



Anti-money laundering and counter-financing of terrorism solutions

mazars



Introduction

Being one of the top global financial services hubs, financial institutions (“FIs”) in Hong Kong are highly regulated. In particular, in the effort of fighting money laundering and terrorist financing, regulators in Hong Kong have been following closely with global standards. Given the fast-changing and ever-evolving business environment, the anti-money laundering (“AML”) and counter-financing of terrorism (“CFT”) regulations promulgated by regulators in Hong Kong including the Securities and Futures Commission, the Hong Kong Monetary Authority and the Insurance Authority have been amended/updated from time to time over the past decade.

With the everchanging regulatory requirement in AML/CFT, the challenges that FIs, including licensed corporations, authorised institutions and authorised insurers, have to face become unprecedented.

This publication outlines the regulatory challenges on AML/CFT that FIs are facing and the solutions we offer to help our clients to overcome these challenges.

Regulatory challenges

Some of the regulatory challenges that FIs are facing are outlined as follows:

Management oversight

- Organisational structure and escalation policies of departments/functions that are responsible for AML (e.g. compliance function)
- The structure and terms of reference of committees overseeing the governance of AML
- Independence of AML and internal audit functions
- Areas covered under AML assessments
- MIS reporting of AML risk alerts

Customer risk assessment

- Basis of establishing customer risk assessment (approaches of assessing AML risk level)
- Procedures to collect latest customer information and adequacy of information collected from other legal entities (e.g. corporations or trust account)
- Measures to conduct ongoing customer due diligence (“CDD”)
- Adequacy of measures to conduct CDD and enhanced CDD
- Whether customer onboarding manual contain criteria of assessing customers’ AML risk

Screening of terrorists, sanction list and Politically Exposed Person (“PEP”)

- Design of terrorist and sanction list monitoring system and relevant data updates
- Ongoing monitoring of terrorist and sanction lists
- Handling and ongoing monitoring of PEP
- Scope of screening (e.g. sanction lists of OFAC, European Union and United Nations)
- Effectiveness of screening controls
- Tools for conducting sanction screening
- Measures to investigate suspicious persons and those for blocking/declining transactions

Institutional Risk Assessment (“IRA”)

- Comprehensiveness of risk factors and parameters
- Analysis on the identified AML risks from daily operations
- Adequacy of escalation and approval policies regarding IRA

Ongoing monitoring

- Ongoing monitoring of the latest updates in the list of monitored customers
- Procedures to execute periodic and event-driven review on customer accounts
- Establishment of/regular review on criteria used for transaction monitoring
- Identification of potential ML/TF activities behind complex/large/unusual transactions or transactions without economic substance or lawful purpose

Regulatory challenges

Suspicious Transaction Reporting (“STR”)

- Reporting mechanism after discovery of suspicious transactions
- Internal records for investigation of suspicious transactions
- Adequacy of judgement, analysis and documentation of suspicious transactions
- Sufficiency of reporting and escalation system and policies

Third-party deposits and transactions

- Assessment criteria for accepting exceptions of third-party deposits and payments
- Monitoring system and control measures for identifying third-party transactions
- Due diligence procedures to assess whether a third-party deposit or payments meets accepted assessment criteria
- Enhanced monitoring of client accounts involving third-party deposits and payments

Staff training

- Assessment of staff training needs on AML/CTF
- Monitoring of sufficiency and comprehensiveness of training content (e.g. monitor attendance record and arrangement of training for absent staff, effectiveness of training, etc.)



Our solutions

At Mazars, we have extensive experience working with the diversity of financial services players. We assist major financial institutions including brokerage houses, asset managers, investment and corporate banks, retail and private banks, central banks and insurance companies in dealing with different challenges with our solutions. The solutions we offer are set out below.



In the following section, we will guide you through each of our solutions.

Our solutions

Assessment solutions

Conducting assessments enables an institution to understand how, and to what extent, it is vulnerable to money laundering and terrorist financing. Our Assessment Solutions offer different types of assessments for our clients to have a comprehensive picture of where they are at, and to prepare them for establishing/enhancing their AML policies and strategies for the future. For clients of Assessment Solutions, we will:

- conduct a preliminary health check on the clients' existing AML framework as well as the governance structure to assess the adequacy of the system and identify areas for further investigation.
- assess the clients' risk-based approach to ensure effective identification and categorisation of ML/TF risks at the customer level and reasonableness of measures established based on the risks identified.
- assist clients in designing and implementing an IRA with qualitative and quantitative approaches as well as the result reporting mechanism.
- assess whether appropriate compliance management arrangements including the reporting line of compliance/internal audit functions are in place to facilitate the implementation of AML/CFT systems to comply with relevant legal and regulatory obligations as well as to manage ML/TF risks.

Policies and procedures solutions

Policies and procedures provide a detailed guideline for daily operations. Our Policies and Procedures Solutions will help our clients develop a thorough and practical AML manual by:

- assisting clients in drafting customised and comprehensive compliance manuals, and policies and procedures that suit the business need and fulfil the regulatory requirements.
- performing a thorough gap analysis on the existing AML policies to identify any inadequacy or deficiency.
- providing advice on enhancements to the policies⁵, procedures and controls, as well as compliance manual, including governance framework.

Operations solutions

Even with a written set of policies and procedures for mitigating ML/TF risks, there could be discrepancies when it comes to actual operations. Our Operations Solutions focus on helping our clients identify the AML deficiencies and areas of improvement throughout the entire business operations. We will:

- review the effectiveness of ongoing monitoring system including understanding customers' activities, keeping customer information up-to-date, detecting unusual or suspicious activities, etc.
- review clients' screening parameters, screening measures, data update and tools against terrorists, sanction list and PEPs.
- assess the adequacy of CDD and enhanced CDD measures thorough the entire business flow including new client onboarding and third-party transactions.
- assist clients in establishing adequate systems and processes to monitor transactions.
- review clients' measures of investigating and blocking suspicious transactions and persons.
- review the STR process and mechanism including sufficiency of documentation of internal and external investigation and reporting.
- review the handling of third-party transactions including approval criteria of exceptions, monitoring systems and measures, etc.
- perform sample and walkthrough testing to check the compliance with rules and regulations, as well as policies and procedures.

Our solutions

Implementation solutions

Know Your Customer (“KYC”) is a fundamental element in an AML/CTF system. Not only does a well-developed KYC programme protect an institution against ML/TF risks, it also helps prevent legal liabilities. We help our clients achieve KYC implementation by:

- assisting clients in establishing/streamlining the KYC processes from client identification and risk profiling to documentation.
- assisting clients in formulating CDD and enhanced CDD measures for different types of customers including natural person, legal person, trust or other similar legal arrangements, connected parties, etc.
- assisting clients in setting up KYC periodic review mechanisms.
- assisting clients in establish approval and evaluation procedures of third-party KYC service providers.
- assisting clients in performing different KYC processes including watchlist screening, periodic/event-driven re-assessments and completion of documentation.

Training solutions

A well-designed ongoing staff training is a key element to prevent and detect ML/TF activities. Our Training Solutions ensure the AML competency of our clients by:

- assisting clients in developing initial and refresher AML training programme for new and existing staff.
- assisting clients in designing specific AML training for different functions including back and front offices, managerial staff, compliance officer and money laundering reporting officer.
- reviewing training materials to ensure the coverage and magnitude are sufficient and appropriate.
- reviewing/assisting clients in establishing mechanisms for monitoring the effectiveness of the training.

We also take on special projects and ad-hoc mandates. We are flexible in our approach and offerings. Please feel free to contact us with any enquiries.



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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of more than 44,000 professionals – 28,000+ in Mazars' integrated partnership and 16,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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