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30 January 2014

Circular to Money Service Operators

Anti-Money Laundering/Counter-Terrorist Financing

**Money Laundering and Terrorist Financing Risks
Associated with Virtual Commodities**

In view of the recent global attention to the money laundering and terrorist financing ("ML/TF") risks associated with virtual commodities such as Bitcoin, this Department would like to remind you to take all reasonable measures to ensure proper safeguards exist to mitigate the ML/TF risks that you may face in this regard taking into consideration the related developments.

As provided in paragraph 2.3 of the Guideline on Anti-Money Laundering and Counter-Terrorist Financing ("Guideline"), you should assess the extent to which your services are vulnerable to ML/TF abuse. This issue is especially relevant where emerging technological developments may facilitate anonymity. Paragraph 3.5 of the Guideline also stipulates that services which inherently have provided more anonymity present higher ML/TF risks. Virtual commodities which are transacted or held on the basis of anonymity by their nature pose significantly higher inherent ML/TF risks.

Where relevant to your business, you should therefore guard against the ML/TF risks associated with potential or existing customers who are operators relating to virtual commodities ("VC operators"), by increased vigilance in assessing the ML/TF risks of customers as well as monitoring and detecting unusual or suspicious transactions.

In particular, when assessing ML/TF risk you should take into account the ML/TF risks associated with virtual commodities mentioned above and all other relevant factors including, where relevant, whether the customer who is a VC operator has established and implemented effective controls against ML/TF involving the virtual commodities. Where a high ML/TF risk situation is identified as a result of the assessment, you should take additional measures to mitigate the ML/TF risk involved. Such additional measures, as stipulated in paragraph 4.11.1 of the Guideline, include:

- (a) obtaining additional information on the customer and updating more regularly the customer profile including the identification data;
- (b) obtaining additional information on the intended nature of the business relationship, the source of wealth and source of funds;
- (c) obtaining the approval of senior management to commence or continue the relationship; and



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(d) conducting enhanced monitoring of the business relationship, by increasing the number and timing of the controls applied and selecting patterns of transactions that need further examination.

You are also reminded of your statutory obligations to make a report to the Joint Financial Intelligence Unit if customer due diligence and ongoing monitoring reveal any suspicious activity related to ML/TF on a customer account.

Should you have any questions regarding the contents of this circular, please contact us on 3759 3755.

Money Service Supervision Bureau
Customs and Excise Department

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