



Common Deficiencies in Transaction Monitoring & Suspicious Transaction Reporting

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Senior Management Oversight

- Senior management has an important role in the AI's AML/CFT systems
- Senior management should be satisfied that the AI's AML/CFT systems are capable of addressing the ML/TF risks identified





Role of Senior Management

- Section 23 of Schedule 2 - “Financial Institutions to prevent contravention of Part 2 or 3 of Schedule 2”
 - A financial institution must take all reasonable measures—
 - (a) to ensure that proper safeguards exist to prevent a contravention of any requirement under Part 2 or 3 of this Schedule; and
 - (b) to mitigate money laundering and terrorist financing risks.
- Ultimate responsibility for ensuring the Bank’s systems are effective and comply with HKMA requirements rests with the Bank’s senior management (para 2.10-2.15 of AMLO Guideline)



Senior Management Oversight

- Should have committee designated for AML/CFT oversight
- Should have formal Terms of Reference
- Minutes of meetings – should show
 - fundamental and key AML/CFT control issues discussed in meetings
 - timely follow up on AML/CFT-related issues discussed in the last meeting
- Participation by management at sufficiently high level is needed



Transaction Monitoring

- Are the AIs transaction monitoring systems adequate, given their business activities and size? Are they used to support sanctions monitoring?
- How does the AI ensure systematic investigations into unusual transactions and potential STRs?





Risk Based Approach



Transaction Monitoring – MIS Reports

- Manual monitoring with MIS reports vs automated transaction monitoring system
- Type & Quality of MIS reports
 - To address Bank's Risks
- Parameters for MIS Reports
 - thresholds – Justification / Reasonableness
- Quality of Reviews
 - Bank should understand the transaction / pattern
- Adequacy & Timeliness of Compliance Reviews
 - Should have policy or procedure for regular review of adequacy and parameters



Transaction Monitoring System

- Alert handling
 - Should have sufficient justification / documentation
 - Should have adequate explanation for alert clearance (not just standard wordings)
 - Two level clearance / investigation
 - Staff awareness of alert scenarios
- Reference may be made to HKMA Circular B10/1C dated 4 July 2008



Name Screening Process

➤ Name matches / alerts

- It is for the AI to prove it has confirmed or eliminated a potential match (i.e. enhanced checking)
- Should have sufficient justification and documentation for alert clearance
- Quality of work performed
- Need to have P&P underpinning this important activity

➤ Updating of Database

- Need to have clear P&P – maintenance process needs to be codified
- Random checks to ensure accuracy

➤ Consistency – Practice versus P&P

➤ Where new methodology is employed

- clean up exercise on existing customer base required



Transactions with high-risk jurisdictions

- High-risk jurisdictions includes those sanctioned by the UN, *but may* also include others like jurisdictions which insufficiently apply FATF standards etc.
- What is the handling requirement for hits
 - Need to have P&P in handling transactions involving high-risk jurisdictions
 - Experience based response not acceptable
 - Need explicit requirement to understand the purpose and ensure it is both commensurate with the customer and **legitimate** before execution
 - High Risk area



Suspicious Transaction Reports

- To what extent does the AI understand and carry out, their detection and reporting obligations on the suspected proceeds of crime?





Suspicious Transaction Reporting

- P&P for resolution / escalation
 - Need Guidance
 - Timeframe to review internal reports / submit a report to the JFIU
 - Need tipping off reminder in acknowledgement
- Limited Scope of Reviews
 - Period of transaction history attached to the STR
 - Connected accounts
- Quality of internal/external Reports
 - Period of transaction history attached to the STR
 - Basic customer information should be included in the disclosure (e.g. business nature, usual transaction counterparties, etc.)



Wilfully Blind?

- REVIEW the risk
- MONITOR the risk
- MITIGATE the risk
- Requirement for P&P to support these steps

Reminder - consent is only a word –
NOT a risk assessment



Is your STR output effective?

- Should consider, to what extent are the STRs provided by your AI submitted in a timely manner, containing relevant information that allows the JFIU to
 - Understand the basis of the suspicion
 - Conduct a proper analysis
 - Develop operational and strategic analysis





Role of CO/MLRO

- MLRO should play an active role
 - the central reference point for STR
 - involved in the review of MIS etc
 - involved in testing the system
- MLRO should have sufficient experience and exercise appropriate judgement call on suspicious activities identified
- Role of CO
 - Where a compliance function is assigned to other parties (e.g. frontline staff), need compliance review on the work done
 - Need compliance testing, cannot rely completely on internal audit



Recap - MLRO

Paragraph 7.19

An FI should appoint a Money Laundering Reporting Officer (MLRO) as a **central reference point** for reporting suspicious transactions. The FI should have **measures in place to check, on an ongoing basis that it has policies and procedures to ensure compliance** with legal and regulatory requirements and of **testing** such compliance. The type and extent of the measures to be taken in this respect should be appropriate having regard to the risk of ML/TF and the size of the business.



Responsibility of the MLRO

Paragraph 7.21

It is the responsibility of the MLRO to consider all internal disclosures **he receives** in the light of full access to all relevant documentation and other parties. However, the MLRO should not simply be that of a passive recipient of ad hoc reports of suspicious transactions. Rather, the MLRO should play an **active role** in the identification and reporting of suspicious transactions. This **may also involve regular review of exception reports** or large or irregular transaction reports as well as ad hoc reports made by staff.



Law Enforcement Requests

- Expectation - policy and procedures
 - A list / register / centralized record of all law enforcement requests received
 - Handle by appropriate personnel – normal legal / compliance
 - Screening
 - Ensure proper actions both on and offshore
 - Trigger Event! - Appropriate review of accounts subject to court order AND any ML/TF risk the relationship may present



Don't retain law enforcement data

for longer than necessary to fulfil the purpose for which it was collected





Other Observations

- Large cash deposit
 - Need to ascertain whether source of funds and source of wealth are commensurate with customer background
 - Not to record account transfers as cash transactions
- Non-account holder transactions
 - Ensure ID copy is retained on file for transactions of HKD 120,000 or more
- CDD – should not allow customers use personal accounts for business purposes



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