

ECF on AML/CFT (Professional Level) Tutorial Session (Dec 2022 version)

ECF on AML/CFT Programme Overview

Associate AML Professional (AAMLP)

Successful completion of Core Level of ECF on AML/CFT Programme (Training & Exams)

Grandfathered by HKIB (Ended in Apr 2017)

Relevant Practitioner Working in AI

Fulfill HKIB Professional Membership requirement

Certified AML Professional (CAML P)

Successful completion of Professional Level of ECF on AML/CFT Programme (Training & Exams)

Grandfathered by HKIB (To be ended in Dec 2018)

Relevant Practitioner Working in AI with 3 years of Relevant Work Experience

Fulfill HKIB Professional Membership requirement

*#Remark: The Enhanced Competency Framework (ECF) on Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) is targeted at "Relevant Practitioners", engaged by an **Authorized Institution (AI)** to perform AML roles in its Hong Kong operation.*



Learning pathway for Professional Certificate of ECF on AML/CFT (Professional)

1

*Certificate for Module ECF
on AML/CFT (Professional
Level)*

By HKU SPACE

18-hr training
+ assignment
+ 36-hr self-study



2

*Professional Certificate for
ECF on AML/CFT*

By HKIB

3-hr tutorial
+ 294-hr self-study
+ 3-hr examination



Objectives

- Recap key learning from the training session
- Brief on the examination format and guidelines
- Share self-study tips for examination preparation



Today's Agenda

- Welcome and Introduction
- Programme Structure Overview
- Tutorial Session Objectives / Agenda
- Training revision
- Case study application
- Examination format and guidelines
- Self learning guidelines
- Q&A



Training Revision



Core Level		Professional Level	
1	Fighting Money Laundering/Terrorist Financing - Why it is important and What is the Legal/Regulatory Framework?	6	Application of the risk-based approach
2	Managing the Risk of ML/TF in Banks in Hong Kong – How does ML/TF take place?	7	Building an effective AML/CFT risk management system
3	How can banks combat ML/TF through establishing ML/TF framework?	8	The risk-based approach and AML/CFT risks in specialist areas
4	Knowing your customer – customer due diligence	9	Ensuring financial inclusion
5	Monitoring, sanctions compliance and suspicious transactions reporting	10	Managing stakeholders effectively



Role descriptions/key tasks for ECF – AML/CFT Professional level

Developing and implementing AML/CFT compliance risk management framework and analysing AML/CFT management information

Evaluating new laws and regulations and reviewing suspicious cases for filing to the JFIU

Planning of periodic compliance tests on the bank's AML/CFT program and providing guidance and training on AML/CFT to business units of the bank

Report results of AML/CFT risk management reviews and identify key areas of improvements. Monitor remedial actions for identified weak AML/CFT controls that require corrective actions

Learning Outcome

Chapter 6: Application of the risk-based approach

Upon completion of this chapter, participants will be able to:

- examine and understand what the risk-based approach (“RBA”) is, the views on the RBA from different standard setters, and its application to the banking sector;
- design and implement a tailored RBA for the institution, regarding risk identification, assessment and mitigation, with reference to the institution’s policies on internal controls, monitoring and governance, financial inclusion, etc.; and
- implement the RBA, including customer due diligence (“CDD”) requirements in the cross-border context, managing money laundering/terrorist financing (“ML/TF”) high risk situations and banking relationships, handling and reporting of suspicious transactions, post-reporting measures, and dealing with the authorities.



RBA: What is it?

What

Identify, assess and understand the ML/TF risks

Take commensurate AML/CTF measures to effectively mitigate the risks

Why

Understand how ML/TF risks will affect your bank

Efficient allocation of resources

When

Initial contact with client

Customer requests for additional services/products

Transactional patterns

How

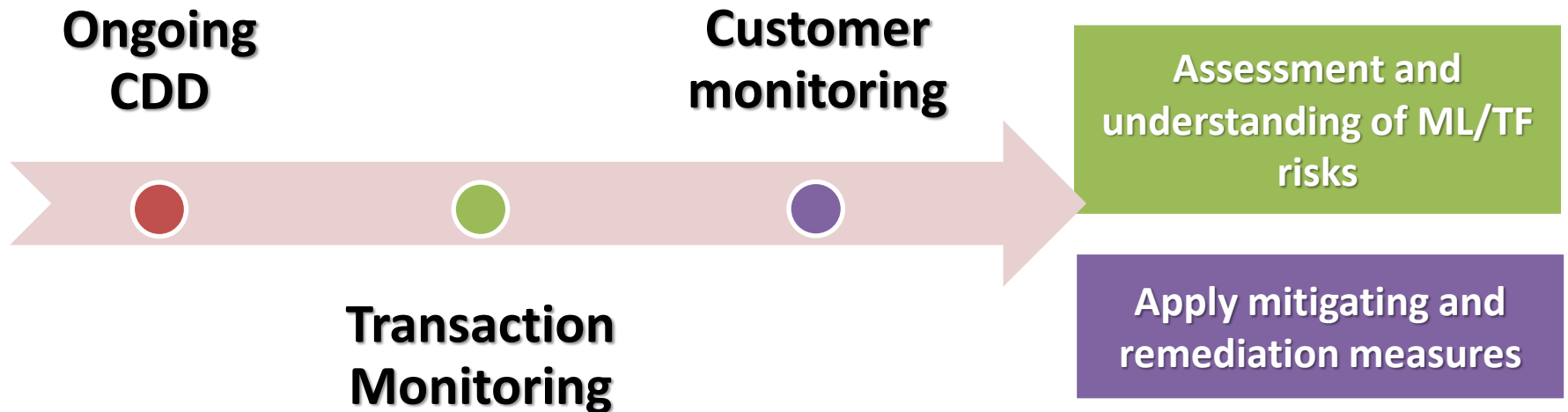
AI should adopt an RBA in the design and implementation of its AML/CFT policies, procedures and controls with a view to managing and mitigating ML/TF risks.



What constitute an effective ML/TF risk management system?

Key elements should comprise of:

Core elements of an ML/TF risk management system :



RBA is dynamic and must be kept under constant reviews



The application of RBA is NOT optional, but a prerequisite for the effective implementation of the FATF and HK regulatory standards.

Should analyse/seek to understand how ML/TF risks affect your bank; and apply risk-sensitive measures that are commensurate to the nature of risks.

The risk assessment should be properly documented, regularly updated and communicated to all stakeholders in your bank.

Non-HK resident opened a corporate account and left it dormant for 1 year – ML risk

– In the late night on 2016.12.7 AKBank's SWIFT system was hacked resulting in 87 false payments of USD100 million from JPMorgan Chase/Wells Fargo accounts to recipients. 14 corporate accounts opened with different banks in HK a year prior ready to receive such unauthorized payments. One of which was Mainford Ltd account opened with D Bank in Dec 2015 claiming to be properties investment business in Malaysia, sole shareholder Mr. Zhu Jun, with no office premises in HK. On 2016.12.8 USD3,261,034.60 remitted from AKBank to this account and shortly thereafter USD3,258,569.77 remitted to Huang Hong Technology Ltd account in Taipei.

CONSIDER:

[Bank should understand the purpose and intended nature of the business relationship. **Would the above transaction raise any ML concerns?**]

Prior to these transactions account was idle and virtually dormant for a year.

[**re-activation of a dormant account – what should the bank do ?**]



Learning Outcome

Chapter 7: Building an effective AML/CFT risk management system

Upon completion of this chapter, participants will be able to:

- examine the underlying purpose and desired outcomes of an effective ML/TF risk management system;
- analyse the key elements of an ML/TF risk management system; and
- demonstrate and apply the essential elements of an effective ML/TF risk management system, considering the key risk indicators (“KRIs”) and key processes which include sanctions, risk monitoring, regulatory updates and ongoing quality assurance, rectification action monitoring, and risk management across a banking institution.

Chapter 7 – Building an effective AML/CFT risk management system

Banks should take into account the main threats and vulnerable areas of business identified to build an effective AML/CFT Risk Management System, including:

- (a) Determine an IRA;
- (b) Define its risk appetite and KRIs;
- (c) Take enhanced measures to manage and mitigate business in which the ML/TF risk is higher.
- (d) Be aware that certain risk factors may interplay and have an amplifying effect.
- (e) Escalate to senior management any residual risks remaining after the implementation of risk mitigation process.

Did the AI contravene provisions of HKMA Guideline on AML/CFT – Para 4.3.3 during account opening for these non-HK residents?

- In verifying the identity of a customer (non-HK resident) AI should verify the name, date of birth, unique identification number and document type of the customer by reference to documents, data or information provided by a reliable and independent source, examples of which include:
 - (a) Hong Kong Identity card or other national identity card;
 - (b) Valid travel document (e.g. unexpired passport); or
 - (c) Other relevant documents, data or information provided by a reliable and independent source (e.g. document issued by a government body)
- In addition, AI would normally ask non-HK resident for documents like: residential address and contact telephone number in Taiwan/China.

Case Study – the email scam/UMSO case

On 2018.9.7 Friday, JFIU called your office and made enquiries about below 2 suspect payment made to the Fortune Ltd account :

2018.9.1 USD36,732.25 inward TT from Dubai

2018.9.2 USD31,173.25 inward TT from Dubai

Account opening branch also notified your office that she received an email from a Mr. Ibrahim from Dubai saying that his email address had been hacked and used by others requesting to return these 2 remittances.

You checked Mr. Shen's personal account details and ascertained the reported address is identical to a MSO near the account opening branch.

Fortune Ltd account opened bank account with your bank since June 2017

Sole shareholder/director Mr. Shen, 20 years of age, holding a 2-way permit to HK; with registered address at BOA Tower office address

Reportedly to be in the mobile phones trade.

Total turnover of the account was HKD367,336, 660.17



Training Revision

Revised AML guideline	In conducting the IRA, it should cover a range of factors, including:
Customer Risk factors	<ul style="list-style-type: none"> - Target market and customer segments - No and proportion of customers identified as high risk;
Country Risk factors	<p>The countries or jurisdictions it is exposed to:</p> <p>especially with relatively higher level of corruption or organized crime, and/or not having effective AML/CFT regimes</p>
Product, service, delivery channel risk factors	<ul style="list-style-type: none"> - nature, scale, diversity and complexity of its business; - Characteristics of products and services offered; - Volume and size of its transactions - Relies on 3rd party to conduct CDD, uses technology
Other risk factors	<ul style="list-style-type: none"> - nature, scale and quality of available ML/TF risk management resources; - Compliance and regulatory findings - Results of internal or external audits

Learning Outcome

Chapter 8: The risk-based approach and AML/CFT risks in specialist areas

Upon completion of this chapter, participants will be able to:

- apply knowledge to identify and assess the respective risk(s), with a focus on ensuring criminal proceeds do not enter the banking institution through these areas;
- apply RBA to identify and assess specific ML/TF risks with the objective of ensuring sound management of ML/TF risk; and
- develop and critically assess methods to detect, deal with and mitigate risks once criminal proceeds are identified as having originated from these areas.

HKMA Guideline on AML/CFT revised Oct 2018 – Subsection 6.7 & 6.10

[Financial sanctions] It is an offence to make available, directly or indirectly, any funds, or other financial assets, or economic resources, to, or for the benefit of, a designated person or entity (targeted financial sanctions)

[CPF] The law prohibits a person from providing any services where he believes or suspects, on reasonable grounds, that those services may be connected to PF. The provision of services is widely defined and includes the lending of money or provision of financial assistance.

Effective response to countering proliferation finance (CPF)

Banks use service providers for screening software and sanction list; thus banks should work closely to make sure that the software corresponds with their unique risk appetite.

It is necessary for banks to devise strategies to move beyond focusing merely on the sanctions lists to conduct network analysis or order to mitigate CPF activity .

Banks should consider the risk factor of clients involved in legal trade, but may indirectly be caught up in illicit activity by extension of their affiliation with a proliferation network (e.g. North Korea)

It is advisable to screen for dual-use or proliferation-sensitive goods and technology goods.

Revised AMLO Guideline 4.9.16 EDD measures for PEP.

- Revised AMLO Guideline 4.9.16 EDD measures for PEP.

If a domestic PEP is no longer entrusted with a prominent (public) function, an AI **May** adopt an RBA to determine whether to apply or continue to apply the EDD measures...

FATF & EGMONT Report (Mar 2021) Trade-Based Money Laundering – Risk Indicators

Structural Risk Indicators :

- A trade entity is registered or has offices in a jurisdiction with weak AML/CFT compliance

Trade Activity Risk Indicators:

- A trade entity engages in transactions and shipping routes or methods that are inconsistent with standard business practices

Trade Document and Commodity Risk Indicators:

- Contracts, invoices, or other trade documents display fees or prices that do not seem to be in line with commercial considerations, are inconsistent with market value, or significantly fluctuate from previous comparable transactions

Account and Transaction activity risk indicators:

- An account displays an unexpectedly high number or value of transactions that are inconsistent with the stated business activity of the client.



AML Guideline revised on 2018.11.1 Para. 10.18 (Wire transfers)

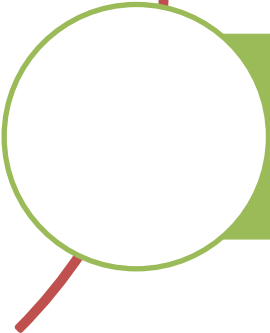
- A beneficiary institution should establish and maintain effective procedures for identifying and handling incoming wire transfers that do not comply with the relevant originator or recipient information requirements, which include:
 - (a) taking reasonable measures (e.g. post-event monitoring) to identify domestic or cross-border wire transfers that lack required originator information or required recipient information; and
 - (b) having risk-based policies and procedures** for determining:
 - (i) when to execute, reject, or suspend a wire transfer lacking required originator information or required recipient information; and
 - (ii) the appropriate follow-up action.



Chapter 8 – The RBA and ML/TF risks in specialist areas



Apply the knowledge cultivated from Cap 6 & 7 to identify and assess specific ML/TF risks, with the objective of ensuring sound management of ML/TF risk;



Understand the application of the RBA specifically to address ML/TF risks in PEP, sanctioned persons, WMD proliferation, TBML and tax evasion contexts.



Learning Outcome

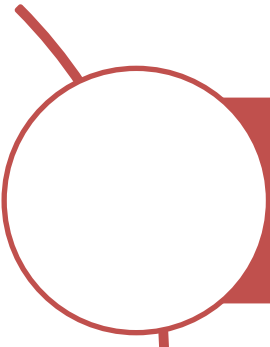
Chapter 9: Ensuring financial inclusion

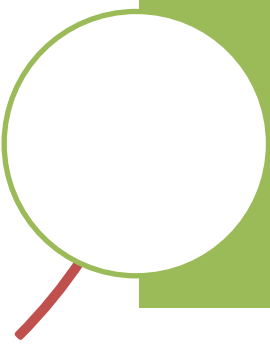
Upon completion of this chapter, participants will be able to:

- demonstrate an awareness of balancing the often competing interests of applying the RBA alongside the principle of financial inclusion; and
- design and implement a RBA rather than a rule-based approach, to promote and facilitate financial inclusion.



Chapter 9 – Ensuring Financial inclusion

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- The importance of financial inclusion
 - How AML/CFT considerations can impact financial inclusion

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- The Key drivers for de-risking
 - The implications of de-risking on the financial industry
 - Suggested approaches by international standard-setters on mitigating de-risking

HKMA Circular dated 2019.2.1 on Remote on-boarding of individual customers

- The HKMA expects that any technology solutions adopted by AIs for remote on-boarding should be at least as robust as those performed when the customer is in front of the staff, and cover the following two aspects:
 - (i) Identity authentication;
 - (ii) Identity matching (e.g. Biometric solutions like facial recognition and liveness detection)
- Prior to the launch of a remote on-boarding initiative, AIs should conduct ML/TF risk assessments proportionate to the nature, size and complexity of their business and thereafter monitor and manage the effectiveness of the technology adopted on an ongoing basis, particularly during early stages of implementation and operation.

HKMA Circular dated 2021.6.3 (Feedback from recent thematic reviews of Anti-Money Laundering & Counter-Financing of Terrorism (AML/CFT) control measures for remote customer on-boarding initiatives.

Als are able to demonstrate an appropriate level of understanding of how the solutions worked, e.g. both their benefits and limitations, including the algorithms used and the features / attributes matched by the artificial intelligence in the identity card authentication process.

All Als considered post-implementation reviews (PIR).

FAR (False-acceptance rate) = (No. of False Acceptances)/ Total number of Fake ID Transaction performed

FRR (False-rejection rate) = (No. of False Rejections)/ Total number of Genuine ID Transaction performed

HKMA Circular – Supporting the use of New Technologies for AML/CFT dated 2021.8.11

AML and Financial Crime Regtech adoption (in use of new technologies for AML/CFT):

- (a) To share experience and success stories of AIs and Stored Value facility licensees;
- (b) To launch AML and Financial Crime Regtech Labs for experimenting and engaging with new technologies and emerging data analytics techniques;
- (c) To promote network analytics capability for tackling online fraud and associated mule account networks;
- (d) To create a conducive environment for inclusive AML/CFT innovation.

In managing Regtech initiatives, consider following

- (a) What are the technical parameters that need to take into account?
- (b) What are the legal and regulatory issues that will impact your plan?
- (c) What are the risks of deploying/not deploying the Regtech initiatives?
- (d) What is the most efficient way to navigate them?
- (e) Who are the stakeholders need to consider and how should we execute these initiatives?

Learning Outcome

Chapter 10: Managing stakeholders effectively

Upon completion of this chapter, participants will be able to:

- work collaboratively with internal and external stakeholders of the bank to balance and manage all interests of various stakeholders;
- build and encourage organisation capability for the purposes of implementing and enhancing the bank's anti-money laundering and counter-terrorist financing (“AML/CFT”) framework; and
- formulate and articulate strategies to achieve optimal outcomes in the respective circumstance.

Chapter 10 – Managing stakeholders effectively

Focuses in balancing and managing the interests of various stakeholders while ensuring and maintaining an effective RBA in your bank, including:

- (a) Work collaboratively with internal and external stakeholders to balance and manage all interests of various stakeholders ensuring to develop a common understanding of the RBA in your Bank;
- (b) Implement and enhance your Bank's AML/CFT framework;
- (c) Formulate and articulate strategies to achieve optimal outcome regarding compliance with AML requirements;

Chapter 10 – Managing stakeholders effectively

Senior management oversight

Effective ML/TF risk management requires adequate governance arrangements. The board of directors or its delegated committee (where applicable), and

- senior management of an AI should have a clear understanding of its ML/TF risks and ensure that the risks are adequately managed.
- Management information regarding ML/TF risks and the AML/CFT Systems should be communicated to them in a timely, complete, understandable and accurate manner so that they are equipped to make informed decisions

Chapter 10 – Managing stakeholders effectively

Independent Audit function

An AI should establish an independent audit function which should have a direct line of communication to the senior management of the AI. The function should have sufficient expertise and resources to enable it to carry out its responsibilities, including independent reviews of the AI's AML/CFT Systems.

The audit function should regularly review the AML/CFT Systems to ensure effectiveness. The review should include, but not be limited to:

- (a) adequacy of the AI's AML/CFT Systems, ML/TF risk assessment framework and application of RBA;
- (b) effectiveness of suspicious transaction reporting systems;
- (c) effectiveness of the compliance function; and
- (d) level of awareness of staff having AML/CFT responsibilities.

Managing the HKMA

- HKMA conducted compliance review
- HKMA identified same issues
- HKMA issued onsite examination report
- HKMA have scheduled a meeting with senior management



Self-reflection on Key Takeaways

Have your Bank done any qualitative ML risk assessment?

From the analysis of the ML risk/lesson learned what were the action plans initiated by your office and then reported to senior management to mitigate such potential ML risk vulnerabilities?

Remember to document any residual ML risk after you have implemented ML risk mitigation.

Successful RBA management culture needs to be established for the whole bank, from senior to junior staff, front to back office.

Case Study Application



The CBA IDM Case

On 2018.6.4 CBA was fined AUD700 million for failure to:

- (a) Carry out an ML/TF risk assessment;
- (b) Introduce appropriate RBA controls to mitigate and manage the higher ML/TF risk;
- (c) Late report of 53,000 threshold transactions reports to AUSTRAC;
- (d) report SMR and carry out ongoing due diligence

Intelligent Deposit Machine (IDM)

May 2012 – Feb 2018

Accepts deposits in cash and cheque, either using a CBA card or any other financial institution card (i.e. deposit by 3rd parties , at any time, any place)	Deposits are automatically counted and credited to nominee account and funds are available for immediate transfer
Allows up to 200 cash notes in a single transaction (\$100 notes up to AUD20,000). No limit on IDM transactions a day	Accepts cards from any authorised institution for withdrawals. Where card has not been issued by the bank, IDM will proceed with transaction anyway



Case study - Mingzheng International Trading Ltd

USA Patriot Act – Chief Judge Beryl A. Howell of District of Columbia

Since 2017, US authorities commenced investigation of below HK incorporated company:

- **Mingzheng International Trading Ltd**

Allegedly between Oct 2012 and Jan 2015 conducted wire transfers via below 3 banks:

- (a) Bank of Communications Ltd [branch in New York USD47.78 m];
- (b) China Merchants Bank Ltd [branch in New York USD1.63 m];
- (c) Shanghai Pudong Development Bank Ltd [no branch in USA USD57.93 m]

According to the court documents it was alleged that these a/c laundered funds for and on behalf of Foreign Trade Bank, North Korea to finance the country's nuclear weapons and ballistic missile program.

Case study - Mingzheng International Trading Ltd

It was alleged that Mingzheng International Trading Limited also had dealings with ZTE for selling sanctioned electronics to North Korea and Iran.

Law enforcement agents in USA applied for court order directing all 3 banks to produce bank records relating to Mingzheng International Trading Limited.

All 3 banks refused to comply with the US subpoenas as it was against the Chinese banking privacy rules and other laws require that kind of requests should be made through a legal mutual assistance pact between USA and China.

2019.3.18 Howell ordered a heavy contempt fines to each of these 3 banks to pay USD50,000- a day until they have complied with the subpoenas, which was then upheld by the US Appeals Court.

Sustainable RBA framework

- (a) Ensure senior management maintain effective control over and oversight of compliance with AML requirements;
- (b) Clearly define roles, responsibilities and accountability regarding compliance with AML requirements;
- (c) Measures to ensure AML issues are appropriately tracked, escalated, and reviewed by senior management;
- (d) Allocate adequate resources to ensure compliance responsibilities are properly carried out;
- (e) Set up direct reporting line between AML CO and senior management.

Examination Format and Guidelines



Examination Format

Examination Mode	Paper-based Examination
Examination Language	English
Question Type	Part A: 50 – 60 Multiple-choice questions (MCQ) <div style="border: 2px solid red; padding: 10px; margin: 10px 0;"><p>~ 80% of the questions from essential readings ~ 20% of the questions from market information</p></div> Part B: 2 out of 3 essay questions
Pass Mark	60%
Examination Duration	3 hours

Important notes on Exam

ECF on AML/CFT Programme Handbook (available in Oct)	<ul style="list-style-type: none">• Read the details especially on the examination regulations
Examination Attendance Notice (EAN)	<ul style="list-style-type: none">• Receive EAN via email around 2 weeks before examination• Present EAN in examination together with a valid identity document
Examination Attendance	<ul style="list-style-type: none">• Arrive at the examination venue at least 15 minutes before the examination starts
Examination Results	<ul style="list-style-type: none">• Available 6 – 8 weeks after the examination
Max no. of attempts	<ul style="list-style-type: none">• No limit if fail in the examination



Sample exam question Q1 (MCQ)

Why is the risk-based approach an essential foundation of the FATF standards and how banks are expected to implement AML/CFT controls? Which statement is not true?

- A. Supports a flexible approach which takes into account the fact that ML/TF risks vary from place to place, depending on customer, product, delivery and country risk
- B. Allows more effective targeting of resources and efforts by banks towards the highest ML/TF risks they face
- C. Promotes a proportionate approach which takes into account common sense, rather than a tick-box approach irrespective of risk considerations, allowing banks to minimize unintended consequences
- D. A rules based approach has proved difficult to implement consistently across the different jurisdictions which apply the international standards

Sample exam question Q2 (MCQ)

Mr. Tony Chow who is an executive director of a company called Super Media Company has maintained a private banking account in his personal name for the last 5 years at the bank that you work for. On review, it is noted that there are no irregular transactions or issues with any due diligence documentation for the account. Mr. Chow recently approached his relationship manager to open an account for Super Media Shipping Company incorporated in Liberia, with himself as the sole authorised signatory. You are the due diligence officer of the private banking department and the due diligence on this file has come to you. How would you handle this request? [Chapter 6, L3]

- A. Mr. Tony Chow has maintained an account with the bank without any issues for 5 years...
- B. Liberia is a highly sensitive country pursuant to an existing sanctions programme...
- C. It is questionable why Mr. Tony Chow is requesting the opening of a corporate account...
- D. Mr. Tony Chow has maintained an account with the bank without any issues for 5 years. However...

Application for designation

1. Eligible for applying certification, with the 3-years of relevant work experience
2. Awarded with designation of CAMLP
3. Published in Registers of Certified Individual (CI)
4. Entitled to use the designation on name cards and CV

Self Learning Guidelines



Recommended Actions

- Develop a self learning plan for with your education background, work experiences and learning paces (*At least 300 self-study hours*)
- Read Programme Handbook
- Study the recommend readings to understand the knowledge and able to apply
 - **Essential readings:** *For learners to prepare for the examination*
 - **Supplementary readings:** *For learners who would like to know more about the fundamental concepts / theories of the topic*
 - **Further readings:** *For learners who would like to enhance the depth or breadth of their knowledge of the module*
- Prepare questions to get HKIB trainer's support
- Attend relevant internal or external workshops/ seminars/conferences to catch up new market practices
- Study HKMA website/other relevant websites to access latest market update

Recommended Learning Hours

Structure	Professional Level
Chapters	Chapter 6 – 10
QF Level	Level 5
QF Credits	<u>30</u> QF credit
Notional Learning Hours	<u>300</u> Notional Learning Hours per module
	Total time likely to be spent by an average learner in all modes of learning including attendance in classes, tutorials, experiment in laboratories, practical learning at workshop, self-studies in library or at home, and also the assessment or examinations.

Q & A Session



Thank you

