PART 4
The Risks

4.1 In this part, suspicious activity indicators and case examples specific to individual sectors are presented. You may learn more about money laundering and terrorist financing risks specific to your sector by going through the information provided. **Though the information is sector specific, you are recommended to go through the case studies of the other three sectors as well. That will certainly enhance your understanding of money laundering and terrorist financing.** Please note that the suspicious activity indicators listed are not exhaustive. Suspicious transactions usually involve a number of indicators. In making assessment, businesses should not rely on this alone and should consider all pertinent information.

A. Accountants

4.2 The term "accountants" used in this guide refers to the definition adopted by the Financial Action Task Force on Money Laundering (FATF). The FATF employs an **"activity-based"** approach to determine the types of activities that accountants engage in should be subject to its Recommendations on Anti-Money Laundering and Counter Financing of Terrorism. In addition to complying with the other Recommendations that are applicable to Designated Non-financial Businesses and Professions, accountants who prepare for or carry out transactions for their clients concerning the following activities as stated in FATF's Recommendation 12(d) are specifically subject to its Recommendations 5, 6 and 8 to 11:

- Buying and selling of real estate;
- Managing of client money, securities or other assets;
- Management of bank, savings or securities accounts;
- Organisation of contributions for the creation, operation or management of companies; and
- Creation, operation or management of legal persons or arrangements, and buying and selling of business entities.

4.3 Following on from the above and for the avoidance of doubt, the term "accountants" used in this guide should **not** be confined to mean any particular types of accountants, such as certified public accountants, chartered accountants, management accountants, or cost accountants. The FATF definition includes those who work in the private sector whether or not they hold accounting qualifications from the professional bodies or institutes. It should be noted that "internal" professionals who are employees of other types of businesses, or professionals working for government agencies, who may already be subject to measures that would combat money laundering/terrorist financing, are excluded.

4.4 The accounting profession provides a wide range of services, including financial and tax advice, auditing, book-keeping, company formation and administration, trust, property transactions and introduction to banks, etc. While these activities have their legitimate purposes, they are a very attractive gateway which criminals/terrorists would want to use for laundering crime proceeds/financing terrorism.

4.5 Given the likelihood of being used for money laundering/terrorist financing purposes, accountants must be vigilant at all times and report anything suspicious to JFIU.

(a) Suspicious Activity Indicators

The following are some indications of potentially suspicious activities:

(i) Clients come from jurisdictions which lack appropriate AML/CFT laws, regulations or other counter-measures;

(ii) Clients come from jurisdictions where corruption or other criminal activities are of significant concern;

(iii) Complex corporate structures which obscure the ultimate beneficial ownership;

(iv) Frequent changes in the legal structure of a client's company which has no clear justifications;

(v) The level of activities of a client's company does not match its volume/frequency of fund flows;

(vi) Over/under invoicing of goods/services;

(vii) Payments received from an un-related party without supporting business activities;

(viii) Clients are "politically exposed persons" (PEPs) or their relatives/friends;

(ix) A dormant client suddenly becomes active; and

(x) Large/frequent international payments without underlying business transactions.

(b) Below are three case examples for illustration.

Case Example 1: Business entity misused for money laundering

Mr. X was a drug trafficker who had to dispose of a large amount of cash. He decided to employ an accountancy firm to set up a company, purportedly for trading purposes.

Through the introduction of the accountancy firm, company bank accounts were opened. Cash deposits were made into the bank accounts both by Mr. X and staff of the accountancy firm.

Some of the money was then used to invest in the local property market while certain amount was sent overseas for purchase of electronic components which were then shipped to the local market for sale.

By such activities, Mr. X successfully laundered over US$500,000.

Key Message

Professional service of accountants and their professional standing may be seen by criminals as vehicles to be abused in order to launder crime proceeds.

Case Example 2: Establishment of company/trust for money laundering/ terrorist financing purposes

Mr. J and Mrs. J are citizens of a western country. They visited Hong Kong and employed an accountancy firm to establish a limited company so that they can take advantage of the local property market slow down and purchase luxury property for long term investment purpose. They presented the firm with a US$50 million cashier order issued by ABC Casino and requested the cashier order be deposited into the company account to be opened. They claimed that the money was won in ABC Casino. Additionally, they also requested to set up a trust for charitable purposes. It was intended that 5% of the money would be transferred to the trust.

Later on, the firm received instruction from the couple that they had changed their mind and wanted to invest the money elsewhere. They requested the money be telegraphic transferred to their bank account in another jurisdiction.

As to the money in the trust, Mr. J and Mrs. J requested that US$2 million be split into four equal amounts and sent to charity organisations for medical relief purposes. Moreover, an amount of US$5,000 be sent to a country of terrorist concern for charitable purpose.

Key Message

By abusing the professional service of the accountancy firm and the professional status of accountants, criminals could easily set up companies/trusts for money laundering/terrorist financing purposes. It should be noted that the amount of money required for terrorist financing could be comparatively small (e.g. it only takes a small amount of money to purchase the materials required to assemble a bomb).

Case Example 3: PEPs abuse accounting service for money laundering purpose

Mr. K was a senior government official of Jurisdiction A which has a major corruption problem. Through his corrupt activities, Mr. K had in his possession a large amount of cash that he wanted to launder.

Mr. K came to Hong Kong and asked a local accountancy firm to establish a limited company for him. After company bank accounts were opened, substantial deposits were made for the purchase of shares in the local stock market. The bank deposits were also used to purchase real estate in Hong Kong.

Through these activities, a total of US$10 million was laundered.

Key Message

Accountants should exercise great care to prevent PEPs from abusing their professional services for money laundering purposes. They should conduct CDD and make STRs to JFIU if circumstances are suspicious.