

# ANTI-MONEY LAUNDERING & COUNTER TERRORIST FINANCING

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ADS HK AML Training 2014

# Introduction

- Definition of Money Laundering
- Regulations & Legal Requirements
- Money Laundering Cases in Hong Kong
- Prevention of Money Laundering Guidelines
- Client Due Diligence & Know Your Client
- Report Suspicious Money Laundering Activities
- Suspicious Money Laundering Activities

# Money Laundering

## Definition of Money Laundering

- Process by which illegal funds and assets are converted into legitimate funds and assets.
- The funds come from drugs trafficking, tax evasion, smuggling, theft terrorism, corruption and other illegal activities.
- By some estimates, over \$1.5 trillion of illegal funds are laundered each year over the world and \$200 billion is laundered in Asia Pacific Region.

# Definition of Money Laundering

# Money Laundering

Each country's anti-money laundering laws apply to laundering of proceeds from specified crimes. The list of predicate crimes varies from country to country. In Hong Kong, such predicate crimes are also referred to as "indictable offences".

# Money Laundering

Under Hong Kong law, indictable offences include:

Violent crimes

Drugs trafficking

Extortion and theft

Hijacking and kidnapping

Bribery

Making dangerous weapons

Tax evasion

Counterfeiting and forgery

Unlawful exports/imports

Stock market manipulation

*\*\*Also includes any indictable offences conduct occurring outside Hong Kong*

# Money Laundering

The Money Laundering process is typically segmented into three stages:

1. Placement
2. Layering
3. Integration

# Placement

- Illegal funds or assets are first brought into the financial system.
- When illegal funds are placed in the financial system, they become more liquid.
- Launderers place illegal funds using a variety of techniques such as deposit of cash into bank accounts and use of cash to purchase assets.



# Layering

- Money Launderers use many different techniques to layer the funds including use of multiple banks and accounts, use of professionals who act as intermediaries and use of corporations and trusts.
- The fund may be shuttled through a web of many accounts, companies and countries in order to disguise their origins.

# Integration

- Once the funds are layered and distanced from their origins, they are made available to criminals to use and control as apparently legitimate funds.
- At this stage, the laundered funds are made available for investment in legitimate or illegitimate businesses, savings or expenditure.

# Check Point 1

- Match the names of the stages and the definitions

1. At this stage, funds are utilized by criminals to invest in illegal or legal activities or spend as they wish.

2. At this stage, illegal funds are deposited into the financial system or assets are purchased.

3. At this stage, funds are constantly being moved or re-characterized to conceal their origins.

# Check Point 1 - Answer

- Match the names of the stages and the definitions

1. At this stage, funds are utilized by criminals to invest in illegal or legal activities or spend as they wish.

Integration

2. At this stage, illegal funds are deposited into the financial system or assets are purchased.

Placement

3. At this stage, funds are constantly being moved or re-characterized to conceal their origins.

Layering

# Regulations & Legal Requirements

# Hong Kong Regulatory Structure

The Hong Kong Monetary Authority (HKMA) is Hong Kong's central banking institution. Among other matters, HKMA supervises the business of banking and deposit-taking in Hong Kong.

The Securities and Futures Commission (SFC) is an independent non-governmental statutory body outside the civil service, responsible for regulating the securities and futures markets in Hong Kong.



Hong Kong  
Monetary Authority



Securities and  
Futures  
Commission

# Regulations

Anti-Money Laundering and Counter-Terrorist Financing Ordinance (CAP. 615) under Hong Kong Legislation.

The SFC AML and CTF guideline was effective in Hong Kong since 1 April 2012.

Guideline on Anti-Money Laundering and Counter-Terrorist Financing of the Customs and Excise Department.

# Regulations Guidelines

The Hong Kong laws and guidelines also take into account the following non-binding international compliance initiatives.

- (1) The Financial Action Task Force Recommendations (FATF), which set forth recommended international best practices in anti-money laundering and counter-terrorist financing.
- (2) The Basel Committee Statement of Principles, which provide guidance to banks on anti-money laundering measures.



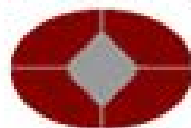
# Regulations

The FATF Recommendations were created by the Financial Action Task Force (FATF), an inter-government body dedicated to countering money laundering and terrorist financing by recommending best practices and monitoring countries in their fight against the criminal use of the financial system.



# Regulations

The Basel Committee Principles were created by the Basel Committee, an international organization which fosters international monetary and financial cooperation and serves as a bank for central banks.



BANK FOR INTERNATIONAL SETTLEMENTS

# Legal Requirements

| Activity         | Offence   | Penalty  |
|------------------|---|--|
| Money Laundering | Engaging in or facilitating money laundering            | Fine of HK\$5,000,000 and/or imprisonment for 14 years |
| Non Disclosure   | Failing to disclose suspicious money laundering matters | Fine of HK\$50,000 and/or imprisonment for 3 months    |
| Tipping Off      | Tipping off potential or actual money launderers        | Fine of HK\$500,000 and/or imprisonment for 3 years    |

# Check Point 2

Select the statement that most appropriately describes the regulation of anti-money laundering and counter-terrorist financing in Hong Kong.

1. SFC and HKMA regulate money laundering and counter-terrorist financing through guidelines that principally obtain legitimacy from international best practices as incorporated in the FATF Recommendations.
2. SFC and HKMA regulate anti-money laundering and counter-terrorist financing exclusively by reference to Hong Kong law.
3. SFC and HKMA regulate anti-money laundering and counter-terrorist financing by guidelines which implement Hong Kong law and incorporate international best practice recommendations.

# Check Point 2 - Answer

Select the statement that most appropriately describes the regulation of anti-money laundering and counter-terrorist financing in Hong Kong.

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3. SFC and HKMA regulate anti-money laundering and counter-terrorist financing by guidelines which implement Hong Kong law and incorporate international best practice recommendations.

# Money Laundering Cases in Hong Kong

## Hong Kong banks investigated by HKMA over money laundering breaches (June 17, 2014)

The Hong Kong Monetary Authority is investigating several financial institutions, including at least one bank, for possible criminal breaches of the city's anti-money-laundering laws. The investigations are the first to be made since the strict Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, better known as AMLO, was enacted more than two years ago.

The authority confirmed that investigations were in progress, but declined to give any details on the sums involved, the names of the institutions or the alleged breaches of the law.

"The enactment of AMLO ... provided Hong Kong regulators with new supervisory powers, including appropriate sanctions, such as the power to take disciplinary action when the legal requirements to conduct due diligence on clients were not met," a spokeswoman told the *South China Morning Post*.

Investigations are only launched, however, if routine regulatory audits of anti-money-laundering controls reveal potential breaches.

Stewart McGlynn, acting head of the authority's anti-money-laundering and financial crime risk division, said the body would "consider using the full range of powers afforded to it under both the Banking Ordinance and the AMLO, including disciplinary and prosecution action" in the event that breaches of the law were discovered.

## Hong Kong banks investigated by HKMA over money laundering breaches (June 17, 2014)

Financiers found guilty could face fines or prison, while banks committing serious and systemic violations may have their licenses revoked, said Simon Deane, a partner of Deacons, a Hong Kong law firm.

"AMLO gives Hong Kong authorities more teeth. They now have this power and they are showing the market they are using this power," Deane said.

Financial institutions' obligations under the ordinance include assessing money laundering risks associated with a client who is a prominent Chinese official, who is defined as a domestic "politically exposed person", said the authority spokeswoman.

The anti-money-laundering law is the first Hong Kong legislation to impose customer due diligence requirements on banks and financial institutions.

One bank in Hong Kong, which "is not a big bank", has been questioned by the authority about its money laundering controls, a source, who did not wish to be identified, told the *Post*.

Hong Kong is one of the world's most active financial centres and among its busiest foreign exchange trading hubs. The average number of cross-border financial transactions topped 25,000 a day last year.

The anti-money-laundering and financial crime risk division currently headed by McGlynn will have 31 people when fully staffed - up from 22 last year.

Banks reported 12,931 suspicious transactions to regulators in the first five months of this year.



# Carson Yeung jailed for six years after tip-off triggered money-laundering probe

Speaking outside District Court, Superintendent Gloria Yu said the letter was received in 2008 - some time after Yeung acquired a 29.9 per cent stake in the club but before he took full control of it in 2009.

"We did not start the investigation because Mr Yeung bought the football club," Yu said. "Whether or not the complainant made the report because Mr Yeung bought the shares, you have to ask the complainant."

A source close to the defence team said there would "almost certainly" be an appeal.

Yeung was convicted on Monday of five charges of laundering HK\$721 million using five bank accounts at Wing Lung Bank and HSBC between 2001 and 2007. He has 28 days to file an appeal.

The court heard earlier that from 2001, various parties made deposits into the accounts, many for no apparent reason. Some were made by securities firms and a Macau casino, while others were made by unknown parties. Some 437 deposits, totaling more than HK\$97 million, were made in cash.

"I find that without his considerable skill in share dealings and connections to the Macau casinos, the laundering could not have gone on for such a long time and on such a large scale," Judge Douglas Yau Tak-hong said in sentencing Yeung. "Maintaining the integrity of the banking system is of paramount importance if Hong Kong is to remain an international finance centre."

The judge said the six-year prison term was meant to serve as a deterrent and signal to those who exploited the system that "the law will come down on them with full force".

The judge also remarked that deposits made by apparently innocent individuals into Yeung's accounts were "all somewhat connected" to Lin Cheuk-fung and Cheung Chi-tai, who were said by Yeung to be two bosses of casino junket company Neptune Group. The court heard that Cheung was reported by the media to be a local triad gang leader.

Yu said police would examine the judge's remarks carefully to decide whether there was a need to investigate the "possibilities" he had raised.

The prosecution will apply on April 3 to confiscate some of Yeung's assets, about HK\$400 million of which have been frozen by a court injunction.

Yeung took over Birmingham City for HK\$731 million in 2009 and was arrested in June 2011. He quit all his posts in the club's holding company last month.

# Public housing tenant guilty of laundering HK\$6.7b in four years

A public housing tenant was yesterday convicted in the Court of First Instance of laundering HK\$6.7 billion through nine Hong Kong banks in four years.

The court heard yesterday that police became aware of 61-year-old Lam Mei-ling's money-laundering scheme when investigating a fraud complaint filed in 2008 by a citizen of the Netherlands, involving HK\$300,000.

The case was shelved on legal advice when the complainant died later that year, but prosecutor Sabrina See said preliminary investigations had pointed to two bank accounts that later led police to uncover an extensive money-laundering scheme.

Lam was found guilty of dealing with property known or believed to represent the proceeds of an indictable offence. She faces a jail term of up to 14 years and a fine of up to HK\$5 million when she returns for sentencing today.

After migrating to Hong Kong from the mainland in 1989, Lam on average laundered HK\$155 million every month between 2002 and 2005.

Mr Justice Andrew Chan Hing-wai said he was unconvinced by Lam's account that she had received only occasional monthly payments of HK\$4,500 for laundering the money.

# Public housing tenant guilty of laundering HK\$6.7b in four years

A 24-year-old mainlander living in a partitioned flat in Sham Shui Po was arrested yesterday for laundering HK\$567 million between 2010 and last year.

The self-declared company director stayed in Hong Kong on a two-way permit and allegedly laundered the money through cash deposits and bank transfers, police said.

There was a firm registered under his name, but it was a shell company that had no actual business in operation, they said.

Officers found no signs of a functioning business when they visited its office in Central.

# Public housing tenant guilty of laundering HK\$6.7b in four years

"Most of the funds [deposited] were of unknown origins and show signs of money laundering," detective chief inspector Lam Cheuk-ho, of the Kowloon East regional crime unit, said.

Lam said the suspect might have acted as a front for local or cross-border clients, possibly involving criminal syndicates, between mid-2010 and mid-2012.

Police believed he acted alone and handled all the transactions himself, as officers had found no one else involved in laundering the money. The police first detected suspicious funds flowing into the shell company when officers were investigating a local couple who laundered about HK\$130 million for mainland clients betting at gambling dens they operated in Fortress Hill.

# Public housing tenant guilty of laundering HK\$6.7b in four years

In February, the man, 43, was jailed for 18 months while the woman, 39, received a 15-month suspended sentence.

Similar methods of money laundering were employed in both cases, using cash deposits and bank transfers, police said.

In January, another mainlander was sentenced to 10 1/2 years in jail over the city's largest-ever money laundering case.

Luo Juncheng, 22, laundered a record HK\$13.1 billion over eight months between September 2009 and April 2010 through a shell company established in Hong Kong in July 2009.

# Public housing tenant guilty of laundering HK\$6.7b in four years

In handing down the sentence, the judge urged the government to review whether existing laws and punishments were adequate to deter money laundering activities, in view of the growing scale of such crimes in recent years.

The city froze HK\$1.39 billion in crime proceeds under court orders last year, the largest amount in three years, and 166 people were convicted of money laundering, the Department of Justice said in August.

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# Public housing tenant guilty of laundering HK\$6.7b in four years

See said Lam was arrested in 2008 after two of her bank accounts were subject to investigation over the fraud complaint. The police's attention had been drawn to suspicious activities over at least 12 bank accounts in Lam's name, and after four years of further inquiries, they found sufficient evidence to press charges.

The court earlier heard that Lam made more than 17,000 bank transfers over bank counters to funnel the funds to other Hong Kong accounts.

# Public housing tenant guilty of laundering HK\$6.7b in four years

Each time, she would receive a phone call from a mainland woman, whom Lam knew from her home village in Dongguan , telling her money had been deposited into Lam's account and to which accounts she should divert the money. The deposits were made by cheque.

The accounts were shut down by the banks in 2005.

Lam laundered amounts ranging from HK\$2 billion through Chiyu Bank to HK\$124 million through National Commercial Bank. The larger sums include HK\$1.8 billion transferred through Hua Chiao Commercial Bank and HK\$1.6 billion through Hang Seng Bank. The other banks were Dao Heng Bank, First Commercial Bank, Hua Nan Bank, Standard Chartered and Bank of East Asia.

# Prevention of Money Laundering Guidelines

# Prevention of ML/CTF Guidelines

ADS HK is fully committed to comply with all applicable laws and regulations in relation to the prevention of money laundering and counter-terrorist financing. ADS HK policy on prevention of AL/CFT incorporates measures to combat money-laundering and terrorist financing activities and to generate a level of awareness of the obligations and responsibilities of employees on the prevention of money laundering and counter-terrorist financing.

# Prevention of ML/CTF Guidelines

ADS HK establishes and maintains appropriate procedures for:

- Identifying clients and their beneficial owners
- Verifying their identities
- Identifying suspicious transactions
- Performing database screening
- Monitoring business relationships continuously
- Reporting knowledge or suspicion of money laundering
- Keeping adequate records
- Providing appropriate AML training

# Prevention of ML/CTF Guidelines

## Responsibilities:

### Senior Management

Appoint a director/senior manager as Compliance Officer to establish and maintain the AML/CFT system.

Appoint a senior member as Money Laundering Reporting Officer (MLRO) for suspicious transaction reporting.

# Prevention of ML/CTF Guidelines

## Responsibilities:

### Compliance Officer

Send the updated news/circulars/regulatory requirement to employees.

Review policies and procedures and make necessary updates according to the latest regulations and ensure the updated policies and procedures have been delivered to employees.

Provide training on prevention of ML/CFT to employees.

# Prevention of ML/CTF Guidelines

## Responsibilities:

### Money Laundering Reporting Officer

Review, analyze and conduct further investigation on suspicious transactions reported by employees

Report any suspicious transactions to Joint Financial Intelligence (JFIU)

Provide guidance on how to avoid “tipping off” where a disclosure is made to the JFIU.

Act as a point of contact with the JFIU.



# Prevention of ML/CTF Guidelines

## Responsibilities:

### Other employees

Comply the prevention of ML/CTF policy to ensure appropriate measures are implemented in practice to prevent ML/CTF including reporting suspicious transactions to MLRO.

Comply relevant legislation and guidelines

Cooperate with the CO and MLRO for them to liaise with regulators /authorities including timely disclosure of information.

# Prevention of ML/CTF Guidelines

ADS HK should **identify and verify the client** and any **beneficial owners** before establishing any business relationship with the client.

Client Due Diligence is the standard identification procedures.

# Prevention of ML/CTF Guidelines

## Client Identity

ADS HK should obtain relevant client's identification documents (e.g. HKID/Passport) for verification.

ADS HK should also understand the client's financial situation, investment experience and investment objectives.

# Prevention of ML/CTF Guidelines

## Beneficial Owner

Beneficial owner means any individual who ultimately owns or controls the person.

Wherever a client is acting on behalf of another person, that other person will also be a beneficial owner.

For the purposes of a corporate or partnership client means an individual who:

- owns, is entitled to or controls, directly or indirectly, 10% or more of the issued share capital or a 10% or greater share of the capital or profits of a client; or
- is, directly or indirectly entitled to exercise or control the exercise of 10% or more of the voting rights, at general meeting in the case of a corporate client, or in a partnership client; or
- exercises ultimate control over the management of a client.

# Prevention of ML/CTF Guidelines

The verification of the client's identity and that of any beneficial owners should be concluded within a reasonable timeframe and in any case:

- such verification should be completed no later than 30 working days after the establishment of business relations;
- business relations with the client should be suspended and the Company should refrain from carrying out further transactions if such verification remains uncompleted 30 working days after the establishment of business relations; and
- business relations with the client should be terminated if such verification remains uncompleted 120 working days after the establishment of business relations.

# Client Due Diligence & Know Your Client

# SFC Core Principles

## Know Your Client

The first principle, Know Your Client, requires financial institutions to obtain satisfactory evidence of their clients' identities and implement processes to verify such identities.

## Comply with Laws

The second principle, Comply with Laws, requires financial institutions to conduct business in compliance with the highest ethical standards and in adherence to all laws and regulations.

# SFC Core Principles

## Cooperate with Regulators

The third principle, Cooperate with Regulators, requires financial institutions to cooperate fully with the regulators, including reporting suspicious activities and maintaining an internal liaison for this purpose.

## Implement Policies, Procedures and Training

The fourth principle, Implement Policies, Procedures and Training, requires financial institutions to adopt appropriate policies and procedures, promote these policies and procedures through training and awareness building and keep records of all relevant transactions.



# SFC Core Principles

## Know Your Client

Profiles of customers should be developed to identify higher-and lower-risk clients.

Factors that may be taken in the profile:

- Type of person – Customer Risk
- County of Origin – Country Risk
- Background
- Business
- Ownership Structure

# Know Your Client

## Customers Risk

(a) customers who **are employment-based** or with a regular **source of income** from a known legitimate source which supports the activity being undertaken; and

(b) the reputation of the customer, e.g. a well-known, reputable private company, with a long history that is well documented by independent sources, including information regarding its ownership and control.

# Know Your Client

## Country Risk

- (a) those that have been identified by the **FATF** as jurisdictions with strategic AML/CFT deficiencies;
- (b) countries subject to **sanctions**, embargos or similar measures issued by, for example, the **United Nations**;
- (c) countries which are vulnerable to **corruption**; and
- (d) those countries that are believed to have strong links to **terrorist activities**.

# Know Your Client

- Client Due Diligence
- Identify the direct customer
- Verify the direct client's identity using reliable, independent source
- data and documents
- Identify beneficial ownership and control
- Verify the identify of the beneficial owner
- Conduct ongoing due diligence scrutiny of the transactions and
- accounts

ADS HK → Account Opening Form

# Know Your Client

## Compliance

Maintain or license a database of various lists of terrorists published by Government of Hong Kong (and other relevant authorities in key jurisdictions).

ADS HK → World Check (provided by Thompson Reuters)

Check existing customers, new applicants and suspicious remittances against these databases.

ADS HK → Annual account check (on every anniversary day)

Establish procedures for the prompt reporting of suspicious activities to a compliance or officer.

ADS HK → Surveillance report (investigate in depth)

# Client Due Diligence

## General

Identify client and verify client's identity using reliable and independent source such as World Check provided by Thomson Reuters.

If there is a beneficial owner in relation to the client, identify and take reasonable measures to verify the beneficial owner's identity.

# Client Due Diligence

## Standard Procedures for individual clients:

ADS HK should obtain satisfactory evidence of client's identity before opening an account for a client.

The following documents and information should be obtained for all individual clients:

- full name
- permanent address and residential address if different (can be verified against recent proof of address)
- date of birth
- nationality (not required for HKID card holder)
- identity document type and number
- occupation
- beneficial ownership and control

# Client Due Diligence

If a client has not been physically present for identification purposes, ADS HK must carry out at least one of the following measures:

- ensures that a HKD10,000 cheque issued by a licensed bank in Hong Kong and in the client's name is payable to ADS HK.
- further verifying the customer's identity on the basis of documents, data or information referred to in section 2(1)(a) of Schedule 2 of the AMLO but not previously used for the purposes of verification of the client's identity under that section.
- taking supplementary measures to verify all the information provided by the client.
- ensuring that the first payment made in relation to the client's account is carried out through an account opened in the client's name with an authorized institution or a licensed bank in a FATF jurisdiction.



# Client Due Diligence

Standard procedures for corporate clients:

In respect of corporate clients, it is important to identify the **directors**, the **authorized signers** and its **nature of business**.

# Client Due Diligence

Unless a corporate client is eligible for simplified customer due diligence (SDD) measures ADS HK must obtain copies of the following documents and information:

- the full name and address of the client
- the country of incorporation of the client
- certificate of incorporation or other constitutive documents (such as memorandum and articles of association or incorporation)
- client's license certificates from the local regulatory body (if any)
- an authorized signatories list
- Business Registration Certificate or equivalent
- Board of Directors resolution authorizing the transaction
- a list of the directors of the client and copies of their identification documents
- identification information for all beneficial owners
- ownership structure
- company search report (it will be done by Compliance)

# Simplified Client Due Diligence

The company is permitted to apply simplified due diligence procedures where the company is satisfied that the risk of money laundering and terrorist financing is low.

When SDD is applicable, ADS HK does not need to identify or verify the identity of any beneficial owners.

# Simplified Client Due Diligence

SDD will suffice in relation to a client which is:

- a financial institution (FI)
- a corporation listed on any stock exchange
- an institution that:
  - is incorporated or established in a jurisdiction that is a member of the FATF (other than Hong Kong) or a jurisdiction that imposes AML / CTF requirements similar to those imposed under the AMLO carries on a business similar to that carried on by an FI
  - has measures in place to ensure compliance with requirements similar to those imposed under the AMLO
  - is supervised for compliance with those requirements by an authority in that jurisdiction that performs functions similar to those of the SFC

# High Risk Client

Enhanced due diligence measures must be undertaken on all **PEPs** and others who are classified as a **high risk** for money laundering or terrorist financing.

Enhanced Client Due Diligence usually include:

- information on the source of wealth and source of funds

- additional information on the client e.g. if self-employed, nature of business; if employed, details of employer / industry and position held; if it is a corporation, identities of all directors

- additional information on the intended nature of the business relationship as well as the source of wealth and source of funds

# Enhanced Client Due Diligence

Before establishing business relationship with the client, the following procedures must be carried out:

- obtain approval from senior management

- take reasonable measures to establish the client's or the beneficial owner's source of wealth and source of funds

- apply enhanced monitoring to the relationship based on the level of assessed risk.

# Enhanced Client Due Diligence

## High-risk Client

- Privately-owned companies, especially shell companies and offshore companies
- Trust and nominee accounts
- Accounts held by intermediaries
- Non face-to-face clients
- Politically exposed persons
- Correspondent banks
- Client from the Non-Cooperative Countries and Territories (NCCT) – a list maintained by FATF

# Enhanced Client Due Diligence

- (a) the **public profile** of the customer indicating involvement with, or connection to, PEPs;
- (b) **complexity of the relationship**, including use of **corporate structures**, trusts and the use of nominee and bearer shares where there is no legitimate commercial rationale;
- (c) a request to use numbered accounts or undue levels of secrecy with a transaction;
- (d) involvement in cash-intensive businesses;
- (e) nature, scope and location of business activities generating the funds/assets, having regard to sensitive or high-risk activities; and
- (f) where the origin of wealth (for high risk customers and PEPs) or ownership cannot be easily verified.



# Politically Exposed Person (PEP)

The term “politically exposed person” is defined in section 1 of schedule 2 to the AMLO. Politically exposed person means

- (a) an individual who is or has been entrusted with a prominent public function in a place outside the People’s Republic of China and
  - (i) includes a head of state, head of government, senior politician, senior government, judicial or military official, senior executive of a state-owned corporation and an important political party official; but
  - (ii) does not include a middle-ranking or more junior official of any of the categories mentioned in subparagraph (i);
- (b) a spouse, a partner, a child or a parent of an individual falling within paragraph (a), or a spouse or a partner of a child of such an individual; or
- (c) a close associate of an individual falling within paragraph (a);

# Report Suspicious Money Laundering Activities

# Report Suspicious Money Laundering Activities

ADS HK has an obligation to report where there is knowledge or suspicion of money laundering or terrorist financing.

Knowledge generally includes:

- Actual knowledge
- Knowledge of circumstances which would indicate facts to a reasonable person
- Knowledge of circumstances which would put a reasonable person on inquiry

# Report Suspicious Money Laundering Activities

If an employee identifies any of the transaction types describes in the previous slide, the employee must report to the MLRO immediately and complete the Money Laundering Reporting Form.

MLRO will review the information and make subjective decision about whether the activity is suspicious or not.

If the activity is suspicious, MLRO will file and report to the JFIU.

# Check Point 3

What is the 4 SFC core principles for Anti-Money Laundering?

# Check Point 3 - Answer

What is the 4 SFC core principles for Anti-Money Laundering?

1. Know Your Client
2. Comply with laws
3. Corporate with regulators
4. Implement Policies, Procedures and Training

# Suspicious Money Laundering Activities

# Suspicious Money Laundering Activities

- (1) Large or unusual settlements of transactions in cash or bearer form
- (2) any transaction in which the counterparty to the transaction is unknown or where the nature, size or frequency appears unusual
- (3) any client being introduced by an overseas bank, affiliate or other clients both of which are based in countries where production of drugs or drug trafficking may be prevalent
- (4) a client who deals only in cash or cash equivalents rather than through banking channels
- (5) requests by clients for investment management services where the source of funds is unclear or not consistent with the clients' apparent standing
- (6) wash trading (matching subscription and redemptions rather than switching) through multiple accounts including transfer of positions between accounts that do not appear to be commonly controlled.



# Guidelines on Recognition of Suspicious Transactions

If an employee receives instructions from a client to carry out a transaction with any of the suspicious indicators listed in the previous slide, the employee should request an explanation for the transaction from the client.

The employee should consider whether the client has provided a reasonable and legitimate explanation of the financial activity. If not, the matter should be discussed with the MLRO for further action.

If the client is unwilling or refuses to answer questions or gives replies that appear to be untrue, the employee should refer the matter to the MLRO as this may be a further indication of suspicious transaction.

# Dos and Don'ts

**DO** report any suspicious transactions or solicitations to the MLRO immediately.

**DO** keep a full record of all conversations and any relevant circumstances underlying the suspicions. These should be passed immediately to the MLRO.

**DO** be aware of abnormal transactions or dealing patterns, even from existing clients.

**DON'T** do anything which may lead the person with whom employees are dealing to conclude that any of the employees are suspicious of him / her - "tipping off" is a criminal offence. In these circumstances, employees should be as non committal as possible and consult the MLRO immediately.

**DON'T** undertake any business with new clients until their identity has been verified in accordance with this policy.

# Check Point 4

Identify whether the activities below should be treated as higher risk or lower risk.

1. Joint account which is owned by a husband and a wife.
2. The client makes numerous deposits below the reporting threshold.
3. The client is unemployed and has no employment history but has large bank accounts.
4. The client regularly transfers money to different offshore accounts.
5. The client is a retail sales company whose account has a lot of activity on a monthly basis as it is used as a transacting account for the company.
6. The client is corporate client.
7. The corporate client is a professional intermediary firm which receives and forwards large amount of money.
8. The corporate client is a trading company which makes substantial fund transfers to offshore jurisdictions where it appears to have no business interest.

# Check Point 4 - Answer

Identify whether the activities below should be treated as higher risk or lower risk.

1. Joint account which is owned by a husband and a wife. **Low**
2. The client makes numerous deposits below the reporting threshold. **High**
3. The client is unemployed and has no employment history but has large bank accounts. **High**
4. The client regularly transfers money to different offshore accounts. **High**
5. The client is a retail sales company whose account has a lot of activity on a monthly basis as it is used as a transacting account for the company. **Low**
6. The corporate client is a professional intermediary firm which receives and forwards large amount of money. **High**
7. The corporate client is a trading company which makes substantial fund transfers to offshore jurisdictions where it appears to have no business interest. **High**

THE END  
THANK YOU