

26 January 2017

Circular to Licensed Corporations and Associated Entities
Anti-Money Laundering / Counter Financing of Terrorism (“AML/CFT”)
Compliance with AML/CFT Requirements

The SFC has identified compliance with Anti-Money Laundering and Counter Financing of Terrorism (“AML/CFT”) requirements as a focus of supervision of intermediaries. In the past year, AML/CFT compliance was one of the areas that the SFC examined during its routine inspections of licensed corporations (“LCs”) and associated entities (“AEs”). The SFC also conducted in-depth reviews of selected firms’ internal AML/CFT policies, procedures and controls (collectively referred to as “AML/CFT systems”) through thematic inspections.

During 2016, the SFC reviewed the AML/CFT practices in more than 290 firms, and identified more than 200 incidents of non-compliance¹ of varying degrees and nature. Among these incidents, the SFC has identified the following key areas of concern where the AML/CFT systems of some LCs had fallen short of compliance with relevant provisions of the AML Guideline², the Code of Conduct³ and/or the Internal Control Guidelines⁴:

- (a) failure to consider relevant money laundering and terrorist financing (“ML/TF”) risk factors, use relevant available data and keep sufficient documentation in the course of conducting Institutional Risk Assessment⁵ to identify and assess the ML/TF risks to which the LCs are exposed;
- (b) failure to provide adequate internal guidance to staff and perform compliance monitoring to ensure the effectiveness of AML/CFT systems;
- (c) deficiencies in the implementation of certain customer due diligence and ongoing monitoring measures; and
- (d) inadequate monitoring, evaluation and reporting of suspicious transactions.

The SFC wishes to remind LCs and AEs that they should have appropriate and effective AML/CFT systems in place to mitigate the risks of ML/TF.

With a view to raising the awareness of LCs and AEs about the importance of Institutional Risk Assessment and some key aspects of the implementation process, we set out the key inspection findings and elaborate our regulatory guidance relating to Institutional Risk Assessment in Appendix 1. Case examples of deficiencies or inadequacies other than those

¹ It should be noted that more than one incident of non-compliance could be identified in one firm.

² Guideline on Anti-Money Laundering and Counter-Terrorist Financing

³ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission

⁴ Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission

⁵ LCs and AEs are required to assess relevant risk factors (including products and services offered, delivery/distribution channels, types of customers and countries/geographical locations involved) in establishing and implementing adequate and appropriate AML/CFT systems. Such assessment at the firm level is commonly referred to as Institutional Risk Assessment.



in Institutional Risk Assessment found by our inspections and their related guidance are set out in Appendix 2.

LCs and AEs should review their AML/CFT systems against Appendix 1 & 2 and take immediate actions to rectify any similar breaches or deficiencies.

In addition, LCs and AEs are encouraged to consider the examples of good practices⁶ outlined in Appendix 3 and assess whether any of these measures should be appropriately adopted in their own AML/CFT systems to strengthen management supervision and AML/CFT compliance programs.

AML/CFT compliance will continue to be a focus of the SFC's supervision of LCs and AEs in the coming year. The SFC will take regulatory actions including enforcement proceedings where appropriate against firms found to have breached AML/CFT requirements, and will continue to monitor compliance by conducting inspections and the use of other supervisory tools. As part of the ongoing effort to improve AML/CFT compliance, particularly in areas where deficiencies and inadequacies are detected, the SFC will continue to provide regulatory guidance through circulars, training seminars, etc. to assist LCs and AEs in enhancing their AML/CFT systems.

Should you have any queries regarding the contents of this circular, please contact Ms Kiki Wong at 2231 1569.

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

Enclosure

End

SFO/IS/004/2017

⁶ These examples are not exhaustive and LCs and AEs should not regard them as being the only methods for complying with the relevant regulatory requirements.