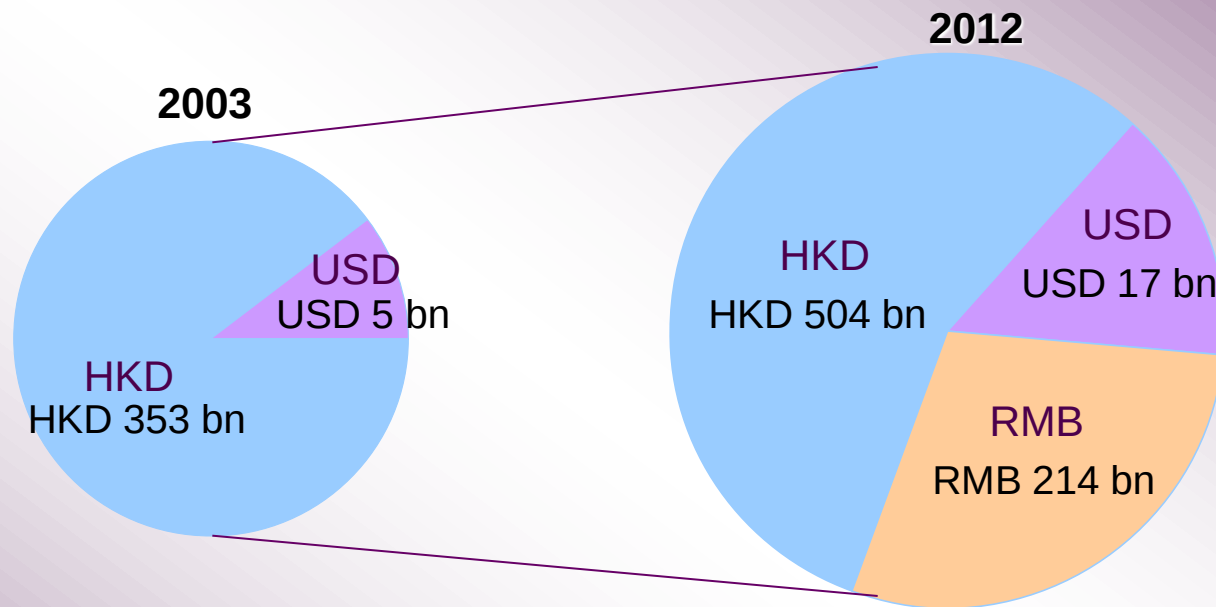




Hong Kong as an International Financial Centre (2)

Growing payment activities in Hong Kong

RTGS system average daily transaction value



RTGS system average daily transaction volume

	HKD	USD	RMB
2003	13,801	4,058	--
2012	23,054	15,744	4,600



Potential Threats to Hong Kong's Future IFC Status

- **Loss in cost competitiveness**
- **Erosion of professional competence and market integrity**
- **Inadequate or inappropriate supervision**
- **Failure in AML work**



A Robust AML Regime is Crucial for Hong Kong as an IFC

- **Compliance with international standards and obligations to combat money laundering**
- **Dire consequences for AML failures, both for the bank concerned and HK as a whole**
- **Allocation of adequate resources by banks, regulators and law enforcement agents**
- **Ownership by all stakeholders, including commitment of the Boards and senior management of Banks, to strong AML culture and controls**



Review of banks' anti-money laundering systems and controls

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HONG KONG MONETARY AUTHORITY
香港金融管理局



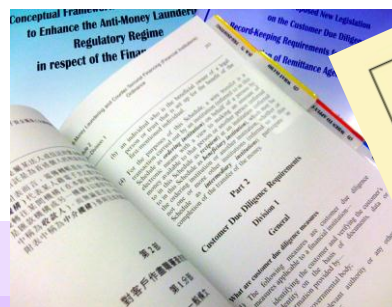
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Regulatory Regime

- Mature Anti-Money Laundering (AML) Regime
 - HKMA Guideline since 1993, STR requirement since 1989/95
- Anti-Money Laundering and Counter-Terrorist Financing Ord. (AMLO) commenced on 1 April 2012
- 14 x AML Examinations after 1 April 2012
 - 5 x In-Depth 'Tier 2'
 - 9 x Thematic examination - Transaction Monitoring (TM) & Suspicious Transaction Reporting (STR)





ML/TF Risk Management

- Senior Management Oversight
- Policies and Procedures
- Management of AML/CFT Function
- Internal Audit and Compliance Reviews
- Correspondent Banking
- Transaction Screening
- Transaction Monitoring
- Suspicious Transaction Reporting



Senior Management Oversight

- Expectation is senior management should take clear responsibility for managing ML risks
 - There should be evidence of active engagement by senior management in the bank's approach to managing ML risks
- AMLO requires a FI to take all reasonable measures to ensure that proper safeguards are taken to prevent a contravention and to mitigate ML and TF risks (s.23)





Senior Management Oversight

- Participation by management at sufficiently high level is needed
- Senior management should receive informative and objective information sufficient to discharge AML obligations
- Must be strategy or evidence of self improvement
 - Coordination across the bank on AML required
 - AML issues must be dealt with on a proactive basis
- Senior Management should ensure AML department has sufficient resources



Policies and Procedures

Must have in place up-to-date P&P that are appropriate to its business. These P&P must be readily accessible, effective and understood by all relevant staff. We expect banks to check whether P&P are applied consistently and effectively





Money Laundering Reporting Officer

Money Laundering Reporting Officers (MLRO) are responsible for oversight of the banks compliance with its AML/CFT obligations and should act as a central reference point for reporting suspicious transactions. For example:

- the MLRO should have sufficient **resources**, **experience**, access and seniority to be effective
- the MLRO should fully understand the rationale of policies they were overseeing
- The MLRO should have sufficient awareness and oversight of the highest risk relationships



Money Laundering Reporting Officer

Our Requirements:

- MLRO should not simply be that of a passive recipient of ad hoc reports of suspicious transactions
- MLRO should play an active role in the identification and reporting of suspicious transactions
- This may also involve regular review of exception reports or large or irregular transaction reports as well as ad hoc reports made by staff



Internal Audit & Compliance Reviews

- Banks approach to reviews of effectiveness of AML systems must be comprehensive
- Scope of review must address Bank's risks
- Findings of recent IA and compliance reviews on AML controls must drive change
 - Reports must be of sufficient quality
 - Should ensure the information is discussed at sufficiently senior level
- Implementation of remedial measures must be consistent





Risks of Correspondent Banking

- The correspondent AI often has no direct relationship with the underlying parties to a transaction
- Banks often have limited information regarding the nature and purpose of the underlying transactions
- Correspondent banking is therefore regarded as high-risk from a ML/TF perspective
- Special due diligence requirements for correspondent banking relationships apply



Transaction Monitoring

- Are the banks transaction monitoring systems adequate, given their business activities and size?
- How does the bank ensure systematic investigations into unusual transactions and potential STRs?





Transaction Monitoring

- Depending on nature and scale of the bank, automated TM systems may be important for effective AML controls
- Must ensure sufficiently detailed system review
- Should have a clear understanding of what the system could deliver / limitations
 - TM can only supplement, not replace human element
- Responsibilities for reviewing, investigating and reporting alerts must be clearly allocated



Suspicious Transaction Reports

- To what extent does the bank understand and carry out, their detection and reporting obligations on the suspected proceeds of crime?



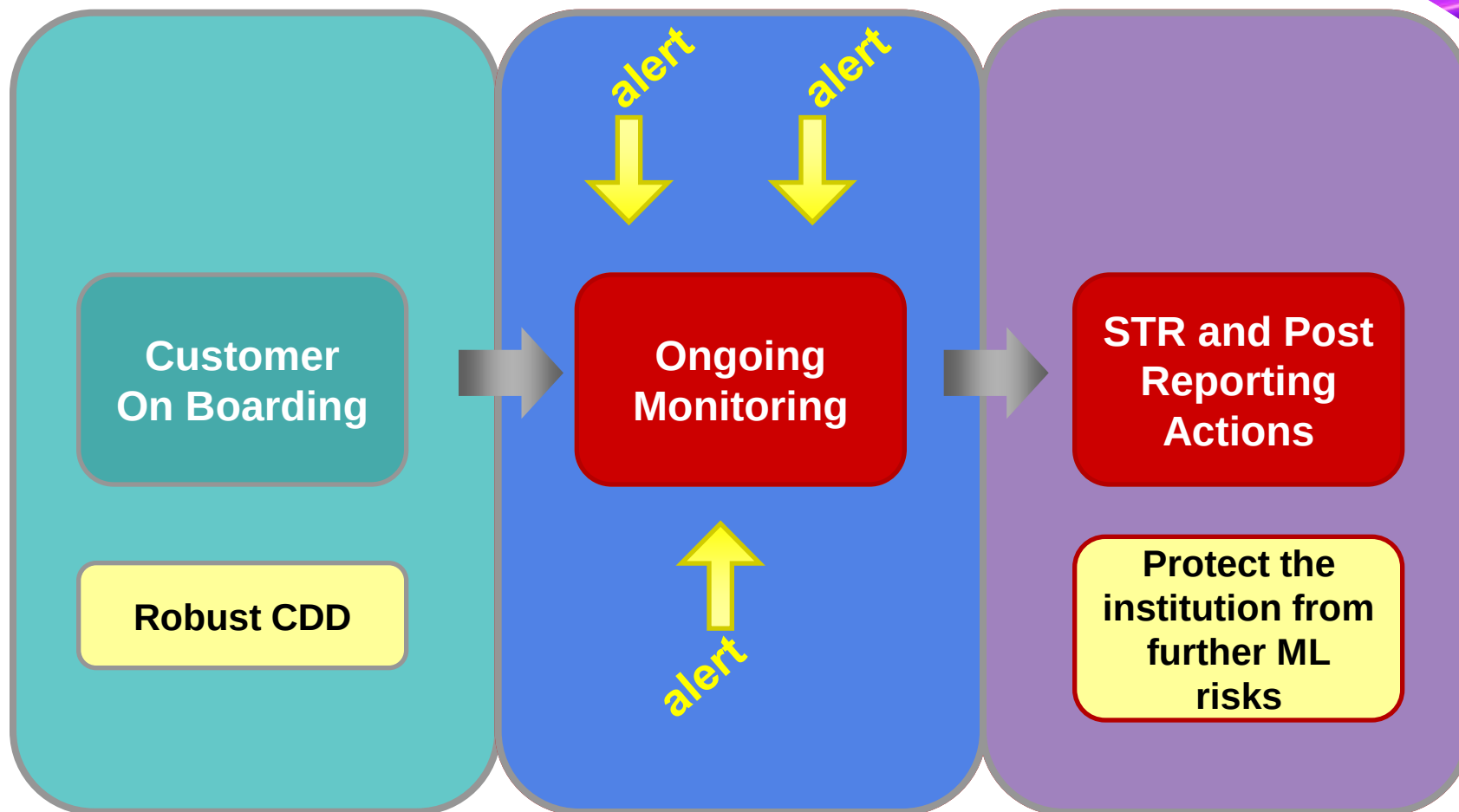


Suspicious Transaction Reports

- STR reporting is not only a legal necessity, rather it is a matter of real concern for banks
- All internal reports must be subject to meaningful analysis to determine whether disclosure is required
- Processes for dealing with repeat internal / external STRs must be sufficiently robust to protect the bank



Opportunity for Intervention





ML/TF Risk Management

- Senior management must demonstrate leadership on AML
- Policy and procedures must reflect that leadership
- AML function needs experienced people and adequate resources
- AML responsibility lies with all staff but CO/MLRO play a central role
- Effectiveness of controls must be regularly reviewed
- ML risks should be understood and mitigated
- Banks should demonstrate willingness to exit where there are unacceptable ML risks



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Supervisory Response of the HKMA

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Well-focused Supervision



- Our programme of in-depth AML examinations will continue and at the same time be strengthened
- Thematic AML examinations will remain a key part of our supervisory approach
- A thematic review of the private banking sector will begin in the coming weeks
- AML examinations will also test banks' controls and vigilance to combat the risks of tax evasion

What to expect?



- We intend to be more proactive, adopting a more forward looking approach
- We will review the frequency, intensity and scope of our on-site and off-site examinations
- We are significantly strengthening the resources dedicated to AML supervision and are reviewing our follow-up processes
- We will be prepared to take early intervention to tackle root cause rather than waiting for risks to accumulate

Key Questions



- Is the tone from the top clear in your bank?
- Have you discharged your responsibility to ensure that the AML function is equipped with sufficient resources to perform effectively?
- Are measures in place to ensure that your AML programme is systematic?
- Is your AML programme subject to regular review?
- Have you taken all reasonable measures to mitigate ML risks?

Hong Kong must have a robust AML regime



- International standards and obligations on AML must be met
- Effective AML measures in the banking sector are essential as it acts as a gatekeeper
- Resources afforded to AML work must be adequate
- The obligation to implement the AML rules fully and in good faith must always come before business interests
- HKMA will be ready to take tougher actions, including the use of our powers under AMLO. Also very important for banks to raise senior management attention in AML matters



~ Thank You ~