

**Professional Certificate for ECF on
Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT)**

Mock Paper

1. This mock paper and all relevant materials are only for candidates' practicing and not for any other purposes.
2. Copyright of this mock paper as well as other relevant materials are reserved by the Hong Kong Institute of Bankers.
3. Answer the questions as follows:
Section A – Answer **ALL** the questions in this section. In the official examination, you must blacken the best choice with an HB/2B pencil on the answer sheet provided. Each question carries equal mark.
Section B – Answer any **TWO** questions out of three. In the official examination, this part must be completed with a black or blue pen. Answers written in pencil will **NOT** be marked.
4. The official examination time allowed for this Module is 3 hours. The passing mark is 60%. Candidates are required to answer 40-50 multiple choice questions and 2-3 essay-type questions.
5. Time allowed: **3 hours**

Glossary

- AML: Anti-Money Laundering
- AMLO: Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615)
- CDD: Customer Due Diligence
- CFT: Counter-Financing of Terrorism
- EDD: Enhanced Due Diligence
- FATF: The Financial Action Task Force
- HKMA: Hong Kong Monetary Authority
- JFIU: Joint Financial Intelligence Unit
- ML: Money Laundering
- PEP: Politically Exposed Person
- STR: Suspicious Transaction Report
- TF: Terrorist Financing



Section A

Answer ALL the questions by blackening the best choice. Each question carries equal mark. The total marks for this section is 50 marks. Read all choices before choosing your answer.

Based on the below scenario, answer Q.1 – Q.3.

The police have issued a production order to HH Bank in relation to a very active corporate customer (“SS Company”). SS Company has ten different accounts in its own name, plus another ten accounts for its wholly owned subsidiaries. The bank has 28 days to produce the materials specified in the production order.

Q.1 What are the issues that HH Bank should consider in the initial handling of the police’s request?

- I. Whether the time limit for the bank to produce the materials is sufficient or not.
- II. The procedures and processes that are in place to handle such an order.
- III. The major issues which need to be considered in the production order.
- IV. Any need to communicate with the police prior to providing the requisite information.

- A. I and II only
- B. I, III and IV only
- C. II, III and IV only
- D. All of the above

Q.2 What would be the potential consequences if HH Bank is late in submitting the materials as specified in the production order?

- I. The possibility of facing criminal penalties.
- II. The possibility of some of the directors being imprisoned.
- III. Failing to meet the HKMA’s expectations that banks have to meet their legal obligations.
- IV. Damaging Hong Kong’s reputation as an international financial centre and its ability to participate in mutual legal assistance regimes.

- A. I, II and III only
- B. I, II and IV only
- C. I, III and IV only
- D. II, III and IV only

- Q.3 Should HH Bank also submit an STR upon receiving the production report?
- A. Yes, the production report itself is evidence to justify the submission of the STR.
 - B. Yes, if only HH Bank has a suspicion of ML/TF.
 - C. No, the police already know about the case.
 - D. No, not until the police has produced a search warrant.

Based on the below scenario, answer Q.4 – Q.8.

Reyes is a foreign domestic helper that has recently arrived Hong Kong from the Philippines. Her friend Garcia has recently graduated from a local university and she has set up a trading company called Garcia Trading Co Ltd which imports coconut oil from the Philippines to Hong Kong.

Both Reyes and Garcia visit EE Bank to open a personal bank account. Garcia wants to open a corporate account for her company Garcia Trading Co Ltd although she has a personal account with another bank when she was a university student.

Both of them are told that the only bank accounts available on offer are:

- an account with no minimum balance requirement, but a minimum monthly salary (for personal account) or profit (for corporate account) requirement of HK\$20,000 per month; or
- an account with a minimum balance of HK\$100,000 at all times, but no minimum salary (for personal account) or profit (for corporate account) requirements.

When Garcia Trading Co Ltd's bank accounts are opened successfully opened, Garcia is required to provide EE Bank with relevant information about the business models and clientele, such as projected profit and loss, funding sources, directorships, mode of operations, expected bank account activities and business plans supported by agreements or communications with potential buyers or suppliers.

- Q.4 What is/are the possible reason(s) for banks not to exclude all domestic helpers from opening bank accounts?
- A. It could encourage the growth of unregulated remittance channels.
 - B. It would lead to reputational loss for the banking industry.
 - C. It would potentially affect banks' profitability and business growth.
 - D. All of the above

- Q.5 Which of the following are the possible reasons for EE Bank to impose a minimum monthly salary/profit or a minimum balance requirement on bank accounts?
- I. High compliance costs
 - II. Low profitability
 - III. Increasing regulatory burdens related to the implementation of AML/CFT requirements
 - IV. Racial discrimination
- A. I, II and III only
B. I, II and IV only
C. I, III and IV only
D. II, III and IV only
- Q.6 What would be good suggestions to EE Bank when it assesses the ML/TF risks in opening a bank account with Reyes and Garcia?
- I. EE Bank should apply proportionate risk mitigating and CDD measures.
 - II. EE Bank should identify, assess and understand the ML/TF risks to which it is exposed and take appropriate measures commensurate with those risks.
 - III. EE Bank should not aim at implementing overly stringent CDD processes with a view to eliminating all risks.
- A. I and II only
B. I and III only
C. II and III only
D. All of the above
- Q.7 As it is important for EE Bank to ensure that all customers, including Reyes and Garcia, are being treated fairly, which of the following would be good suggestions to EE Bank in applying effective CDD measures?
- I. Information and documentation requirements for CDD purposes should be clearly set out and easily accessible to new and existing customers.
 - II. CDD processes and documentation requirements of EE Bank should be relevant and pragmatic with respect to the customers' backgrounds and circumstances.
 - III. EE Bank should maintain adequate communication with customers throughout the account-opening process.
- A. I and II only
B. I and III only
C. II and III only
D. All of the above

Q.8 Suppose that after onboarding Garcia Trading Co Ltd, EE Bank receives a bill of lading. However, in the “Container No” section of the bill, it was left blank. What are the issues that EE Bank should consider in assessing the bill?

- I. Does the bill of lading make sense?
- II. Are there any issues that a reasonable person (even without specialist knowledge) should be able to identify when reviewing them the bill?
- III. Is there any obvious over-pricing or under-pricing of goods?
- IV. Are there any dubious unauthorised alterations to the bill?

- A. I and II only
- B. I, III and IV only
- C. II, III and IV only
- D. All of the above

Q.9 In the context of combating trade-based money laundering, banks adopt a risk-based approach that mainly includes taking into account:

- I. customer’s business nature.
- II. major suppliers.
- III. anticipated account activity.
- IV. internal customer risk assessment ratings.

- A. I and II only
- B. III and IV only
- C. I, II and III only
- D. All of the above

Q.10 Which of the following statements about RBA is incorrect?

- A. RBA is a “zero failure” approach.
- B. The HKMA expects banks to adopt RBA.
- C. Banks must refrain from adopting RBA practices that would result in financial exclusion.
- D. Banks should consider applying the appropriate level of due diligence after the risk assessment.

- Q.11 Which of the following are the key components of an effective screening system?
- I. The quality and integrity of the underlying data is essential.
 - II. The screening database should be subject to timely updates.
 - III. An effective system allows the bank to accept all screening alerts without further review.
 - IV. An effective system should be able to identify names with minor alterations.
- A. I, II and III only
 - B. I, II and IV only
 - C. I, III and IV only
 - D. II, III and IV only
- Q.12 The effectiveness of anti-money-laundering controls can be measured by key risk indicators (KRI). Which of the followings would be considered as the KRI for customer risk assessment?
- I. New customers not risk-rated appropriately
 - II. Cash-intensive businesses not reviewed in a timely manner
 - III. New accounts with inadequate verification of identity
- A. I and II only
 - B. I and III only
 - C. II and III only
 - D. All of the above
- Q.13 You are working in the Human Resources Department. Your bank plans to appoint a Money Laundering Reporting Officer to implement internal AML/CTF controls. Which selection criteria would you suggest to the bank? The bank must ensure that the Money Laundering Reporting Officer is:
- I. provided with regular contact with senior management to ensure that senior management is able to satisfy itself that the statutory obligations are being met.
 - II. supervised by the head of the risk management function.
 - III. capable of accessing CDD records.
 - IV. equipped with sufficient resources.
- A. I, II and III only
 - B. I, II and IV only
 - C. I, III and IV only
 - D. II, III and IV only

Q.14 Ricky is a well-known casino junket operator. He approaches you to open a private banking account in the name of an offshore company that he has recently set up in the British Virgin Islands (BVI). He also requests a line of credit. You note from public articles that Ricky is often associated with PEPs as well as persons with purported links to organised crime. Ricky himself has not been convicted of any crime. Which of the following constitutes a balanced application of the risk-based approach?

- I. The profile of this client carries a reputation risk to the bank and any attempts on a best effort basis to ensure that the source of funds in the account belongs to the client cannot be foolproofed. Given that a risk-based approach does not condone a “if you miss one, you miss one” approach, you reject the account opening request.
- II. You enquire about his remuneration model and assess the level of revenues that would likely constitute a realistic estimate of his income, requesting documentary evidence as required in accordance with your bank’s account opening policy. You flag the account as “high risk” for enhanced due diligence.
- III. You obtain satisfactory corroboration on his source of wealth and put in place measures to ensure that the application of the loan proceeds go towards funding his personal investments in the private bank in addition to building suitable parameters to monitor the account activity.
- IV. You support your decision by proceeding to promptly file a suspicious transaction report on the basis of the public articles that have expressed a suspicion of Ricky’s purported links to organised crime as well as his reported connections to PEPs.

- A. I and IV only
- B. II and III only
- C. III and IV only
- D. II, III and IV only

Q.15 International trade in goods can be used for ML. A common example is:

- A. to over- or under- invoice, the goods.
- B. to buy/sell goods that do not need to be declared.
- C. to sell as many exported goods as possible.
- D. to buy/sell high-value assets such as luxury cars and boats at market price.

- Q.16 Which of the following statements are effective practices of an adequate AML program?
- I. Perform a periodic review of the AML program.
 - II. Review applicable domestic and international AML directives.
 - III. Perform ML/TF risk assessment on a regular basis and update the AML program based on the assessed risks
 - IV. Review regularly every account opening applications.
- A. I and IV only
B. II and III only
C. I, II and III only
D. All of the above
- Q.17 You are working in the Human Resources Department. Your bank plans to appoint a Compliance Officer to implement internal AML/CTF controls. Which selection criteria would you suggest to the bank? The bank must ensure that the Compliance Officer is:
- I. appropriately qualified with sufficient AML/CFT knowledge.
 - II. basically independent of all operational and business functions.
 - III. normally based in Hong Kong.
 - IV. of a sufficient level of seniority and authority within the bank.
- A. I and IV only
B. II and III only
C. I, II and IV only
D. All of the above
- Q.18 In transaction monitoring, which of the following aspects of a transaction should banks consider in transaction monitoring?
- I. The nature of transactions
 - II. The number of cash deposits
 - III. The amount of transactions
 - IV. The geographical destination of a payment
- A. I and II only
B. I, III and IV only
C. II, III and IV only
D. All of the above

- Q.19 Which of the following factors could contribute to increasing ML/TF risks for retail banks?
- I. The product's features favour anonymity.
 - II. The product places no restrictions on turnover, cross-border transactions or product features.
 - III. Use of new technologies which are not yet well understood in existing products.
- A. I and II only
B. I and III only
C. II and III only
D. All of the above
- Q.20 When handling a court order, which of the following practices should be adopted by the bank?
- I. Implement the policies and procedures for orders.
 - II. Allocate sufficient resources to comply with orders before any deadline.
 - III. Outsource to external parties (e.g. courier) and the party has discretion to handle orders.
 - IV. Acknowledge an order promptly and communicate to the relevant authority.
- A. I and III only
B. I, II and IV only
C. II, III and IV only
D. All of the above
- Q.21 In which of the following cases might a suspicious transaction report not be necessary?
- A. A customer deposits money from suspicious origins but refuses to answer questions from the financial institution's staff.
 - B. A customer tries to move money that is suspected of being derived from criminal activities.
 - C. A customer owns a large supermarket and deposits large amount of cash several times a day.
 - D. A customer carries out financial activities beyond his financial capability.

- Q.22 What is the sequence (from left to right) in the process for examination and review by the HKMA?
- I. HKMA notifies the bank.
 - II. HKMA communicates key observations and concerns, which include providing comment and response formally.
 - III. HKMA holds meetings with staff relevant on the examination issues.
 - IV. HKMA submits information request list to the bank.
 - V. HKMA holds a “kick-off” meeting with senior management.
 - VI. A final report is provided to the Bank.
 - VII. HKMA arranges for “exit meeting” with senior management.
- A. I, II, III, IV, V, VII, VI
B. I, II, IV, III, V, VII, VI
C. I, III, IV, V, II, VII, VI
D. I, IV, V, III, II, VII, VI

- Q.23 Which of the following person/team is responsible for communicating compliance-related issues to stakeholders across all divisions of the organisation?
- A. Chief executive officer
B. ML reporting officer
C. Compliance team
D. Senior management

- Q.24 Which of the following are good practices relating to internal audit?
- I. Senior management should ensure that audit functions are allocated staff who have the expertise to conduct such audits.
 - II. Management should ensure that the audit scope is appropriate for the banks’ risk profile.
 - III. The frequency of internal audit is based on the bank’s risk profile.
- A. I and II only
B. I and III only
C. II and III only
D. All of the above

- Q.25 A customer who operates a trading company has multiple accounts in the same banking group at different locations. The customer receives funds from a jurisdiction perceived as highly corrupt according to Transparency International ratings and makes frequent transfers among the accounts and prefers to manage the accounts separately. What should the bank do first to mitigate the risk of these accounts?
- I. Diminish the importance of Transparency International ratings.
 - II. Monitor activities of the customer holistically.
 - III. File a suspicious transaction report to JFIU immediately.
 - IV. Conduct an examination of trade price manipulation.
- A. I only
B. II only
C. II and III only
D. III and IV only
- Q.26 Which of the following best illustrates the application of the risk-based approach to transaction monitoring?
- A. The bank should conduct transaction monitoring in relation to all business relationships.
 - B. The extent of transaction monitoring (e.g. frequency and intensity of monitoring) is the same for all customers.
 - C. Where ML/TF risks are high, the bank should conduct enhanced transaction monitoring.
 - D. Even in low-risk situations, the bank should maintain the same level of monitoring as in other situations.
- Q.27 Which of the following are the potential benefits of Institutional Risk Assessment?
- I. Resources could be optimised.
 - II. Senior Management could make better strategic decision.
 - III. The institution could recruit more talents in assessing the ML/TF risks.
- A. I and II only
B. I and III only
C. II and III only
D. All of the above

- Q.28 When a financial institution conducts an internal investigation into an account following a law enforcement inquiry, it should consider a number of factors to determine independently if the account should be closed. Which of the following is an inappropriate consideration when determining whether to close an account?
- A. The institution's policies and procedures for closing an account.
 - B. Signed written requests by a law enforcement agency on official letterhead for the account to remain open.
 - C. Oral requests from a law enforcement agency for the account to be reviewed.
 - D. The level of seriousness of the underlying conduct.
- Q.29 Which of the following statements about financial inclusion is incorrect?
- A. Financial inclusion involves providing access to an adequate range of safe, convenient and affordable financial services to the small and medium enterprises (SMEs) only.
 - B. Financial inclusion involves making a broader range of financial products and services available to individuals who currently only have access to basic financial products.
 - C. Financial inclusion ensures access to appropriate financial products and services at an affordable cost in a fair and transparent manner.
 - D. Financial inclusion enables businesses to have access to useful and affordable financial products and services to meet, for example, their transactions and payment needs.
- Q.30 How does a bank test if its anti-money laundering program is effective?
- A. The program should be reviewed regularly by the bank's independent audit function.
 - B. The program should be sent to the regulator periodically.
 - C. The program should be reassessed by Sales Department at least once per year.
 - D. The program should be reviewed by the law enforcement agency for gaps in controls.

- Q.31 According to FATF’s publication, which of the following statements is/are correct for “Financial Inclusion”?
- I. FATF considers money service operators (MSO) not a part of the financial system, since they are not banks.
 - II. Governments should dedicate resources to support financial inclusion.
 - III. Banks should understand the ML/TF risk but not unnecessarily avoid risk.
- A. I only
 - B. II only
 - C. II and III only
 - D. All of the above
- Q.32 Which of the following statements about PEPs is incorrect?
- A. PEPs in the AMLO include individuals entrusted with prominent public functions in a place outside the PRC.
 - B. EDD should be applied to all domestic PEPs.
 - C. When dealing with PEPs of international organisations, banks should conduct a risk assessment using the RBA.
 - D. Enhanced monitoring should be applied to foreign PEPs.
- Q.33 For banks, there should be an internally approved and clearly documented “new product approval policy” for new products. What should be covered in the policy? The new product approval policy should cover:
- I. All aspects of the decision relating to the new products such as the decision to enter new markets or new areas of business
 - II. The internal functions to be involved in the decision
 - III. The processes and procedures for approving significant changes to existing products
- A. I and II only
 - B. I and III only
 - C. II and III only
 - D. All of the above

- Q.34 A family member of a PEP may pose a lower risk if:
- A. he/she is under 12 years of age.
 - B. his/her wealth is derived from commerce in industry sectors associated with high-barriers to entry.
 - C. his/her lifestyle is inconsistent with known legitimate sources of income.
 - D. None of the above
- Q.35 What should the financial institution do to mitigate risk, if a corporate client has bearer shares?
- I. Cease business with the company.
 - II. Inspect the register of owners.
 - III. Keep the bearer shares.
 - IV. Obtain confirmation from the authorised custodian on the beneficial owners of the bear shares.
- A. I only
 - B. II only
 - C. IV only
 - D. I and III only
- Q.36 What is “de-risking”?
- A. It involves providing access to affordable financial services to vulnerable groups.
 - B. It involves making a broader range of financial products available to individuals who currently only have access to basic financial products.
 - C. It is the phenomenon of a financial institution managing the risk of having a business relationship with a customer by stepping up related measures and reporting JFIU.
 - D. It is the phenomenon of a financial institution terminating or restricting a business relationship with a customer to prevent related risk, rather than manage it.

- Q.37 Why is it that banks cannot ignore overseas sanctions despite the fact that banks will not normally have any obligation under Hong Kong law to have regard to sanctions lists issued by other authorities in other jurisdictions?
- A. The “fit and proper” criteria of the HKMA entails demonstrating compliance with foreign sanctions to the extent that they are relevant to its business.
 - B. The ML/TF risk mitigation obligation under the AMLO may entail that ML/TF risks identified by foreign sanctions may be unacceptable to banks.
 - C. The AML/CFT laws in Hong Kong may restrict or prohibit payments, transactions, services and dealings with property having a proscribed connection with certain countries.
 - D. All of the above



- Q.38 During a client event, you were introduced to Ted by your existing client Johnny. Ted is a business owner and is directly related to a member of the royal family in Country X. He has requested for a trust to be set up for the benefit of children outside of his marriage. After completing customer due diligence, you successfully onboarded Ted as a client of the bank. Ted requested for the trust account to be funded by his business partner whom he said owes him a substantial sum of money, and he will be able to provide a loan agreement to the bank evidencing the existence of the loan. Ted explained it is because he does not wish to appear as having a role in the trust and wishes to maintain anonymity in order that his spouse will not learn of the arrangement. Consequently, other than the verbal confirmation to you, Ted will not appear on any letter of intent, declaration of trust/beneficial ownership or any other written document. How will you respond to Ted's requests?
- A. You note that a desire to maintain anonymity is not uncommon for wealthy individuals like Ted where such individuals would typically set up trusts for tax or other reasons. Exercising common sense, you request a taped record of Ted's verbal confirmation as evidence of the said arrangement. As the third party funding of the account by the business partner is supported by a loan agreement, you proceed with the setting up of the trust arrangement.
 - B. You note that a desire to maintain anonymity is not uncommon for wealthy individuals like Ted where such individuals would typically set up trusts for tax or other reasons. Exercising common sense, you request a taped record of Ted's verbal confirmation as evidence of the said arrangement. Although the third party funding of the account by the business partner is supported by a loan agreement, you note that this is outside of your bank's policy. You therefore ensure that the senior management of the bank is made aware of the risks after performing due diligence on the business partner.
 - C. Despite the loan agreement, you note that it is not possible to fully verify its authenticity so that you cannot be completely certain that the source of funding is indeed from Ted, especially given his reluctance to put anything in writing to the bank. The cumulative effect of these two requests and the fact that Ted is a PEP requiring enhanced due diligence means, in the absence of strong risk mitigating factors, that you do not have sufficient grounds to support this onboarding.
 - D. You perform due diligence on the business partner and request a taped record of Ted's verbal confirmation as evidence of the said arrangement. As both requests are outside of your bank's policy, you ensure that your Compliance Department and the senior management of the bank acknowledge the risks as part and parcel of a risk-based approach and jointly sign off on the due diligence file.

- Q.39 Bank should ensure that customers are being treated fairly and not to undermine financial inclusion. Which of the following is/are good practice(s) relating to the above?
- A. Uploading basic information about the relevant procedures and information and documentation requirements on the websites in the account opening processes for retail banks.
 - B. Introducing review mechanisms for unsuccessful applicants.
 - C. When the customers cannot produce adequate documents for CDD process, assisting them to provide alternatives.
 - D. All of the above
- Q.40 Banks assess tax evasion-related risks on multiple levels. What are the two important levels/issues banks should normally consider first?
- I. Customer level
 - II. Institutional level
 - III. Country level
 - IV. Cross border transactions
- A. I and II only
 - B. I and IV only
 - C. II and III only
 - D. III and IV only

Answer Q.41 – Q.42 below with reference to the JPMorgan Chase (JPM) Case in 2013.

In this case, the US Office of the Comptroller of the Currency found JPM was suffering from some severe AML deficiencies.

- Q.41 Which of the following is not an example of the deficiency suffered by JPM?
- A. Suspicious activities reporting
 - B. Monitoring transactions
 - C. Customer due diligence
 - D. Omit the sanctioned names from Cuba

- Q.42 As a result of the investigation, which of the following statements is/are correct relating to the closing of accounts by JPM?
- I. JPM closed bank accounts of current and former foreign government officials. This affects approximately 3,500 accounts.
 - II. JPM closed the accounts because of high compliance cost.
 - III. The closing led to accusation of discrimination.
- A. II only
 - B. I and III only
 - C. II and III only
 - D. All of the above
- Q.43 According to the standards of the Risk Management Framework issued by the HKMA, which of the following measures should banks take for new products?
- I. Proper assessment and approval procedures
 - II. Consultations from the government
 - III. Post-implementation evaluation
 - IV. Adequate resources to launch the products and manage the risks
- A. II and IV only
 - B. I, II and III only
 - C. I, III and IV only
 - D. All of the above
- Q.44 Tommy Tan is a well-known businessman in Hong Kong. His wife opened a safe deposit box with your bank. Recently your compliance team reported that people other than Mr. and Mrs. Tan frequently opened the safe deposit box. As a compliance officer, which of the following is a proper action to be taken, based a balanced application of the risk-based approach, upon receipt of the report?
- A. Mr. Tan is a trustworthy businessman with good reputation. No action needs to be taken.
 - B. You immediately flag the account as “high risk” for EDD.
 - C. You immediately file a STR on the basis of these events.
 - D. None of the above

- Q.45 Based on the nature and level of ML/TF risk identified, examples of possible enhanced due diligence measures include:
- I. obtaining information on sources of funds and wealth of the customer.
 - II. obtaining additional information on intended nature of customer business transactions.
 - III. conducting enhanced ongoing monitoring of business relationship with the customer.
 - IV. seeking senior management approval for business relationship with the customer.
- A. II and III only
 - B. III and IV only
 - C. I, II and IV only
 - D. All of the above

- Q.46 Which of the following is/are the major driver(s) of de-risking recognised internationally?
- I. Increasing number of sanctions regimes and tightening of regulatory requirements in financial sector
 - II. Lower risk appetites of financial institutions
 - III. High profitability from customers in developing countries
- A. I only
 - B. I and II only
 - C. II and III only
 - D. All of the above

- Q.47 Which of the following statements about tax reporting and AML is correct?
- A. Tax evasion is an offence defined under the AMLO.
 - B. Tax avoidance is an offence defined under the AMLO.
 - C. Tax evasion is an indictable offence.
 - D. Tax avoidance is an indictable offence.

- Q.48 Maria Cabaya is a foreign domestic helper that has recently arrived Hong Kong from the Philippines. When she wanted to open an account with ABC Bank, she was told that the only bank account available on offer for domestic helpers is an account with a minimum balance of HK\$20,000 at all times, but no minimum salary requirements. What is a possible rationale of ABC Bank on imposing a minimum balance requirement?
- A. It encourages domestic helper to use their bank service to remit money back to their home country.
 - B. It identifies needs of the underserved.
 - C. It appears to be a financial exclusion policy.
 - D. It encourages domestic helper to save more money.
- Q.49 Which of the following is not suggested by the Wolfsburg Anti-Money Laundering Principles for Correspondent Banking?
- A. Risk-based rating of central banks and regional development banks.
 - B. Periodic risk-based reviews of the banks.
 - C. Assessing the regulatory status and history of the banks.
 - D. Prohibition on offering products or services to shell banks.
- Q.50 Which of the following is/are sensible question(s) to be asked to detect potential trade-based ML?
- A. Does the customer have any document to show that they know the identity of the trading counter-part?
 - B. Does the trade transaction fit the business purpose of the customer?
 - C. What documents are available to show the business relationship between the customer and its trading counter-part?
 - D. All of the above

- End of Section A -

Section B

Answer any **TWO** questions from this section. Each question carries 25 marks. Complete this section **in black or blue pen**. Answers written in pencil will **NOT** be marked.

Question 1 (25 marks)

You are a director of the Financial Crimes Compliance (FCC) Department of CCAS Bank overseeing new products and initiatives. On 12 October, you received a call from Bonnie, the Head of Products, who was recently relocated from the Singapore branch of the bank. She shared with you her excitement about the plan to launch a structured product with a virtual currency as the underlying asset in Hong Kong at the start of next year. She foresees this will be a hugely popular product.

Requirement:

- (a) Discuss and elaborate to Bonnie, with regard to customer and institutional risk assessment requirements, the factors to be considered when implementing new products and services from an AML/CFT perspective in Hong Kong. (8 marks)

After hearing your response stated in (a), Bonnie explained that features of this new product follow the existing structured products offering with other currencies as underlying assets and therefore there is no need to go through the approval process for a brand new product. Additionally, the virtual currency is a math-based and decentralised convertible virtual currency which is protected by cryptography, and it can be exchanged, purchased or cashed out into US dollars, Euros and Hong Kong dollars. Bonnie stated that, given its convertibility to real money, it should not have any significant concern in her opinion. As she was quite ambitious that we were the first bank to launch this product, she expected that there would be a “fast-track” approval process this time.

Requirement:

- (b) Comment and explain whether you agree with Bonnie, particularly on the risk factors of virtual currencies, risk appetite of the bank and management and regulatory requirements. (5 marks)

After the discussion mentioned in (b), Bonnie forwarded you an article on TechSolution, a third party company involved in FinTech. Bonnie said she would like to collaborate with TechSolution with the aim to attract new customers via their mobile application which can handle onboarding without the need for face-to-face contact. She believed that this offers a fast-mover advantage in the structured products linked with a virtual currency, and this innovative distribution channel will definitely be a great success next year

Requirement:

- (c) Discuss and explain the relevant considerations of the above from an AML/CFT perspective. (6 marks)

Three days later, Bonnie urged you to approve the launch of this new product before her Christmas break. You explained to Bonnie that more supporting information had to be collected to justify the virtual currency involved and the collaboration with TechSolution. Bonnie suggested that she would take full responsibility for any post-launch issues before obtaining the endorsement from compliance and external legal advice. She added that regulators in the region are highly supportive of FinTech, and she saw no reason why there would be any reservations to proceed.

Requirement:

- (d) As the director of the FCC Department, discuss and explain how you would respond to Bonnie's request. (6 marks)



Question 2 (25 marks)

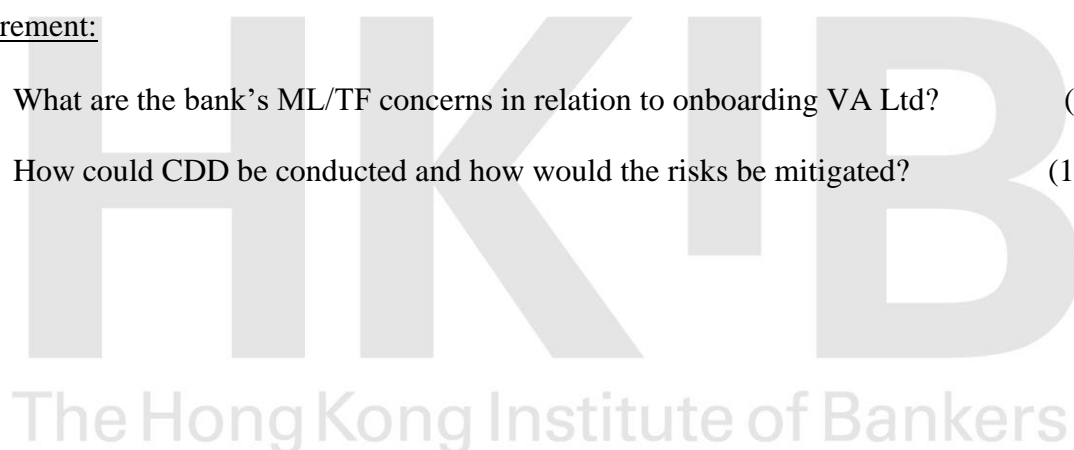
You are the compliance officer of ABC Bank. This morning, you talk with your colleague Benedict, the Head of IT, and he tells you that he has found a new programme which can assist the bank in better monitoring transactions. He mentions that the two customers you are going to meet in the afternoon, Victor Chan and Alfred Wong, are his friends. They want to open an account with your bank.

This afternoon, together with the relationship manager, you hold a meeting with Victor and Alfred and have obtained the following information:

- It is VA Ltd that wants to open a bank account.
- Victor Chan and Alfred Wong are the founders of VA Ltd, which was incorporated in Hong Kong in January 2022.
- VA Ltd is a virtual assets services provider.
- Victor Chan and Alfred Wong are the two directors of VA Ltd; both are Hong Kong residents.
- The shareholding of VA Ltd is as follows: 35% by Alexy Markelov, a Russian; 35% by a Russian registered company called Gaztek; and 15% each by Victor Chan and Alfred Wong.
- Alexy Markelov is not a Hong Kong resident and has never been to Hong Kong.

Requirement:

- (a) What are the bank's ML/TF concerns in relation to onboarding VA Ltd? (8 marks)
- (b) How could CDD be conducted and how would the risks be mitigated? (17 marks)



Question 3 (25 marks)

This morning Mrs. Susan Sung, aged 78, visited your bank wanting to open an account. She told your bank that she has successfully applied for social security allowance, and the government would provide monthly allowance to her.

Her husband, Mr. Simon Sung, aged 86, was paralysed because of a stroke last year. Her husband was an electrician before retirement. He also has applied for the government allowances, but he could not go to the bank to open an account. Mrs. Sung also mentioned that they would not use the bank account for purposes other than collecting and withdrawing of money. In other words, they would not use other services offered by your bank, such as investment services.

The old couple live in a public housing estate and do not have any children. They now spend most of their time watching TV. They participated in the government's Enriched ICT Training Programme for the Elderly in 2018, and they also like to play computer games at home.

Your manager is quite hesitant to accept the couple as customers. He would like the couple to purchase some wealth management investment products or have a large amount of initial deposits as a condition for opening a bank account.

Requirement:

- (a) Should your bank accept the couple as your customers? Discuss with reference to the concept of financial inclusion. (10 marks)
- (b) Discuss if simplified due diligence could be applied to the elderly couple. (8 marks)
- (c) Assess the risks that may be posed to your bank if remote on-boarding is chosen as an option when opening the accounts for Mr. Sung. (7 marks)

End of Section B -

End of the Paper -

Suggested Answer – Section A

Question No.	Answer	Question No.	Answer
1	D	26	C
2	C	27	A
3	B	28	C
4	D	29	A
5	A	30	A

6	D	31	C
7	D	32	B
8	D	33	D
9	D	34	A
10	A	35	C

11	B	36	D
12	D	37	D
13	C	38	C
14	B	39	D
15	A	40	A

16	C	41	D
17	D	42	D
18	D	43	C
19	D	44	D
20	B	45	D

21	C	46	B
22	D	47	C
23	C	48	C
24	D	49	A
25	B	50	D

Suggested Answer – Section B

Question 1 (25 marks)

Suggested discussion:

- (a) Discuss and elaborate to Bonnie, with regard to customer and institutional risk assessment requirements, the factors to be considered when implementing new products and services from an AML/CFT perspective in Hong Kong. (8 marks)

Banks should consider all relevant inherent ML/TF risk factors in order to determine their risk profile and to define their risk appetite. (1 mark)

An institutional risk assessment should be conducted at appropriate intervals or upon changes to the bank's business operations when introducing new products/services. (2 marks)

Each bank's ML/TF risk assessment will be unique as there are different risk factors, such as the customer segments it serves and its institutional structure. (1 mark)

Generally, when conducting an IRA, banks should take the following non-exhaustive factors into consideration: (1 mark)

- size of business – number of customers and frequency and volume of transactions; (1 mark)
- product and service risk profile – complexity of the products/services offered and/or increased ML/TF risk attributes due to, for instance, a facilitation of anonymity or the unregulated nature of a product, as applicable, significant cash deposits / withdrawals and transfer of funds via cross-border remittances; (1 mark)
- channel of business – customer acceptance and product / service delivery channels; (1 mark)
- geographical operations of business – ML/TF risks of jurisdictions to which the bank is exposed as part of its activities / operations; and (1 mark)
- customer risk profile – customer profile (such as expected customer growth, countries where customers are from, industries, etc.). (1 mark)
- Other justifiable examples.

(Maximum 8 marks)

- (b) Comment and explain whether you agree with Bonnie, particularly on the risk factors of virtual currencies, risk appetite of the bank and management and regulatory requirements. (5 marks)

Core Points: (1 mark)

Convertibility to real money does not mean that there would not be concern or potential considerations of money laundering or terrorist financing risks

There may be risks of anonymity increasing AML/CFT risks due to a lack of traceability of movements and identity of the ultimate counterparties. (1 mark)

Candidates should also consider factors such as: (3 marks)
(any three from the below with a max. of 3 marks)

- The bank's knowledge and training with regard to the virtual currency and the technologies underpinning it, and whether there would be a vulnerability to money laundering or terrorist financing.
- The bank's risk appetite for virtual currencies.
- Details about the underlying virtual currency as there may be specific considerations, e.g. the Office of Foreign Assets Control of the United States issued guidance on the prohibition of transactions related to virtual currencies issued by, for, or on behalf of the Venezuelan governance "petro" in February 2018.

Other justifiable factors.

(Maximum 5 marks)

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(c) Discuss and explain the relevant considerations of the above from an AML/CFT perspective. (6 marks)

- Due diligence information on TechSolution, and the bank's risk appetite to establish a new business relationship with TechSolution. (2 marks)

- The lack of face-to-face contact may pose an operational challenge in verifying customer identity. (2 marks)

- Whether the new mobile application delivery channel would pose additional AML/CFT risks. (2 marks)

- Whether there would be additional risk factors accompanying the new target customer segment using the new mobile application delivery channel. (2 marks)

- Other relevant justifiable examples with explanation. (2 marks)

(Any three of the above with explanation @2 marks)

(2 marks for each, maximum 6 marks)



(d) As the director of the FCC Department, discuss and explain how you would respond to Bonnie's request. (6 marks)

- A compliance officer should consider how to appropriately balance stakeholders' interests, apply common sense and not to take a zero tolerance approach to a virtual currency. (1 mark)
- The bank's risk-based approach in AML/CFT should be duly considered. (1 mark)
- When faced with time pressure or criticism from the first line of defense, professional judgment should be maintained. (1 mark)
- There must be a balanced evaluation of the bank's and one's own personal liability. (1 mark)
- Where appropriate, it may be necessary to escalate the matter to senior management. (1 mark)
- Aside from general AML/CFT compliance concerns, a compliance officer should also consider if the behaviour of the front line warrants any cause for concern from an overall "bank culture / bank risk culture" perspective. (1 mark)
- Other justifiable points.

(1 mark for each, maximum 6 marks)

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Question 2 (25 marks)

Suggested discussion

(a) What are the bank's ML/TF concerns in relation to onboarding VA Ltd? (8 marks)

(a) ML/TF risk consideration

1. A bank's businesses may interface with virtual assets services provider (VASP) through provision of banking and investment services to customers, which may present a range of risks to the banks. (2 marks)

2. VASPs and VAs may be abused for money laundering and terrorist financing (ML/TF). VAs have emerged as a favoured way for criminals to receive and move proceeds of crime, for example in ransomware attacks. Banks should pay particular attention to financial crime risk and investor protection. (2 marks)

3. For VASPs which are unregulated, there would be concerns on robustness of their governance and ML/TF controls. HK is proposing a licensing regime under the AMLO for VASPs in HK. Before then, banks should undertake risk assessments to identify and understand the associated risks. Banks should always take appropriate measures to manage and mitigate the identified risks, taking into account applicable legal and regulatory requirements. (2 marks)

4. Banks have to put in place adequate risk-management controls, with sufficient oversight by their senior management over such activities. Specifically, banks will be expected to conduct proper due diligence. They should understand the background of the parties involved in the operation of the VA scheme and their risk-management arrangements. Based on the information obtained, the banks should critically evaluate their exposures to different types of risks and put in place appropriate risk-mitigation measures. (2 marks)

5. In light of the vulnerabilities to criminal activities, banks should pay extra attention where they become aware of customers activities in their ongoing monitoring processes. In such cases, they should seek to understand the nature of the transactions and, where there are grounds for suspicion, file suspicious transaction reports to the Joint Financial Intelligence Unit in accordance with relevant legal and regulatory obligations. (2 marks)

6. Or any other suitable discussion.

(2 marks for each, maximum 8 marks)

- (b) How could CDD be conducted and how would the risks be mitigated? (17 marks)

(b) Customer due diligence

Risk profile in general

The extent of CDD and ongoing monitoring measures should be commensurate with the assessed ML/TF risks of the VASP.

Your bank must implement the required CDD measures for all customers, including identifying the customer and verifying the customer's identity using reliable, independent source documents, data or information; identifying the beneficial owner; understanding and obtaining information on the purpose and intended nature of the business relationship; and conducting ongoing due diligence on the relationship and scrutiny of transactions.

Assessing the ML/TF risk profile of a corporation:

- What would you do to understand the purpose of establishing VA and the purpose and intended nature of the company account?
- How would you assess the ML/TF risks of VA, and how should the following factors be considered in that assessment:
 - operation of the company, its customers/contributors;
 - country of shareholder, director, signatory;
 - country risks;
 - other institutional risks factors e.g. channel of business, complexity of business, geographical operations of business?
- What information could you obtain from VA to better understand the customer risks and help conduct subsequent customer/transaction monitoring?

Risk appetite of the Bank

- How should the bank define its risk appetite for taking in VASP as a client? What are the considerations?
- Does this business fit within the bank's risk appetite?
- Can you justify any decision for taking in VASP as a client, if and when the bank account is audited? Is it properly documented? What are the consequences of not properly documenting these decisions?

****Assessing VA risk**

- How would you assess the ML/TF risk profile of VA Ltd (taking into account the company's objectives, background, nature and purpose of account, etc.)? What aspects of the risk profile are the most important?
- What information could you obtain from Victor and Alfred to better understand the company risks and help conduct subsequent customer/transaction monitoring?
- Based on the nature of the business relationship, to what extent should

you obtain and/or verify the information from VA in order to justify that the Bank has properly assessed customer risks?

****CDD procedures and control effectiveness**

- What procedures would you expect to be carried out when on-boarding VA Ltd?
- What kind of CDD measures does your bank have in place for on-boarding VA? Are these CDD measures applied based on risk assessment, and what risks do the CDD measures address?
- Are these controls suitable and why (the importance to know your customer)?
- Are these controls really effective? Are they helpful for risk assessment and monitoring, or are they just ticking boxes?
- What are the merits or downside of these controls applied at this stage?
- What are the unintended consequences of setting the requirements too high or too low (e.g. de-risking and financial exclusion, production of fake documents to show business, profits or other personal details)?
- Is the Bank expected to follow the AML/CFT legal requirements on CDD to the letter or is there some flexibility/leeway based on a risk assessment (meaning that CDD measures should be practical, addressing particular risks identified in a risk assessment)?
- What flexibility exists in the collection of risk information versus information which forms part of the identification and verification of the customer?
- If there is an unwillingness or delay in providing required documents, how should the risk caused by the lack of documents be assessed and documented? Is the data sufficient to understand this prospective client?
- Is it always better or appropriate to obtain more information/documents from clients?
- Are the controls able to detect breaches of any conditions imposed on account usage?
- Why is it important to understand the purpose and intended nature of the business relationship?
- Can the Bank's system handle that kind of information? What are the benefits for the Bank and the staff members if the information is searchable, accessible and updatable?
- How would you assess the ML/TF risk profile of the directors and shareholders of VA Ltd given some of them are Russians?
- What would you do to understand the purpose of establishing VA and the purpose and intended nature of the company account?
- How is the quality of data collected from the shareholders? Is the quality of data collected by banks important and why?
- Does the explanation regarding the business of VA sound credible? What is the acceptable level of inquiry/challenge for frontline bank staff and what else could be asked at this stage?
- Which aspects of the risk profile are the most important? What kind of CDD measures does your bank have?

Significant controller/shareholders

- A significant controller includes a registrable person who is a natural person or a registrable legal entity which is a shareholder of the company that has significant control over the company.
- As both Gaztek and Alexy Markelov hold 35% of the shares of VA, they are both significant controllers.
- Should a risk-based approach be applied to verification of beneficial ownership information?
- The bank should assess the ML/TF risks associated with Gaztek to which their country is exposed, and take appropriate steps to manage and mitigate the risks that the bank has identified and take appropriate steps to manage and mitigate them. The bank should require certain basic information about Gaztek, which, at a minimum, would include information about the legal ownership and control structure of the company.
- Or any other suitable discussion.



Business relationships with VASPs

If banks establish and maintain business relationships with VASPs (e.g. opening bank accounts), appropriate ML/TF risk assessments should be conducted in line with the risk-based approach to differentiate the risks of individual VASPs, recognising that VASPs may adopt widely differing business models and that there is no “one-size-fits-all”. Depending on the nature of the relationship, banks may need to undertake additional customer due diligence (CDD) measures similar to those for offering correspondent banking or similar services to financial institutions that enable the provision of products and services to concerned FIs’ own customers. These measures include but are not limited to:

- (i) collecting sufficient information to adequately understand the nature of the VASP’s business (e.g. whether the VASP is a VA trading platform, a VA wallet provider, or an issuer of VAs etc.) and construct a comprehensive risk profile of the VASP that helps determine the extent of ongoing monitoring of the business relationship;
- (ii) determining from publicly available information whether the VASP is licensed or registered in Hong Kong or another jurisdiction, and the type of regulatory framework it is subject to (e.g. in addition to AML/CFT supervision, whether an overseas VASP is subject to regulatory standards comparable to those under the Hong Kong’s regulatory regime for VASPs); and
- (iii) assessing the AML/CFT controls of the VASP, including any additional controls to mitigate VA-specific risks (e.g. transactions involving tainted wallet addresses).

Banks entering into business relationships with VASPs should also confirm with the VASP concerned that its operations do not breach any applicable laws and regulations in Hong Kong or any other relevant jurisdictions.

**(Maximum 17 Marks - 3 marks for each of the topics discussed,
**more marks would be considered for important topics such as VA risk,
CDD procedures and control effectiveness)**

Question 3 (25 marks)

Suggested discussion

- (a) Should your bank accept the couple as your customers? Discuss with reference to the concept of financial inclusion. (10 marks)

(a) Financial inclusion

- The HKMA attaches great importance to financial inclusion and has been spending significant effort in promoting access to basic banking services by different segments of society to meet the basic needs of people's daily lives or the needs of fund transfers for legitimate businesses.
- In particular, the HKMA has been working closely with the banking industry on encouraging banks to launch more physical branches / mobile branches / ATM and other self-service banking facilities to serve people living in remote areas and public housing estates; facilitating the launch of cash withdrawal service for the elderly to withdraw cash without the need to make purchases at post offices and convenience stores; enhancing the accessibility of banking services by customers with impairments; enhancing the accessibility of banking services by people ...etc.
- As stated in a speech by the HKMA, "some of these retail clients obviously have limited savings to deposit and limited banking needs, and the reality is that they will not provide banks with much fee or interest income. However, the community expects banks to provide them with basic services, essentially on a pro-bono basis. Some of them have difficulties using technology, and cost-saving service-delivery channels such as ATMs, online banking or mobile device. We could try harder to persuade – or even compel – the elderly to adopt modern technology, in the name of efficiency or modernity. ... Hong Kong is a compassionate community, and we need to be in step with those values."
- The Financial Action Task Force ("FATF") lays down the principle of financial inclusion to be incorporated into the financial products and services provided by financial institutions regulated for AML/CFT like your bank.
- According to the FATF's definition, financial inclusion involves providing access to an adequate range of safe, convenient, and affordable financial services to disadvantaged and other vulnerable groups, including low-income, rural, and undocumented persons, who have been underserved or excluded from the formal financial sector.
- The manner in which the products and services are provided should be fair and transparent. Financial inclusion can also be about making a broader range of financial products and services available to individuals who currently only have access to basic financial products.

- Based on the background of the old couple, do you think your bank could accept their application to open a bank account?
- Why is it important for the old couple to have a bank account?
- Given the old couple's background, are they able to receive the government subsidy if they are denied banking services? What alternatives are reasonably open to the old couple? What are the downsides of those alternatives compared to having a bank account?
- The old couple may be the disadvantaged and vulnerable people. The manager should not require the couple to purchase some wealth management investment or insurance products or having a large amount of initial deposits as a condition for opening a bank account. Overall, for AML/CFT purposes, it is essential for the bank to provide its financial products and services in line with the FATF Recommendations.
- Would there be reputational risk if the banking service is not available to the couple with disability to meet the basic needs of their daily lives?
- Taking into consideration the risk appetite of your bank, what risk mitigation measures would you undertake if you consider that the old couple is a marginal case?
- What are the risk/reward factors taken into consideration when onboarding these customers?
- Is it acceptable to refuse to onboard a customer because the business relationship is purely uneconomical?
- How could these issues be addressed?
- Would there be reputational risk if account opening is refused?
- Do your senior management review the existing processes and practices to ensure that they are consistent with the guiding principles? Where there are inconsistencies, has the HKMA been informed of the plans and timeline by which remediation measures will be taken?
- Other relevant justifiable discussions are accepted.

(1 mark each, maximum 10 marks)

- (b) Discuss if simplified due diligence could be applied to the old couple. (8 marks)

(b) Simplified Due Diligence

In a recent circular, the HKMA pointed out that “Where AIs identify lower

ML/TF risks, the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, and the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (for AIs) issued by the HKMA, allow simplified due diligence measures to be taken, which may help AIs adapt to the current situation. Specifically, AIs should seek to effectively understand the risks involved when opening accounts for residents solely for the purpose of receiving social security allowance or government allowances, and apply the appropriate extent of customer due diligence as commensurate with the circumstances.”

In general, an AI should carry out all CDD measures below before establishing any business relationship, before carrying out a specified occasional transaction, and continuously monitor its business relationship. The extent of CDD measures and ongoing monitoring should be determined using an RBA. The relevant CDD measures applicable to this case is to identify the customer and verify the customer’s identity using documents, data or information provided by a reliable and independent source. Where there is a beneficial owner in relation to the customer, identify and take reasonable measures to verify the beneficial owner’s identity. The bank has to obtain information on the purpose and intended nature of the business relationship established with the bank unless the purpose and intended nature are obvious

Applying the RBA, would you consider that a more “relaxed” CDD measure would be appropriate for the old couple’s case? Will you obtain additional information from the old couple? Where banks identify lower ML/TF risks, the AMLO and the Guideline allow simplified due diligence (SDD) measures to be taken, which may help AIs adapt to the current situation. Thus a bank may apply SDD measures in relation to a business relationship if it determines that, taking into account its risk assessment, the business relationship or transaction presents a low ML/TF risk.

The assessment of low risks should be supported by an adequate analysis of ML/TF risks by the bank. The SDD measures applied should be commensurate with the nature and level of ML/TF risk, based on the lower ML/TF risk factors identified by the bank. When a bank applies SDD measures, it is still required to continuously monitor its business relationship (i.e. ongoing CDD and transaction monitoring). Examples of potentially lower risk factors include customer risk factors and country risk factors.

Specifically, the bank should seek to effectively understand if there are low risks involved when account opening is for old couples receiving government subsidies, and the bank should apply the appropriate extent of customer due diligence as commensurate with the circumstances.

Examples of possible SDD measures include:

- (a) reducing the frequency of updates of customer identification information;
- (b) reducing the degree of ongoing monitoring and scrutiny of

- transactions based on a reasonable monetary threshold; or
- (c) not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and intended nature from the type of transactions or business relationship established.

SDD measures should not be applied or continue to be applied, where the bank's risk assessment changes and it no longer considers that there is a low degree of ML/TF risk; where the bank suspects ML or TF; or where there are doubts about the veracity or accuracy of documents or information previously obtained for the purposes of identification or verification.

Other relevant justifiable discussions are accepted.

(2 marks each, maximum 8 marks)



- (c) Assess the risks that may be posed to your bank if remote on-boarding is chosen as an option in opening the accounts for Mr. Sung. (7 marks)

(c) Concerns about the non-face to face onboarding

In a recent circular, the HKMA pointed out that “we believe the use of financial technology (FinTech) will provide significant opportunities to manage some of the challenges presented by the current situation, especially the community efforts on social distancing. In particular, following the guidance and ongoing dialogue of the HKMA with AIs and FinTech companies since 2018, so far more than 10 retail banks have launched remote account opening services and other banks are considering or testing similar initiatives. AIs are encouraged to continue to work closely with the HKMA to provide greater convenience for account opening and continued access, physically and digitally, to essential banking services to the public amidst our fight against COVID-19.”

Consistent with the Financial Action Task Force (FATF) standards and the Guidance on Digital Identity published by the FATF in March 2020, the identity verification requirements as set out in the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT Guideline) are sufficiently flexible to allow Authorized Institutions (AIs) to on-board customers remotely. For example, iAM Smart is an acceptable technology solution to meet these requirements and some AIs have already started testing remote on-boarding initiatives using iAM Smart, and others are considering similar initiatives. The government proposed to amend legislation to allow the engagement of digital identification systems to assist the conduct of CDD in situation where a customer is not physically present for customer identification and verification purposes (the non-face-to face “NFTF” situation).

The AMLO permits banks to establish business relationships non-face-to-face. However, a bank should take additional measures to mitigate the risk associated with customers not physically present for identification purposes. The CDD procedures should be followed closely. AIs should draw attention to the matters in the recent circular on Coronavirus disease (COVID-19) and Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) measures.

Is it possible to use remote on-boarding for Mr Simon Sung?

The use of financial technology could provide significant opportunities to manage some of the challenges presented by the current situation, especially the community efforts on social distancing. AIs are encouraged to continue to work closely with the HKMA to provide greater convenience for account opening and continued access, physically and digitally, to essential banking services to the public amidst our fight against COVID-19.

Remote on-boarding may present greater risks to banks, particularly for impersonation risks. There are also factors which aggravate the risks, such as the speed of electronic transactions, the ease of making multiple fictitious

account applications and the use of stolen identities which, when made remotely, may be more challenging to be deterred and detected. Additional measures to mitigate the risks posed as stated in the AML Guidelines may have to be considered.

Would technologies be able to assist Simon Sung to satisfy the CDD and documentation? Note that Mr Simon Sung, aged 86, was paralysed because of a stroke last year. Is this a good reason for not coming in person? What extra CDD measures would you require?

Where remote on-boarding is used, how would your bank conduct assessment of ML/TF risks associated with remote on-boarding; how that understanding underpinned the application of a risk based approach in the design and implementation of control measures to mitigate the identified risks; the extent to which your bank is able to effectively monitor and manage the technology adopted to remotely on-board customers; and how ongoing monitoring took into account vulnerabilities and threats, where these differed from accounts opened for customers in the presence of staff. What is the purpose of opening the account? Is it just for government allowance? What other purposes would the account be used for subsequently?

How to adopt a risk-based approach in applying control measures, taking into consideration the size and complexity of target customer segments and service scope? Has the bank considered good practices set out in the Guideline in relation to remote on-boarding or enhancing existing system? What is the internal approval procedures? Are these internal procedures effective? What information is particularly important and must be provided to the stakeholders in order to allay any concerns in respect of the risks before its launch?

What additional measures should be taken to mitigate the increased risk? Do your bank have AML/CFT controls, including CDD processes for new customers resulting in many unsuccessful account opening applications and/or unpleasant customer? Has the bank adopted a risk-based approach to manage the risk? Has your bank taken appropriate measures commensurate with those risks in order to mitigate them effectively?

Other relevant justifiable discussions are accepted.

(1 mark each, maximum 7 marks)

Assessment Criteria:

Marks allocation is given for each of the sub-questions/sub-headings. The following criteria are used for awarding marks to the sub-questions/sub-headings.

90% or above of the allocated marks:

An exceptional analysis/discussion which is sophisticated in its approach and being correct in every particular detail. High level of critical ability is demonstrated with convincing argument.

80%-89% of the allocated marks:

An excellent analysis/discussion written confidently and demonstrate a clear understanding of the issues, with high level of critical and analytical ability and tools and convincing arguments.

70%-79% of the allocated marks:

A good analysis/discussion presented with minimal errors. Reasonable understanding of the key issues is demonstrated.

60%-69% of the allocated marks:

An analysis/discussion presented with some errors but most of the key issues are correctly addressed. An ability to identify and discuss the key issues is demonstrated.

50%-59% of the allocated marks:

A simple analysis/discussion where only partial understanding of the issues is demonstrated. Errors and insufficient or unclear explanation given.

Below 50% of the allocated marks:

A weak analysis/discussion with a number of errors. Key aspects not properly addressed. No evidence of understanding of the issues.

Note: Marks will be given if candidates could raise other legitimate points in the discussion.

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