



Methods of Money Laundering & Terrorist Financing And Suspicious Transaction Reporting

Edwin LI
Detective Senior Inspector of Police



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- ◆ About JFIU
- ◆ Key Legislation
- ◆ Methods of Money Laundering and Terrorist Financing
- ◆ Suspicious Transaction Report
- ◆ Recommendation



- ◆ About JFIU

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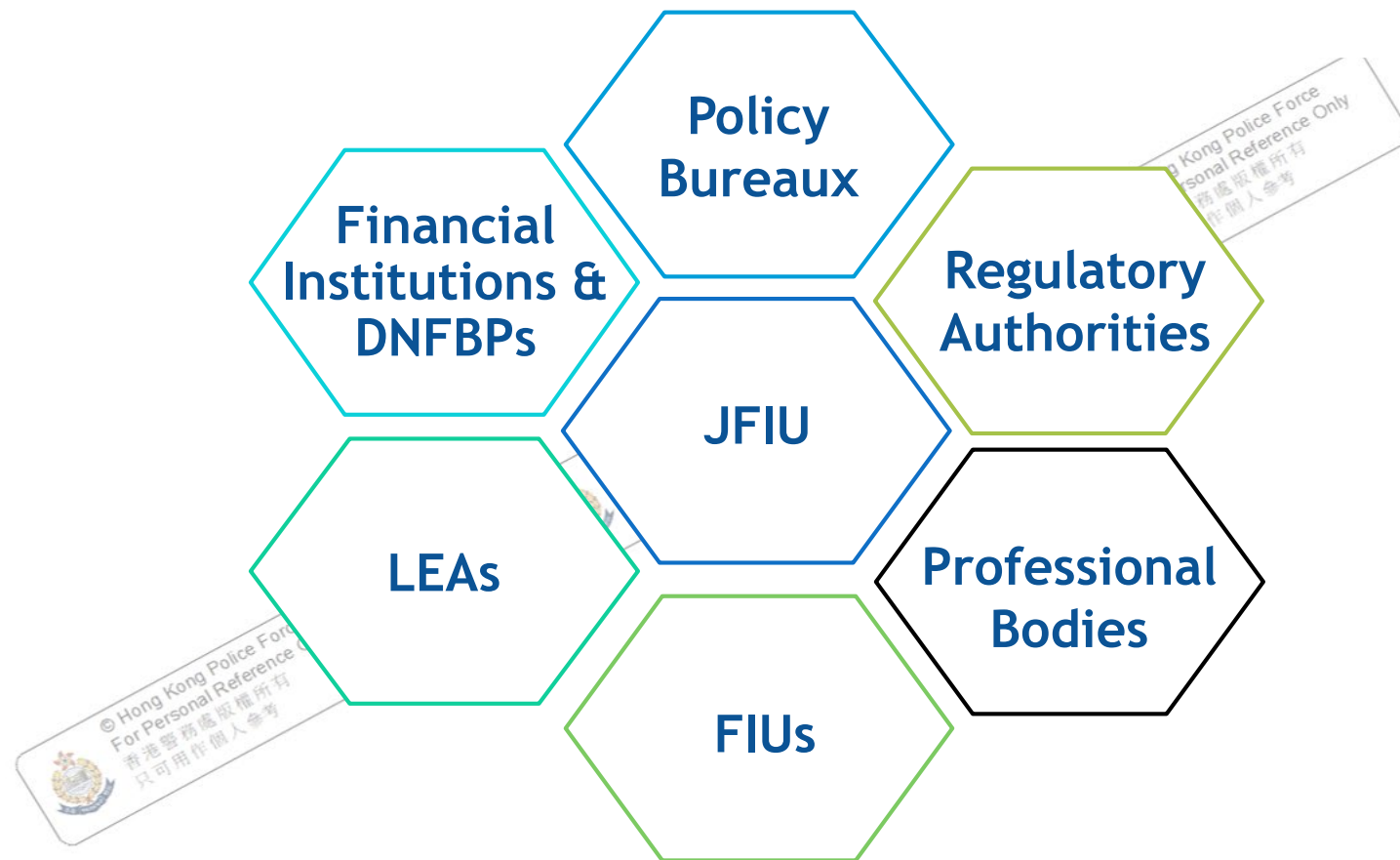


About JFIU

- ▶ Set up in 1989
- ▶ Co-staffed by officers of HKPF & C&ED
- ▶ Sole agency to manage the suspicious transaction reporting regime
- ▶ Financial intelligence exchanges with LEAs and FIUs worldwide
- ▶ Member of Egmont Group since 1996
- ▶ Establishment of Financial Intelligence and Investigation Bureau (FIIB)



About JFIU



◆ About JFIU

◆ Key Legislation

◆ Methods of Money Laundering and Terrorist Financing

◆ Suspicious Transaction Report

◆ Recommendation



Key Legislation

1989

Drug Trafficking (Recovery of Proceeds) Ordinance (DTROP, Cap. 405)
販毒(追討得益)條例 (第405章)

1994

Organized and Serious Crimes Ordinance (OSCO, Cap. 455)
有組織及嚴重罪行條例 (第455章)

2002

United Nations (Anti-Terrorism Measures) Ordinance (UNATMO, Cap. 575)
聯合國(反恐怖主義措施)條例 (第575章)

2012

AML & CFT (Financial Institutions) Ordinance (AMLO, Cap. 615)
打擊洗錢及恐怖分子資金籌集(金融機構)條例 (第615章)

2018

Amendment of AMLO, Cap. 615
打擊洗錢及恐怖分子資金籌集條例(第615章)的修訂



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Key Legislation (Anti Money Laundering)

Any person

- **Knowing** or **having reasonable grounds to believe**
- Any property
- **In whole or in part or indirectly represents proceeds of drug trafficking**
- **Deals with the property**

Maximum Penalty:

- **HKD 5 Million fine**
- **14 years' imprisonment**

S.25 of Cap 405 DTROP

S.25 of Cap 455 OSCO



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Key Legislation (Counter-Terrorist Financing)

Any person should not

- **Provide** or **collect** directly or indirectly
- Any property
- **With the intention that the property be used** or knowing that the property will be used
- **In whole or in part to commit one or more terrorist acts**

S.7 of Cap 575 UNATMO

Maximum Penalty:

- **14 years' imprisonment**



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Key Legislation (Suspicious Transaction Reporting)

Any person

- **Knows** or **suspects**
- Any property **represents / was used / is intended to be used in connection with the proceeds of drug trafficking or indictable offences or terrorist property**
- Should **disclose** that knowledge or suspicion to **an authorized officer (i.e. JFIU)**

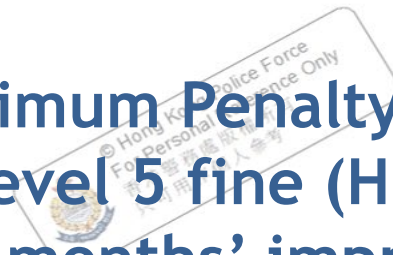
Maximum Penalty:

- **Level 5 fine (HKD 50,000)**
- **3 months' imprisonment**

S.25A(1) of Cap. 405 DTROP

S.25A(1) of Cap. 455 OSCO

S.12(1) of Cap. 575 UNATMO



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Key Legislation (Suspicious Transaction Reporting)

Where a person

- **Knows** or **suspects** that a disclosure has been made
- The person **shall not disclose to another person** any matter
- Which is **likely to prejudice any investigation** which might be conducted following that first-mentioned disclosure

Maximum Penalty:

- **HKD 500,000 fine**
- **3 months' imprisonment**

S.25A(5) of Cap. 405 DTROP

S.25A(5) of Cap. 455 OSCO

S.12(5) of Cap. 575 UNATMO



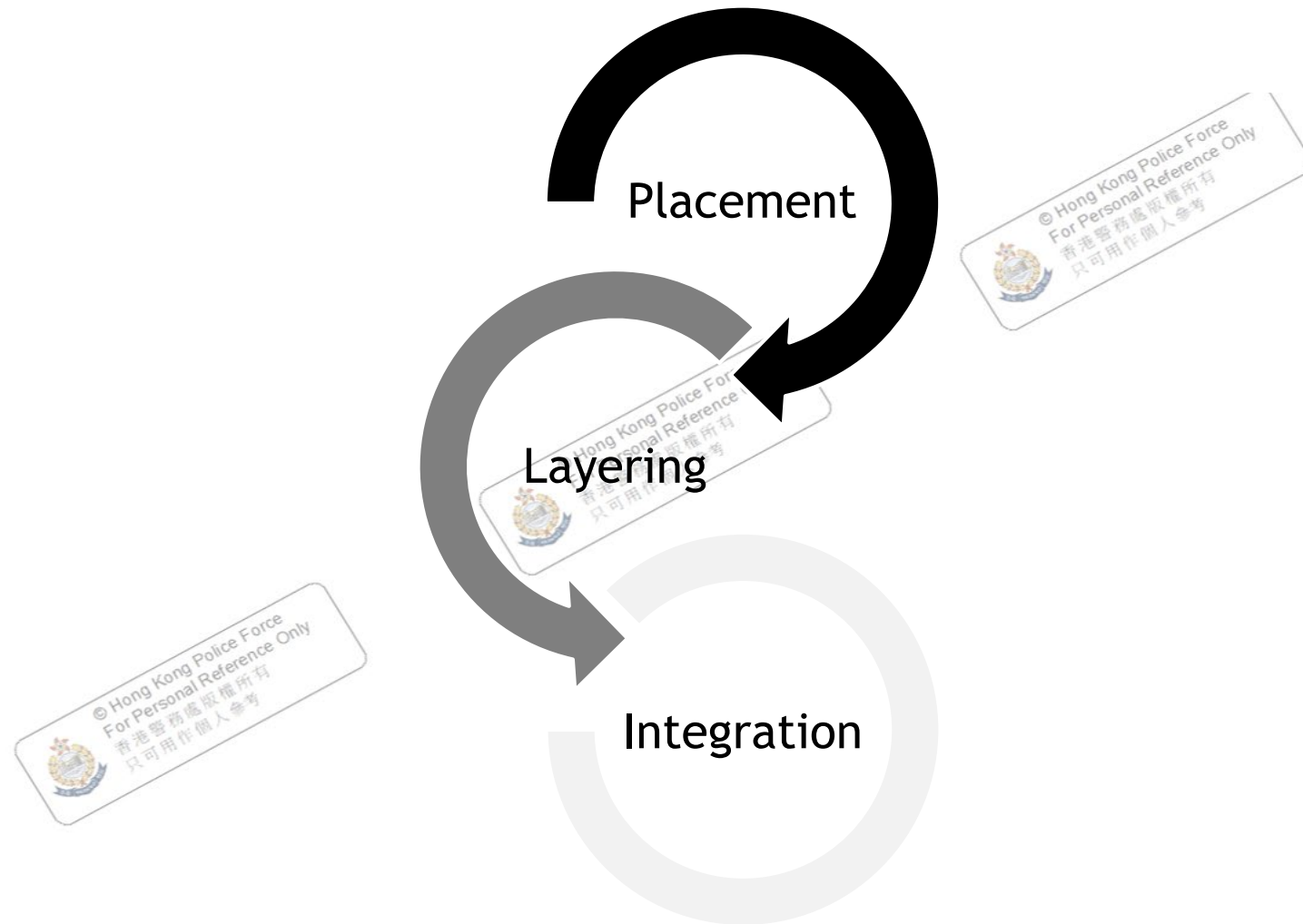
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- ◆ About JFIU
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- ◆ **Methods of Money Laundering and Terrorist Financing**
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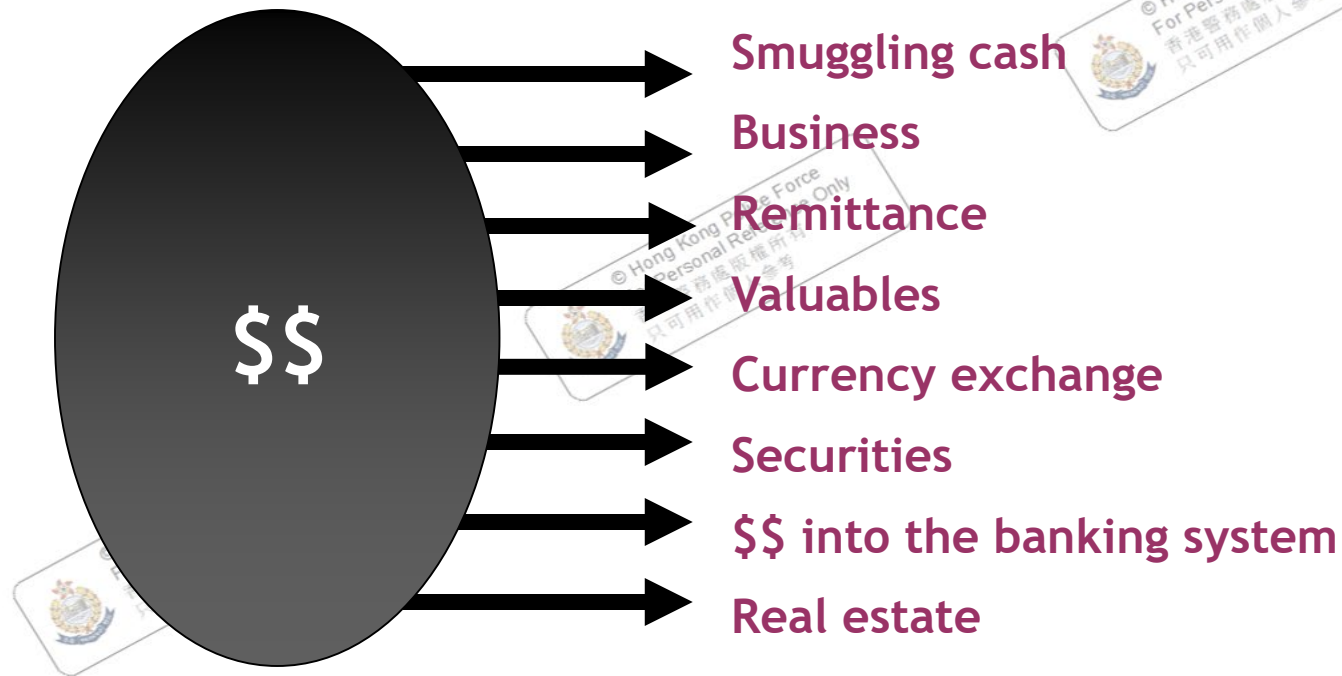
Methods of Money Laundering



Methods of Money Laundering

▶ Stage I: Placement

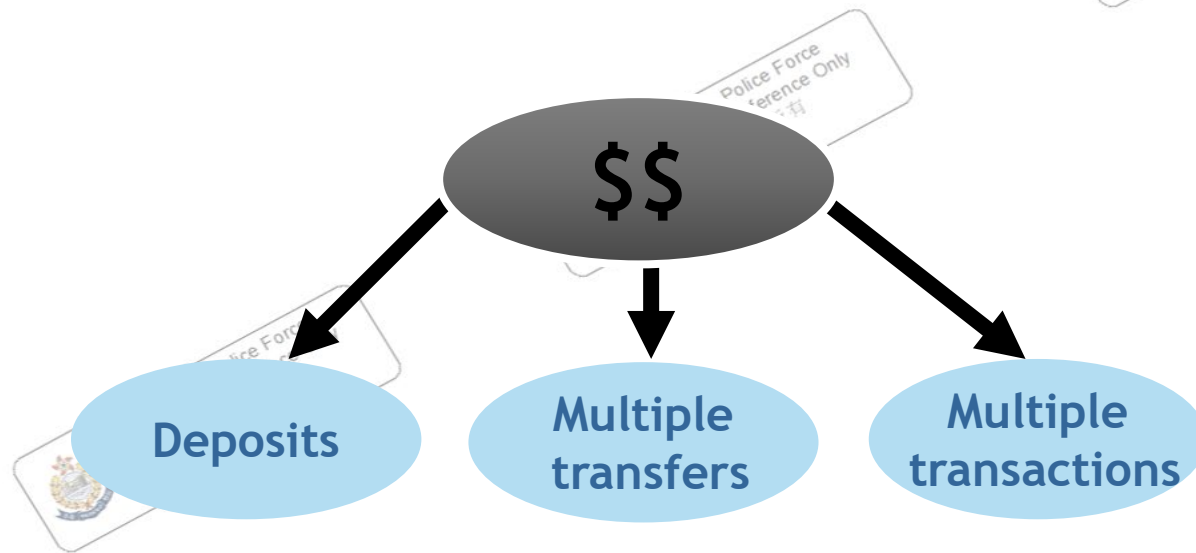
- ▶ Place dirty money into the financial system



Methods of Money Laundering

▶ Stage II: Layering

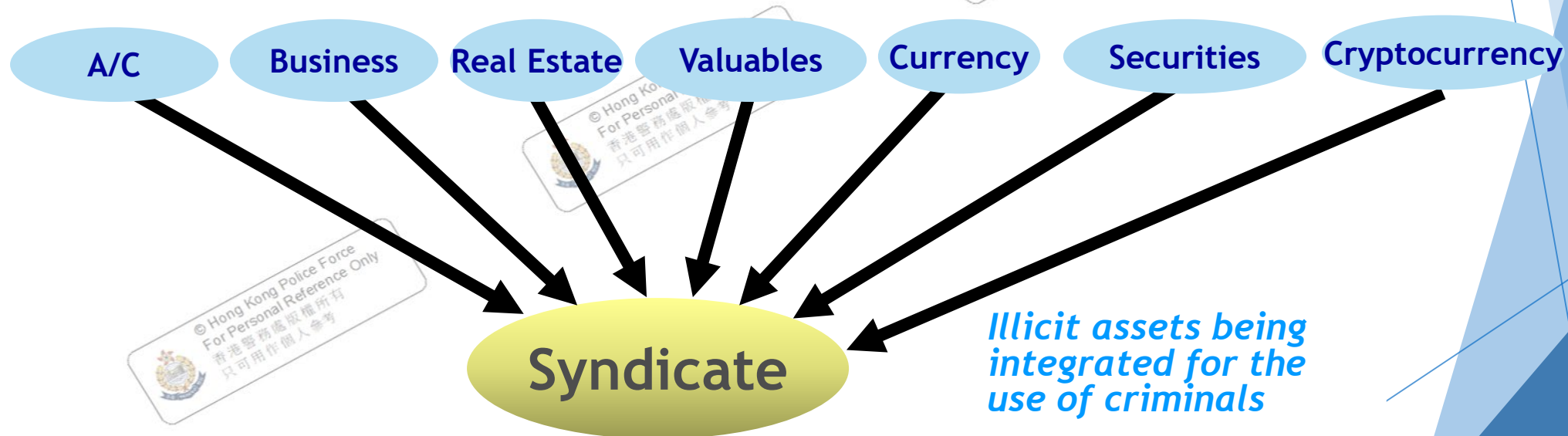
- ▶ Convert proceeds of crime into other forms
- ▶ Create complex layers of financial transactions to defraud the audit trail, source and owner of funds



Methods of Money Laundering

▶ Stage III: Integration

- ▶ To integrate the laundered funds from different sources
- ▶ Use the laundered funds to purchase 'clean assets'



Methods of Terrorist Financing

- ▶ Abuse of donations and NPOs
- ▶ Funding from criminals or legitimate activities
- ▶ Physical transportation of cash
- ▶ Use of banks accounts and MSOs

* Overall level of terrorism threat in HK - “Moderate”



◆ About JFIU

◆ Key Legislation

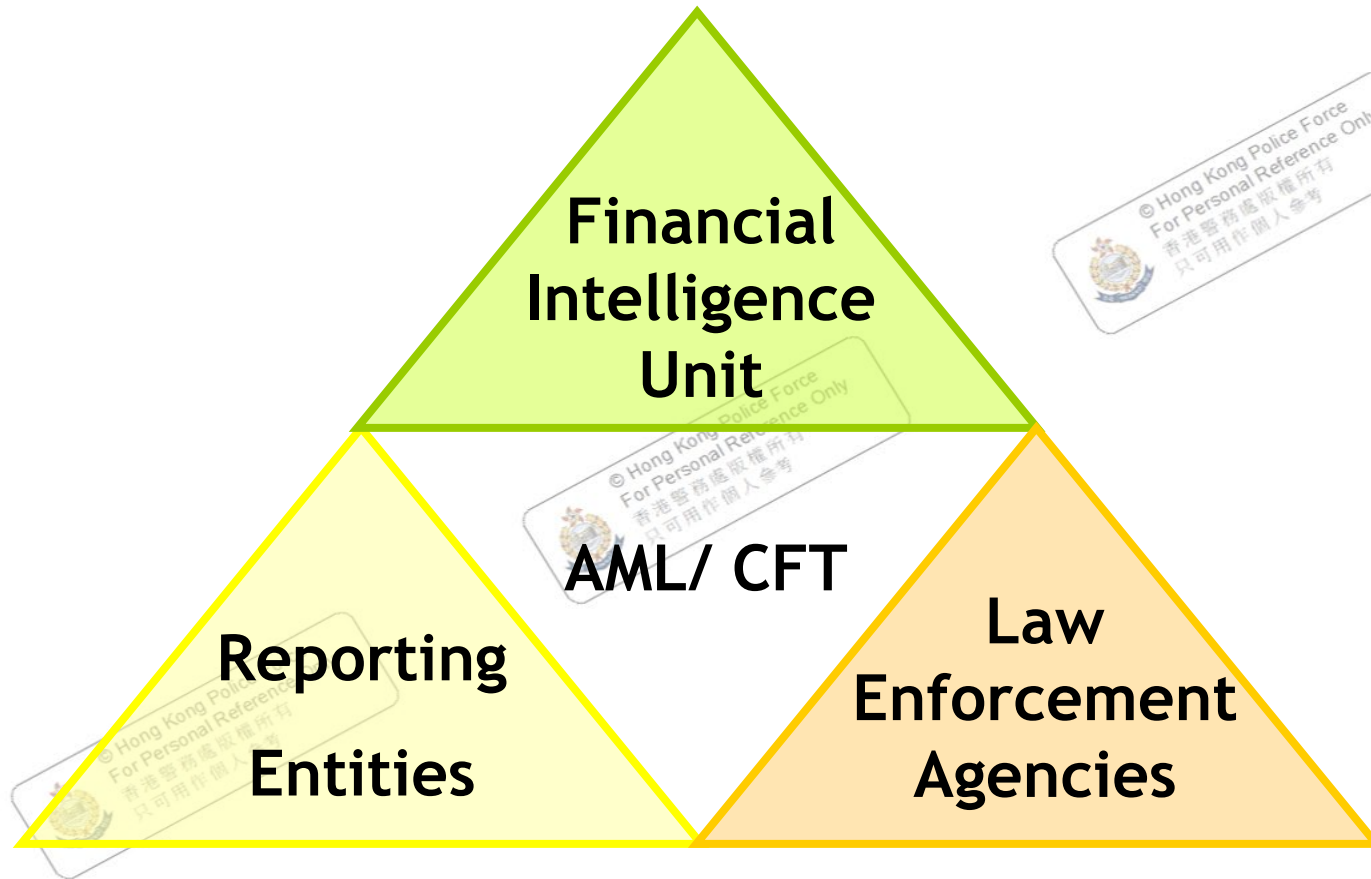
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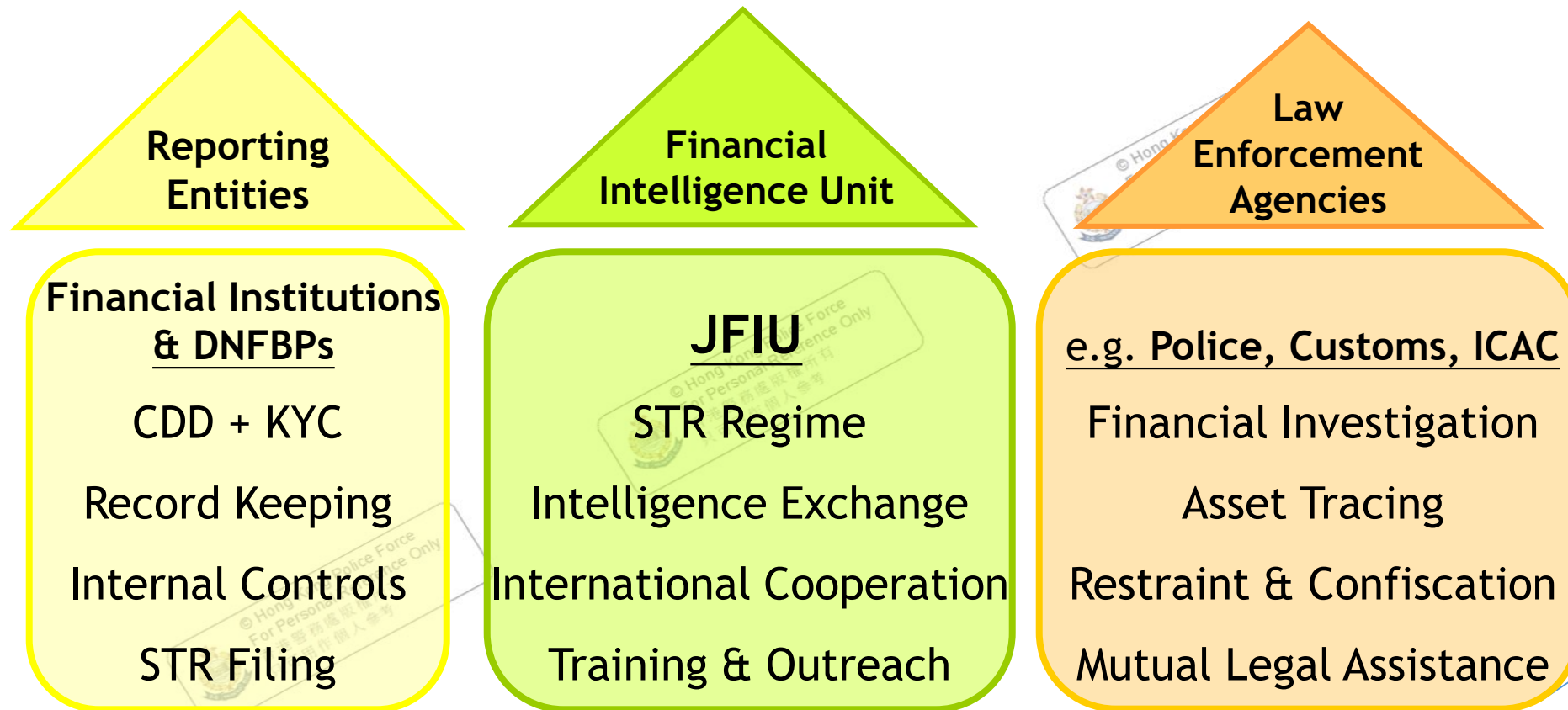


STR Mechanism

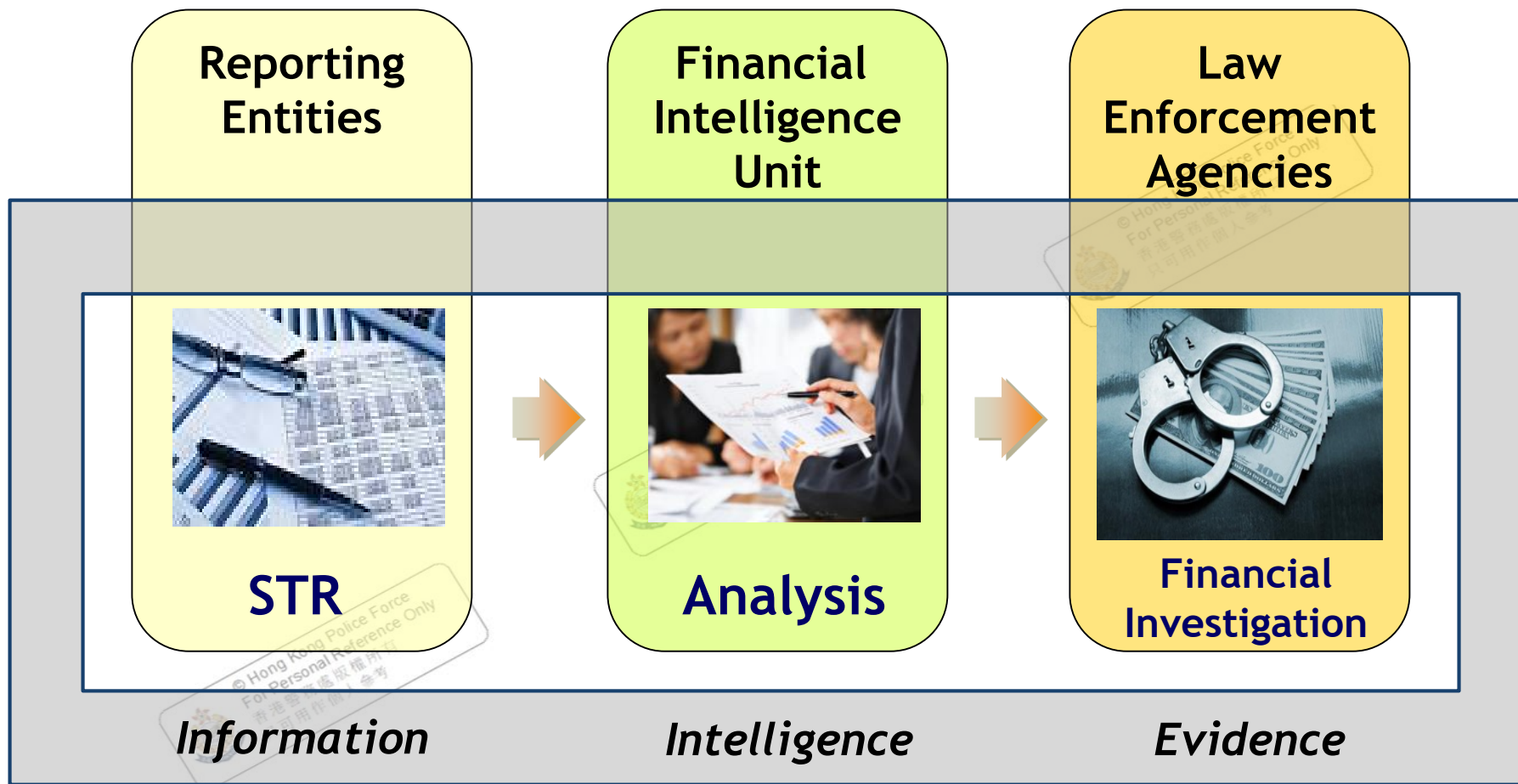


STR Mechanism

← Public-Private Partnership →

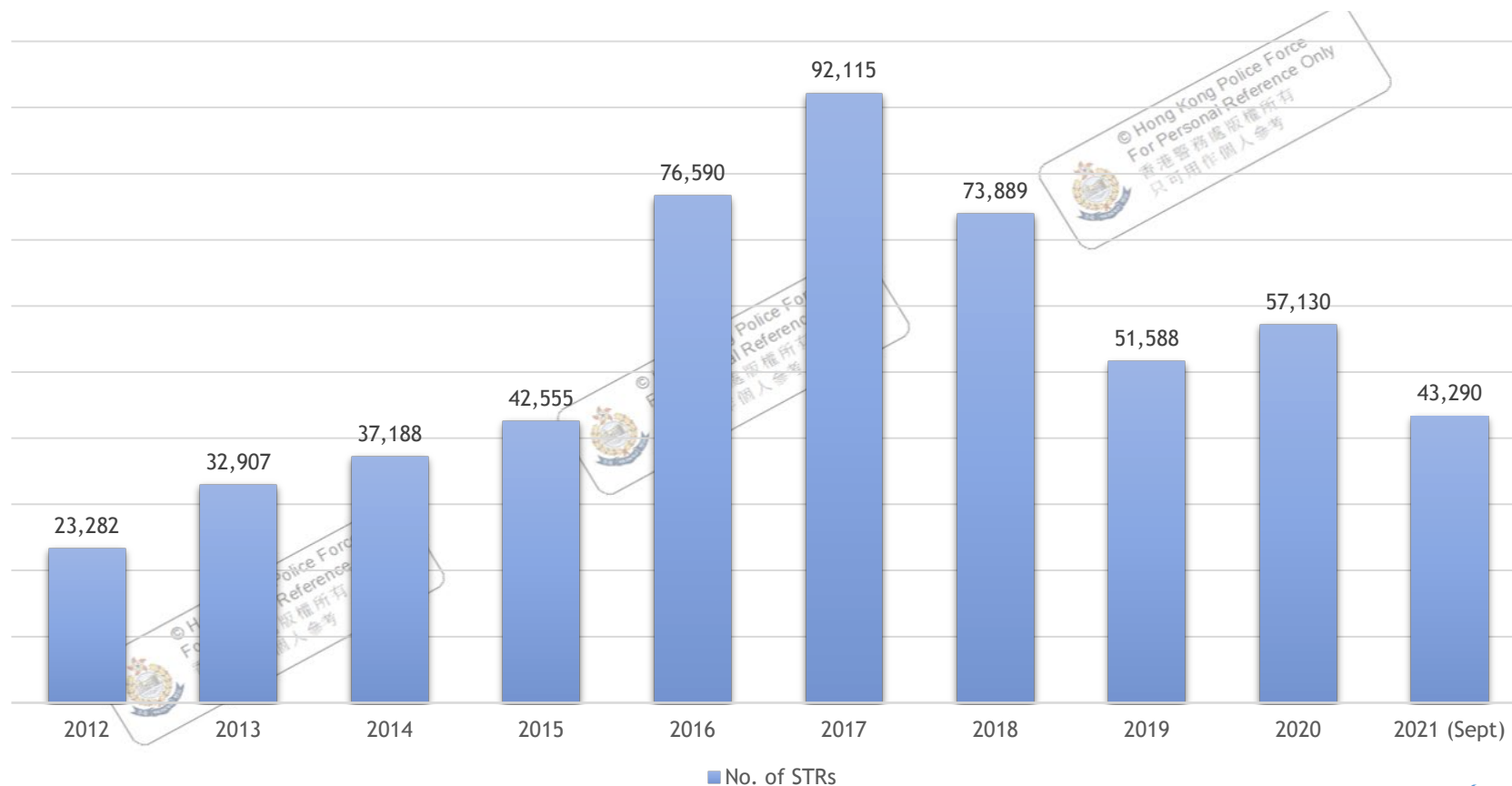


STR Mechanism



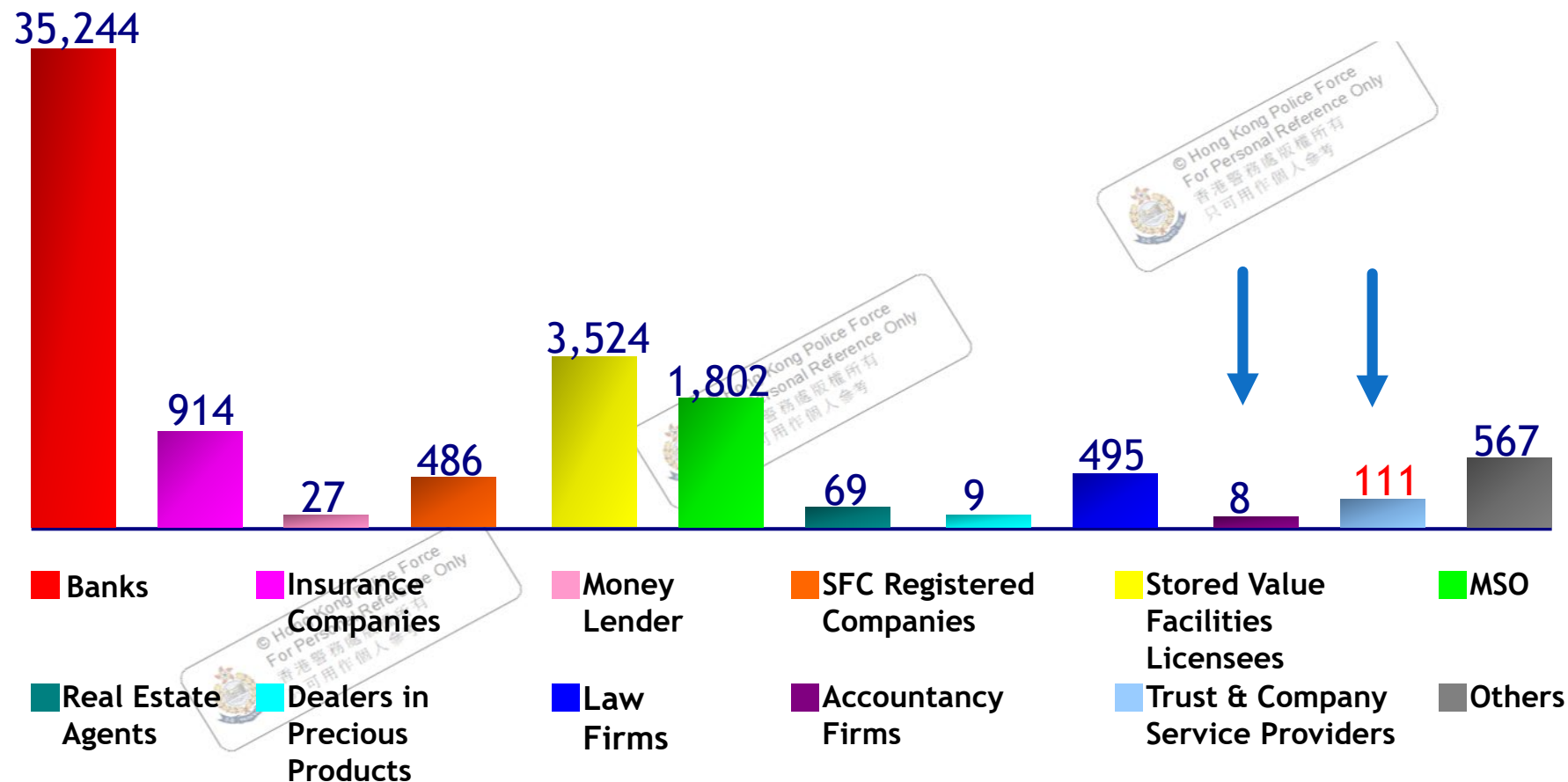
STR Statistics

▶ Number of STR received (2012-2021 Jan-Sep)



STR Statistics

► Sectoral Breakdown of STRs received by JFIU in 2021 (Jan-Sep)



STR Reporting

How to submit an STR?

Suspicious transaction reports can be made in one of the following ways:

- by e-reporting system, STREAMS
- by email to jfiu@police.gov.hk
- by fax to : (852) 2529 4013
- by mail, addressed to Joint Financial Intelligence Unit, GPO Box 6555 Hong Kong
- by telephone (852) 2866 3366 (for urgent reports during office hours)

Suspicious Transaction Report And Management System (STREAMS)



If you want to file an STR via STREAMS, you have to complete **the application form** and return to the JFIU either by fax (2529 4013) or email (jfiu@police.gov.hk). If you need any further information, please feel free to contact the JFIU.

'SAFE' Approach

Screen

subject entities' background & transactions

Ask

appropriate questions to clarify circumstances

Find

relevant records for review

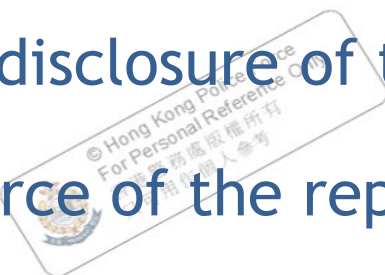
Evaluate

whether suspicion is substantiated



STR Reporting

- Legal obligation
- Applied to **all**
- Disclosure based on **knowledge or suspicion**
- No reporting threshold
- **Legal protection** against civil or criminal liability
- No disclosure of the reported details to another person
- Source of the report is kept **confidential**

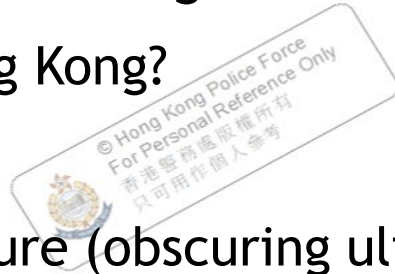


STR Reporting

Red Flag Indicators

Client

- Politically Exposed Person?
- Non-resident / Corporate from high-risk country?
- No known nexus with Hong Kong?
- Stooage account?
- Complex corporate structure (obscuring ultimate beneficial ownership)?



STR Reporting

Red Flag Indicators

Transaction

- Payment from 3rd party / cashier order/ demand draft?
- Transactions incommensurate with Client's background?
- Unusual high/ low payment for a property/goods payment?
- Transacted with unrelated parties / jurisdiction?

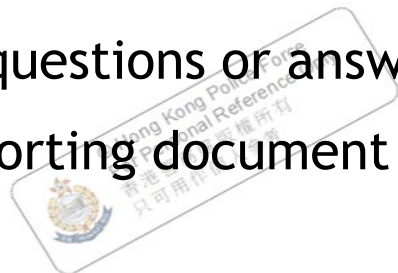


STR Reporting

Red Flag Indicators

Previous Records/ Further Enquiries

- Background check / open source (adverse news)
- Failing to disclose specific role / relationship / ownership of property
- Unwilling to response to questions or answers are not convincing
- Unwilling to provide supporting document



STR Reporting

Red Flag Indicators

Evaluation

- Information from client is incommensurate with your record in hand?
- Information from client could not be verified?
- The client appeared to be a stooge in the transaction?



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STR Reporting

Recommended structure of STR narrative

- (1) Triggering Factors
- (2) Background of Subject(s)
- (3) Transactions
- (4) Reporting Entity's Enquiries & Open Source Information
- (5) Conclusion & Way Forward



STR Summary Reporting Body Subject Organization Phone Address Account Transaction
Suspected Crimes Suspicious Indicators Open Source Info. Entity Lists Check Save Print

Subject

Sequence No: 1

English Name:	Family Name:	Given Name:	Middle Name:
Chinese Name:	CCC:	HKID:	
Other ID	Type:	if Others:	
ID No.:		Country:	
Gender: <input type="checkbox"/> M <input type="checkbox"/> F <input checked="" type="checkbox"/> U		Occupation:	

STR Summary Reporting Body Subject Organization Phone Address Account Transaction
Suspected Crimes Suspicious Indicators Open Source Info. Entity Lists Check Save Print

Account

Sequence No: 1

Account Institution:			
Account Number:	Account Type:	if Others:	
Opening Date:	Closing Date:		
Balance:	Currency: HKD	Amount: +	Date:
Related Person:	Role:	if Others:	
Related Company:	Role:	if Others:	
Additional Information:			



STR Reporting

Recommended Structure of STR Narrative

(1) Triggering Factors

- Involved crimes (fraud/corruption/sanctions/terrorist acts, etc.)
- Warrants/court orders received
- Open source information (news/list of regulatory agencies, etc.)
- Pattern of suspicious transactions (large transactions/temporary repository of fund, etc.)

(2) Background of Subject(s)

- Personal: Age, occupation, income, transaction history, etc.
- Corporate: Date of establishment, business nature, expected transaction amount, etc.

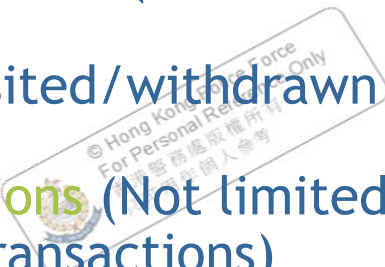


STR Reporting

Recommended Structure of STR Narrative

(3) Transactions

- Reviewed period
- Fund movement pattern (sudden change?)
- Total amount deposited/withdrawn
- **Suspicious transactions** (Not limited to transactions of large amount/frequent transactions)
- Pattern of suspicious transactions



STR Reporting

Recommended Structure of STR Narrative

(4) Reporting Entities' Enquiries & Open Source Information

- Suspicious indicators (KYC queries, world check, etc. → not necessary to report all queries carried out)
- Links of open source information

(5) Conclusion & Way Forward

- Conclusion of the report
- Follow-up actions (Enhanced CDD measure , End of business relationship, etc.)

STR Feedback

- ▶ Acknowledgement of receipt
- ▶ Consent / No Consent / N/A
- ▶ Quarterly STR analyses
- ▶ Meeting with stakeholders



Case sharing

- ▶ 1. Adverse news
- ▶ 2. Tax evasion
- ▶ 3. Transaction with high risk jurisdiction





Thank You!

Website: www.jfiu.gov.hk

Telephone: (852) 2866 3366

Email: jfiu@police.gov.hk



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