

## **Press Release**

### **LCQ5: Measures to combat money laundering activities**

Wednesday, May 14, 2014

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (May 14):

Question:

Some accountants have pointed out that as Hong Kong is a free port without any restriction on capital inflow and outflow, and it adheres to a simple and low tax regime, coupled with the fact that the procedure for setting up a company is simple and convenient, it is susceptible to be used by lawbreakers as a base for money laundering activities. It has been reported that the authorities received over 33 000 suspicious-transaction reports (STRs) last year, representing an increase of more than 40 per cent over 2012. In this connection, will the Government inform this Council:

(1) whether it has assessed if the substantial increase in the number of STRs received last year as compared with that of the preceding year was a result of more rampant money laundering activities or that of increased public awareness of the relevant legislation; if the assessment outcome is the former, of the specific measures put in place by the authorities to step up law enforcement;

(2) given that the Shanghai-Hong Kong Stock Connect, which allows the mainland and Hong Kong investors to trade through local securities companies eligible stocks listed on the stock exchange of the other side, will be implemented in six months, whether the authorities have assessed if the settlement method of such transactions will encourage cross-boundary money laundering activities; if the assessment outcome is in the affirmative, of the measures put in place by the authorities to plug any loophole and reduce the risks involved; if the assessment outcome is in the negative, the justifications for that;

(3) as I have learnt that quite a number of law enforcement officers previously responsible for combating money laundering activities have changed jobs to work in private financial institutions, whether the authorities have any plan to step up training and recruitment of such talents, so as to ensure effective combat of the ever-changing and increasingly rampant money laundering activities; if they have,

of the details; if not, the reasons for that; and

(4) given that the Joint Financial Intelligence Unit (JFIU), formed by officers from the Hong Kong Police Force and the Customs and Excise Department, is currently responsible for managing STR in relation to money laundering and terrorists' financing activities, whether the authorities have any plan to re-organise JFIU into an independent regulatory body, so as to enhance its functions and independence, thereby stepping up the efforts in combating the related illegal activities?

Reply:

President,

(1) Since the full operation of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (AMLO) on April 1, 2012, financial institutions have been required to comply with the statutory requirements on customer due diligence and record keeping. This has strengthened significantly the anti-money laundering and counter-terrorist financing regulatory regime for the financial services industry in Hong Kong. For the implementation of the AMLO, relevant financial regulators and financial institutions have updated their guidelines to enhance financial service practitioners' awareness of their obligations to identify and report suspicious transactions.

In 2013, the Joint Financial Intelligence Unit (JFIU) received a total of 32 907 suspicious transaction reports (STRs), up 41 per cent from the 23 282 STRs recorded in 2012. Of these, over 90 per cent of the STRs were lodged by financial institutions (including those from the banking, securities and insurance sectors, and money service operators). The Police believe that the rise in STRs reflects an enhanced degree of awareness of the AMLO and the relevant statutory reporting obligations in the community (in particular among financial institutions).

(2) Under the Shanghai-Hong Kong Stock Connect, the Stock Exchange of Hong Kong and Shanghai Stock Exchange will allow investors to trade eligible shares listed on the other market through local securities firms or brokers. On the trading side, the two exchanges will each establish a subsidiary in the other market to receive orders from their respective participants to trade eligible shares and route them onto the trading platforms of the other exchange for execution. On the clearing and settlement side, the Hong Kong Securities Clearing Company and China Securities Depository and Clearing Corporation will become a participant of

each other to provide settlement and clearing services for cross-boundary trading through the Shanghai-Hong Kong Stock Connect within a closed loop subject to comprehensive risk management measures. With such arrangements, the Shanghai-Hong Kong Stock Connect ensures the money that flows into its system can only be used for trading eligible A-shares or Hong Kong shares. Upon the sale of these shares, the funds so obtained will flow back to their originating market through the respective clearing system and cannot remain in the other market or be used to buy other asset classes therein. At the initial stage of the pilot programme, cross-boundary RMB investments will be subject to quotas.

The regulatory authorities of the two sides will take all necessary measures to establish an effective regime under the Shanghai-Hong Kong Stock Connect to address any misconduct in either or both markets timely.

The Guideline on Anti-Money Laundering and Counter-Terrorist Financing published by the Securities and Futures Commission (SFC) provides specific guidance to assist licensed corporations, registered intermediaries and their senior management in formulating and implementing their own anti-money laundering and counter-terrorist financing policies, procedures and controls in line with the requirements under the AMLO. The requirements are the same as those for dealing in local shares or shares listed on markets outside Hong Kong (including A-shares to be traded via the Shanghai-Hong Kong Stock Connect). The SFC can take enforcement actions against licensed corporations or registered intermediaries failing to comply with the customer due diligence and record-keeping requirements under the AMLO.

In addition, when Mainland brokers receive orders from clients to trade Hong Kong shares via the Shanghai-Hong Kong Stock Connect, they are required to take appropriate measures to handle such clients' transactions in accordance with the Mainland laws and relevant regulations. This is in line with the arrangements for other overseas investors currently trading Hong Kong shares via their own local brokers.

(3) In terms of manpower training and recruitment, the Police strive to develop a pool of skilled police officers with criminal investigation skills and relevant knowledge on financial investigation. The Police also collaborate closely with local law enforcement agencies and financial regulators and those outside Hong Kong in combating money laundering offences. In addition to providing regular financial investigation courses to police officers of different ranks, the Police send

representatives to attend regular meetings held by international organisations (such as the Financial Action Task Force) to exchange investigation experiences and knowledge with counterparts in other jurisdictions.

In view of the changes in crime trends, techniques and the number of cases, the Police will continue to deploy resources flexibly to tackle all crimes, including money laundering crimes, effectively. The Commissioner's Operational Priorities 2014 have set "targeting and investigating money laundering activities" and "confiscating proceeds of crime" as key operational areas to which the Force will accord priority.

(4) Since its inception in 1989, the JFIU has committed to processing and analysing STRs, and providing financial intelligence and crime investigation support to law enforcement agencies in a timely manner, with the aim to achieve prosecution against money laundering offences successfully, and freeze and confiscate proceeds of crime. At the same time, the JFIU has been in close co-operation with financial regulators, related professional bodies and other stakeholders in the fight against money laundering offences. As this area of work has been functioning effectively, the Government has no plan to make changes to the JFIU institutionally.

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