

Issue 32

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Newsletter of *GIF* of *SPU*



Inside this issue

Suspicious Transaction Reports Statistics (2024 January to June)	1
International Trend – Changes to AML/CFT Standards	2-13
◆ The Financial Action Task Force	2
◆ Mutual Evaluations	2-3
◆ Changes to Assessment Methodology	4-13

Suspicious Transaction Reports Statistics (2024 January to June)

Number of STRs	2024 (Jan to Jun)	2023 (Jan to Jun)
From Financial Institutions and Insurance Companies	556 (19.3%)	373 (19.6%)
From Games of Fortune Operators	2,181 (75.8%)	1,392 (73.1%)
From Other Institutions	142 (4.9%)	139 (7.3%)
Total	2,879	1,904

- The total number of STRs received by the Financial Intelligence Office of the Unitary Police Service (*GIF* of *SPU*) during the first half of 2024 was 2,879, which had increased by 51.2% as compared with the same period in 2023. The change was mainly due to the increase in the number of STRs reported both by the financial sector and the gaming sector.
- STRs received from the financial sector and gaming sector constituted 19.3% and 75.8% of total respectively, whereas those received from other institutions constituted 4.9%.

International Trend – Changes to AML/CFT Standards

The Financial Action Task Force

The Financial Action Task Force (FATF), is an intergovernmental organization founded in 1989 on the initiative of the G7 to develop policies to combat money laundering. In 2001, its mandate was expanded to include terrorism financing. The FATF started in 2007 to consider the threats related to proliferation financing and its interconnection with terrorism and terrorism financing.

The FATF sets international standards and leads global action to tackle money laundering, terrorist and proliferation financing. The FATF monitors jurisdictions to ensure they implement the **FATF Standards** fully and effectively. In total, more than 200 countries and jurisdictions have committed to implement the FATF's Standards and they are assessed through **mutual evaluations** with the help of 9 FATF associate member organizations and other global partners, including the IMF and World Bank. Macao, China is a member of the Asia/Pacific Group on Money Laundering (APG), which is one of the 9 FATF associate member organizations. Therefore, Macao, China has to comply fully with the FATF Standards.



Mutual Evaluations

The FATF mutual evaluations are in-depth jurisdiction reports analyzing the implementation and effectiveness of measures to combat money laundering, terrorist and proliferation financing. The reports are peer reviews, where members from different jurisdictions assess other jurisdictions. Mutual evaluations provide an in-depth description and analysis of a jurisdiction's anti-money laundering and counter-terrorist financing system, as well as focused recommendations to further strengthen its system.

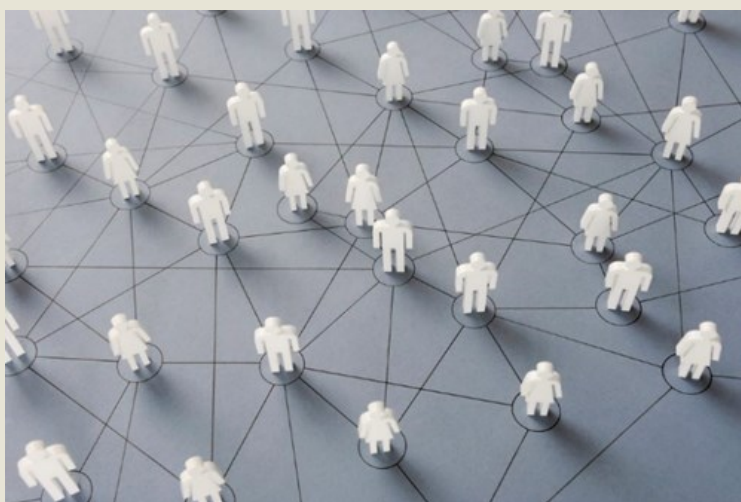
The FATF sets an international standard, called "FATF Recommendations", which jurisdictions should implement through measures adapted to their particular circumstances. The FATF Standards comprise the Recommendations themselves and their Interpretive Notes, together with the applicable definitions in the Glossary.

Mutual Evaluations (cont.)

The FATF assesses each member's implementation of the FATF Recommendations and its actions to tackle money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction on an ongoing basis. The Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT/CPF Systems (The FATF Methodology in short) sets out the assessment process which focuses on 2 distinct areas:

- ◆ **Technical compliance** - each assessment also looks at whether a jurisdiction has all the necessary laws, regulations and legal instruments in place, in line with the technical requirements of the **40 FATF Recommendations**. This legal, regulatory and operational framework forms the basis for an effective system to deprive criminals from the proceeds of their crimes and terrorists from their funding and prevent the harm they can do to their respective societies.
- ◆ **Effectiveness** - each assessment will have a significant focus on effectiveness, to ensure that jurisdictions are implementing and making use of the laws, regulations and policies that are being passed. A jurisdiction must demonstrate that, in the context of the risks it is exposed to, it has an effective framework to protect the financial system from abuse. There will also be a greater emphasis on the major risks and context. This will ensure that jurisdictions, and the assessors reviewing them, focus on the areas where the risks are highest, not just lower-risk areas where they are comparatively easier to launch investigations and secure convictions. The assessment team will look at **11 key areas, or immediate outcomes**, to determine the level of effectiveness of a jurisdiction's efforts.

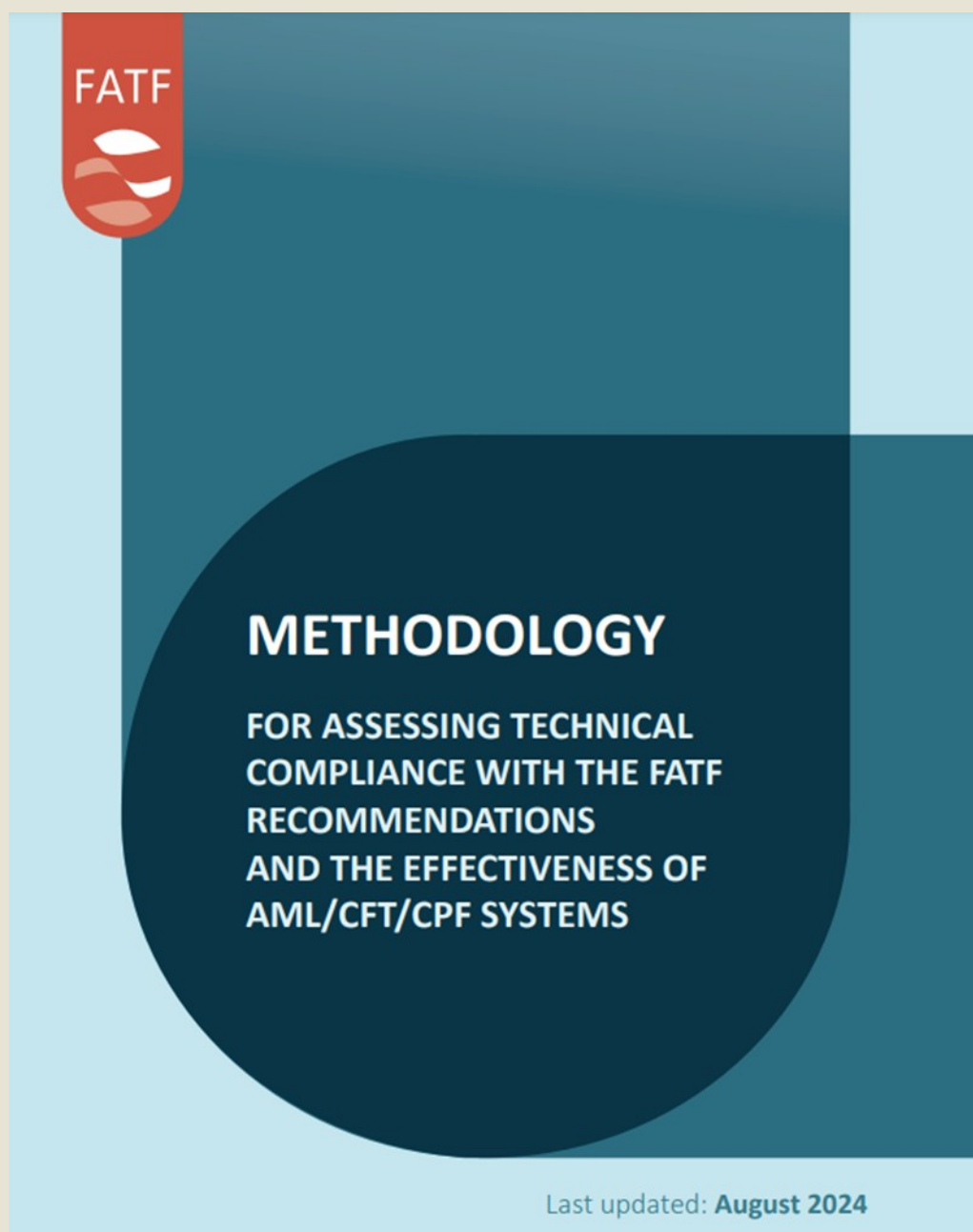
The FATF commenced its 5th round of evaluations under the methodology updated in August 2024 and the FATF associate member organizations will also progressively use this methodology for mutual evaluation once they complete their previous round of evaluations.



Changes to Assessment Methodology

The key changes to the 40 Recommendations and 11 Immediate Outcomes of the above assessment methodology have been grouped as below:

1. Proliferation Financing Risk Assessment and Coordination
2. Virtual Assets and Virtual Asset Service Providers, Supervision and Preventive Measures
3. Transparency and Beneficial Ownership of Legal Persons and Legal Arrangements
4. Asset Recovery and International Cooperation (to be released in next publication)
5. Non-Profit Organizations (to be released in next publication)



Proliferation Financing (PF) Risk Assessment and Coordination (Changes to Technical Compliance Recommendations 1 and 2, Effectiveness Immediate Outcomes 1 and 11)



In addition to the requirement of ML and TF risk assessments and coordination, the same requirements for PF have been added as below:

Changes to Recommendation 1 (Risk Assessment and Risk-Based Approach)

- ◆ Jurisdictions should take appropriate steps to **identify and assess the proliferation financing risks**¹ for the jurisdiction, on an ongoing basis and in order to: (i) inform potential changes to the jurisdiction's CPF regime, including changes to laws, regulations and other measures; (ii) assist in the allocation and prioritization of CPF resources by competent authorities; and (iii) make information available for PF risk assessments conducted by financial institutions and designated non-financial businesses and professions (DNFBPs).
- ◆ Jurisdictions should keep the assessments **up-to-date**, and should have mechanisms to provide appropriate information on the results to all relevant competent authorities and self-regulatory bodies (SRBs), financial institutions and DNFBPs.

¹ In the context of Recommendation 1, "proliferation financing risk" refers strictly and only to the potential breach, non-implementation or evasion of the targeted financial sanctions obligations referred to in Recommendation 7 which limit only to targeted financial sanctions and does not cover other requirements of the UNSCRs.

- ◆ Jurisdictions should take appropriate steps to manage and mitigate the proliferation financing risks that they identify. Jurisdictions should develop an understanding of the means of potential breaches, evasion and non-implementation of targeted financial sanctions present in their jurisdictions that can be shared within and across competent authorities and with the private sector.
- ◆ Jurisdictions should ensure that financial institutions and DNFBPs take steps to identify circumstances, which may present higher risks and ensure that their CPF regime addresses these risks.
- ◆ Financial institutions and DNFBPs should be required to take appropriate steps, to identify and assess their proliferation financing risks. This may be done within the framework of their existing targeted financial sanctions and/or compliance programmes. They should document those assessments in order to be able to demonstrate their basis, keep these assessments up to date, and have appropriate mechanisms to provide risk assessment information to competent authorities and SRBs. The nature and extent of any assessment of proliferation financing risks should be appropriate to the nature and size of the business.
- ◆ Financial institutions and DNFBPs should have policies, controls and procedures to manage and mitigate effectively the risks that have been identified. This may be done within the framework of their existing targeted financial sanctions and/or compliance programmes. They should be required to monitor the implementation of those controls and to enhance them, if necessary. The policies, controls and procedures should be approved by senior management, and the measures taken to manage and mitigate the risks (whether higher or lower) should be consistent with national/domestic requirements and with guidance from competent authorities and SRBs.



Changes to Recommendation 2 (National Cooperation and Coordination)

- ◆ Jurisdictions should establish appropriate inter-agency frameworks for co-operation and co-ordination with respect to the financing of proliferation. These may be a single framework or different frameworks for ML, TF and PF respectively. Such frameworks should be led by one or more designated authorities, or another mechanism that is responsible for setting national/domestic policies and ensuring co-operation and co-ordination among all the relevant agencies.



Changes to Immediate Outcomes 1 (ML/TF Risks and Context) and 11 (PF Financial Sanctions)

- ◆ Edits have been made to Immediate Outcome 1, mainly relating to removing references to PF. All the assessments for effectiveness on PF for the jurisdiction and the private sector have been moved to Immediate Outcome 11. The assessments for effectiveness mainly include co-operation and co-ordination policies and mechanisms, risk assessment and risk mitigation for the jurisdiction and private sector, understanding the obligations and implementation for targeted financial sanctions related to PF.

Virtual Assets and Virtual Asset Service Providers² (VA/VASPs), Supervision and Preventive Measures (Changes to Technical Compliance Recommendation 15, Effectiveness Immediate Outcomes 3 and 4)



Methodology changes to Recommendation 15 have been made since October 2019. The Changes for VA/VASPs have been assessed since 2020. However, the requirements of PF risk assessment and mitigation measures have been added to Recommendation 15 for both jurisdictions and private sector for assessment in the next round of mutual evaluation.

² Virtual asset service provider means any natural or legal person who is not covered elsewhere under the Recommendations, and as a business conducts one or more of the following activities or operations for or on behalf of another natural or legal person:

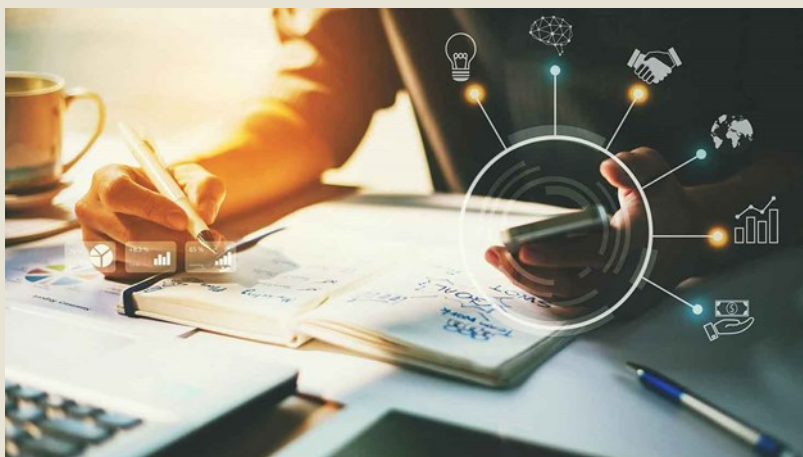
- i. exchange between virtual assets and fiat currencies;
- ii. exchange between one or more forms of virtual assets;
- iii. transfer of virtual assets;
- iv. safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets; and
- v. participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset.

Changes to Recommendation 15 (New Technologies) since October 2019

- ◆ **Jurisdictions should identify and assess ML/TF/PF risks** emerging from virtual asset activities and the activities or operations of VASPs.
- ◆ **Jurisdictions should ensure that VASPs are required to be licensed or registered at a minimum.** Jurisdictions should also ensure that VASPs are subject to adequate regulation and supervision or monitoring for AML/CFT/CPF and are effectively implementing the relevant FATF Recommendations.
- ◆ **Jurisdictions should require VASPs to take appropriate steps to identify, assess, manage and mitigate their ML/TF/PF risks,** VASPs are also required to conduct customer due diligence; monitor & report suspicious transactions; as well as obtain and hold required and accurate originator information and beneficiary information on virtual asset transfers (the travel rule).

Changes to Immediate Outcomes 3 (Supervision and Preventive Measures for Financial Institutions (FIs) and VASPs) and 4 (Supervision and Preventive Measures for DNFBPs)

- ◆ Previously, supervision and preventive measures for reporting entities are assessed separately under Immediate Outcomes 3 and 4. In the next round of mutual evaluation, Immediate Outcomes 3 and 4 are completely re-organized in the new assessment methodology. Both supervision and preventive measures are grouped under the same immediate outcome, in other words, the supervisors and the reporting entities are tied and assessed together. **Immediate Outcome 3 is for FIs with an additional coverage of VASPs. Immediate Outcome 4 is solely for DNFBPs.**
- ◆ The extent that the FI/VASP/DNFBP comply with and understand their obligations regarding targeted financial sanctions relating to TF and PF, were previously assessed under Immediate Outcomes 3 and 4, have now been moved to Immediate Outcomes 10 and 11 respectively in this new assessment methodology.



Transparency and Beneficial Ownership of Legal Persons and Legal Arrangements (Changes to Technical Compliance Recommendations 24 and 25, Effectiveness Immediate Outcome 5)



Changes to Recommendation 24 (Transparency and Beneficial Ownership of Legal Persons)

- ◆ Competent authorities should be able to obtain, or have access in a timely fashion to, adequate, accurate and up-to-date information on the beneficial ownership and control of companies and other legal persons (beneficial ownership information) that are created in the jurisdiction, as well as those that **present ML/TF risks and have sufficient links**³ with their jurisdiction (if they are not created in the jurisdiction).

³ Jurisdictions may determine what is considered a sufficient link on the basis of risk. Examples of sufficiency tests may include, but are not limited to, when a company has permanent establishment/branch/agency, has significant business activity or has significant and ongoing business relations with financial institutions or DNFBPs, subject to AML/CFT regulation, has significant real estate/other local investment, employs staff, or is a tax resident, in the jurisdiction.

- ◆ Jurisdictions should follow a **multi-pronged approach** in order to ensure that the beneficial ownership of a company can be determined in a timely manner by a competent authority. Jurisdictions should decide, on the basis of risk, context and materiality, what form of registry or alternative mechanisms they will use to enable efficient access to information by competent authorities, and should document their decision. This should include the following:
 - I. Jurisdictions should require companies to obtain and hold adequate, accurate and up-to-date information on the company's own beneficial ownership and to co-operate with competent authorities to the fullest extent possible in determining the beneficial owner.
 - II. Jurisdictions should require adequate, accurate and up-to-date information on the beneficial ownership of legal persons to be held by a public authority or body (for example a tax authority, FIU, company registry, or beneficial ownership registry); or jurisdictions may decide to use an alternative mechanism.
 - III. Jurisdictions should use any additional supplementary measures that are necessary to ensure the beneficial ownership of a company can be determined; including for example information held by regulators or stock exchanges; or obtained by financial institutions and/or DNFBPs in accordance with AML/CFT obligations specified in FATF standards.
- ◆ Jurisdictions should take **measures to tackle obstacles to transparency**, including to prevent and mitigate the risk of the misuse of bearer shares and bearer share warrants by prohibiting the issuance of new bearer shares and bearer share warrants; and, for any existing bearer shares and bearer share warrants, by applying appropriate mechanisms within a reasonable timeframe. Jurisdictions should also take measures to prevent and mitigate the risk of the misuse of nominee shareholding and nominee directors.



Changes to Recommendation 25 (Transparency and Beneficial Ownership of Legal Arrangements)

- ◆ The scope of Recommendation 25 extends to express trusts⁴ and other similar arrangements.⁵
- ◆ Jurisdictions should require trustees of any express trust and persons holding an equivalent position in a similar legal arrangement, that are residents in their jurisdiction or that administer any express trusts or similar legal arrangements in their jurisdiction, to obtain and hold adequate, accurate, and up-to-date beneficial ownership information regarding the trust and other similar legal arrangements.
- ◆ Jurisdictions should assess the ML/TF risks associated with different types of trusts and other similar legal arrangements and take appropriate steps to manage and mitigate the risks that they identify.
- ◆ In order to ensure that adequate, accurate and up-to-date information on the basic and beneficial ownership of the trusts or other similar legal arrangements, trustees and trust assets, is accessible efficiently and in a timely manner by competent authorities, other than through trustees or persons holding an equivalent position in a similar legal arrangement, on the basis of risk, context and materiality, jurisdictions should consider using any of the following sources of information as necessary:
 - I. A public authority or body holding information on the beneficial ownership of trusts or other similar arrangements (e.g. in a central registry of trusts; or in asset registries for land, property, vehicles, shares or other assets that hold information on the beneficial ownership of trusts and other similar legal arrangements, which own such assets). Information need not be held by a single body only.
 - II. Other competent authorities that hold or obtain information on trusts/similar legal arrangements and trustees/their equivalents (e.g. tax authorities, which collect information on assets and income relating to trusts and other similar legal arrangements).
 - III. Other agents or service providers, including trust and company service providers, investment advisors or managers, accountants, lawyers, or financial institutions.

⁴ Express trust refers to a trust clearly created by the settlor, usually in the form of a document e.g. a written deed of trust.

⁵ It applies to all legal arrangements meaning express trusts (as defined in the Glossary of the FATF Recommendations) and other similar arrangements. Examples of other similar arrangements (for AML/CFT purposes) may include but are not limited to *fiducie*, certain types of *Treuhand*, *fideicomiso* and *Waqf*.

Changes to Immediate Outcome 5 (Legal Persons and Arrangements)

The requirement extends to the jurisdiction identifying and understanding ML/TF risks of legal arrangements and more information has to be obtained in regards to legal arrangements, the jurisdiction needs to demonstrate:

- ◆ How well the jurisdiction can identify, assess and understand its ML/TF risks associated with legal arrangements governed under their law, administered in their jurisdiction or for which the trustee or equivalent resides in their jurisdiction, and types of foreign legal arrangements that have sufficient links with their jurisdiction.
- ◆ To what extent relevant competent authorities can obtain in a timely manner adequate, accurate and up-to-date information on: a) the basic and beneficial ownership of the legal arrangement; b) the residence of the trustees and their equivalents; and c) any assets held or managed by the financial institution or DNFBP, in relation to any trustees or their equivalents with which they have a business relationship, or for which they undertake an occasional transaction.



Reference: FATF Recommendations and Methodology

(<https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>)

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