

STATEMENT OF DISCIPLINARY ACTION

A. The Disciplinary Action

1. Pursuant to section 37CA of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**), the Accounting and Financial Reporting Council (**AFRC**) has:
 - 1.1. publicly reprimanded Prism Hong Kong Limited (**Prism**);¹ and
 - 1.2. imposed a pecuniary penalty of **HK\$150,000** against Prism
(collectively, **Disciplinary Action**).
2. The Disciplinary Action was taken in relation to Prism's breaches of the Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants in February 2018 (**2018 AML Guidelines**) and May 2023 (**2023 AML Guidelines**) (collectively, **AML Guidelines**), which form part of the Code of Ethics for Professional Accountants.
3. The AFRC found that Prism had failed to observe, maintain or otherwise apply the professional standards below:
 - 3.1. paragraphs 620.1, 620.7.1 and 620.12.17 of the 2018 AML Guidelines; and
 - 3.2. paragraph 650.1.5 of the 2023 AML Guidelines.
4. Based on the above, Prism is guilty of CPA misconduct pursuant to section 37AA(1)(a) of the AFRCO.

B. Summary of Findings

5. The AFRC conducted an inspection (**Inspection**) on Prism pursuant to sections 20ZZB and 21B of the AFRCO between 2 November 2023 and 8 July 2024. The inspection period was from 1 July 2022 to 31 August 2023. The Inspection covered the evaluation of, among other things, Prism's compliance with the AML Guidelines.

B1. Customer due diligence

6. During the Inspection, the Inspection Department selected one sample client (**Client Y**) to which Prism provided the services specified in paragraph 600.2.1 of the AML Guidelines. Client Y is a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (**HKEX**). The services provided by

¹ Prism is registered as a corporate practice and a PIE auditor with the AFRC (M0607). During the relevant period, Prism was registered with its former name, Prism Hong Kong and Shanghai Limited.

Prism to Client Y concerned the acquisition of entity interest in a target company and disposal of the entire equity interest in the disposed companies.

B.1.1 Failure to perform risk assessment in relation to politically exposed persons (PEPs)

7. According to paragraph 620.12.17 of the 2018 AML Guidelines, Prism must take reasonable measures to determine whether an individual is a domestic PEP. If an individual is known to be a domestic PEP, Prism must perform a risk assessment to determine whether the individual poses a higher risk of money laundering or terrorist financing (**ML/TF**). In any situation that Prism assesses to present a higher risk of ML/TF, it must apply the enhanced customer due diligence (**EDD**) and monitoring referred to in paragraph 620.12.14 of the 2018 AML Guidelines.
8. Based on the inspection findings, Prism conducted a name search and compiled a name check report for Client Y, which shows that certain individuals (including at least three directors with one of them being a controlling shareholder of Client Y) matched the names of PEPs. Since Prism had identified that certain individuals were “true hits” of PEPs, Prism should have performed a risk assessment to determine whether they posed a higher risk of ML/TF. In any situation where Prism assesses that they present a higher risk of ML/TF, Prism must apply EDD. However, there was no documentation recording Prism’s assessment of the relevant ML/TF risk and whether any additional measures were necessary.

B.1.2 Failure to identify and verify a person purporting to act for Client Y

9. According to paragraph 620.7.1 of the 2018 AML Guidelines, if a person purports to act on behalf of a client, Prism must:
 - 9.1. identify the person and take reasonable measures to verify the person’s identity on the basis of documents, data or information provided by a governmental body, or any other source generally recognised as being reliable and independent; and
 - 9.2. verify the person’s authority to act on behalf of the client.
10. Ms K was the person acting on behalf of Client Y. During the Inspection, Prism, upon the Inspection Department’s request, provided a copy of Ms K’s HKID card and a public announcement published on the website of HKEX showing that Ms K was the Chairman of the Board and an executive director of Client Y.
11. Based on the inspection findings, the copy of Ms K’s HKID card and the public announcement were not enclosed with Prism’s engagement acceptance form and were instead provided as two standalone documents. There was no evidence showing that Prism had obtained those documents before client acceptance.

12. Further, the HKEX announcement post-dated the engagement acceptance form and therefore could not have been relied on by Prism at the time of client acceptance.

B2. Sanctions screening

13. According to paragraph 650.1.5 of the 2023 AML Guidelines, Prism must conduct name checks of its clients and their beneficial owners against the latest list of the designated individuals and entities (designated by the United Nations Security Council) (**Sanctions List**).
14. Based on the inspection findings, whilst Prism conducted name checks of the individuals related to its client entities, it failed to conduct name checks of its client entities against the Sanctions List at the material time. The Inspection identified six instances where Prism failed to conduct such sanctions screening which were in contravention of the 2023 AML Guidelines.

C. Conclusion

15. Having considered all relevant circumstances, the AFRC is of the view that Prism is guilty of CPA misconduct pursuant to section 37AA(1)(a) of the AFRCO.
16. In determining the Disciplinary Action, the AFRC has had regard to the Sanctions Policy for Professional Persons, Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons and the Guidance Note on Cooperation with the AFRC (**Guidance Note on Cooperation**), and has taken into account all relevant circumstances, including the following:
 - 16.1. the nature, seriousness, duration, frequency and impact of Prism's misconduct; and
 - 16.2. there is no finding of intentional, dishonest or deliberate misconduct by Prism.

Mitigating circumstances

- 16.3. Prism admitted its liability, initiated resolution discussions with the AFRC, accepted the Disciplinary Action and entered into an agreement with the AFRC pursuant to section 371 of the AFRCO before the issuance of a Notice of Proposed Disciplinary Action.
- 16.4. Upon discovery of its contravention of the AML Guidelines, Prism promptly and voluntarily undertook remedial actions to minimise the risk of future non-compliance of the AML requirements, including forming a dedicated quality assurance department for the purpose of overseeing compliance with the standards and regulatory requirements expected of Prism and engaging an external specialist to conduct AML/CTF training to its staff.

17. Having considered all the relevant circumstances in the present case and the Guidance Note on Cooperation, the AFRC is of the view that a reduction of 25% to the original pecuniary penalty assessed against Prism is appropriate, and that it is in the interest of the investing public and the public interest for the AFRC to enter into an agreement pursuant to section 371 of the AFRCO with Prism.