Sanctions Screening - Feedback from Recent Thematic Reviews

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Disclaimer

- This presentation provides guidance to authorized institutions ("AIs") on issues relating to the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance ("AMLO") and the AML Guideline. The presentation is provided for training purposes and does not form part of the formal legal and regulatory requirements of the HKMA. It should not be substituted for seeking detailed advice on any specific case from an AI's own professional adviser.

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- The cases or examples provided in this presentation might be prepared on the basis of synthesis of multiple cases, and certain relevant details might have been omitted.

Sanctions Overview

- Increasingly complex and dynamic sanction programs
- Regulations are rapidly evolving
- Significant risks for non-compliance
- Controls need to match developments

Sanction Compliance

- Adequate Risk Assessment
- Good Quality of Data
- Integrity of Source Lists
- Effective sanctions screening system
  - Evaluation of parameters and thresholds on an on-going basis
  - Adequate and effective re-assurance processes

Thematic Review by HKMA

- **Thematic review on a number of AIs' sanction screening systems in June 2017**
- **Engaged a leading global service provider to assist in conducting review**
- **Purpose of the review:**
  - **Assess *effectiveness* and *efficiency* of AI's screening system**
  - **Where required, work with AIs to ensure appropriate remedial plans implemented to address material deficiencies**

How the test was conducted

- AIs selected based on risks, volume of payments processed etc.
- Workshop, guidance provided to participating banks
- Scope: customer and transaction screening systems
- Individual feedback provided to AIs based on testing results
- Highlighting observations identified from the review

Observations

- Most AIs' performances when screening against un-manipulated data were within expectations
- Results less consistent on manipulated data; a few AIs performed below expectations
- AIs must be able to demonstrate an adequate understanding of their systems
- System settings varied between AIs

Observations (Cont'd)

- Most AIs monitoring / testing effectiveness, but less on efficiency
- Effectiveness issues
  - Low matching capability
  - Weaknesses in matching algorithms
- Efficiency issues
  - High volumes of returns → system is inefficient.
- Some AIs may be subject to re-test

Way Forward

- Industry wide guidance to be issued subsequently
- Thematic review to be extended to cover more AIs
- Improve understanding of risk and system operation
- Expectation is ongoing enhancement: screening systems should be subject to regular reviews and kept up-to-date

Thank You