

6 September 2019

Circular to Licensed Corporations and Associated Entities

Anti-Money Laundering / Counter-Financing of Terrorism

Publication of Hong Kong's Mutual Evaluation Report by FATF

The Financial Action Task Force (“FATF”) published the Mutual Evaluation Report of Hong Kong¹ (“Report”) on 4 September 2019. Hong Kong’s anti-money laundering and counter-financing of terrorism (“AML/CFT”) regime is assessed to be compliant and effective overall, making it the first jurisdiction in the Asia-Pacific region to have achieved an overall compliant result in the current round of FATF mutual evaluations.

The Report can be found on the website of the FATF (<http://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-hong-kong-2019.html>).

The Report confirms that Hong Kong has a strong legal foundation and effective system for combating money laundering and terrorist financing (“ML/TF”). As far as the securities sector is concerned, it recognises that the Securities and Futures Commission (“SFC”) has a reasonable risk-based supervisory framework on AML/CFT and commends the dissuasive and effective sanctions used by the SFC to enforce AML/CFT requirements. The Report notes that, generally speaking, large financial institutions and those belonging to international financial groups have a good understanding of ML/TF risks and adequately apply customer due diligence (“CDD”) and record keeping requirements, whereas there is room for improvement among smaller financial institutions in some of these areas.

To further increase the effectiveness of Hong Kong’s AML/CFT regime, the Report recommends a number of areas for further work. We would like to highlight in particular the following focus areas:

- **To deepen understanding of ML/TF risks** – The Report noted inadequacies among smaller financial institutions in their understanding of ML/TF risks, especially in relation to cross-border financial flows, non-resident customers and politically exposed persons, and application of mitigating measures commensurate with their ML/TF risks. Licensed corporations (“LCs”) and associated entities (“AEs”) should ensure these risks are adequately considered in their risk assessment process, continuously deepen their understanding of ML/TF risks² to which the firms are exposed and implement effective risk mitigating measures that can adequately manage the ML/TF risks identified³.

¹ The Report was prepared by an assessment team comprising experts from member jurisdictions of the FATF and the Asia-Pacific Group on Money Laundering (“APG”), and was examined and adopted by the full membership of FATF and APG. The FATF and the APG, which oversee global efforts to combat ML/TF, jointly conduct mutual evaluations to assess member jurisdictions’ AML/CTF regime against the international standards and publish reports on the outcomes.

² Specific reference is made in the Report to ML risks arising from foreign crimes such as corruption and tax evasion.

³ Paragraph 2.11 of the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) (“AML Guideline”)

- To strengthen implementation of AML/CFT measures – The Report noted inadequacies among the smaller financial institutions in the implementation of CDD requirements (especially with regard to risks posed by non-resident customers), and enhanced due diligence measures for foreign politically exposed persons and targeted financial sanctions. LCs and AEs should ensure that these areas are covered in the regular review of their AML/CFT policies, procedures and controls for ensuring effectiveness in managing the ML/TF risks arising from their businesses⁴, and take immediate actions to rectify any inadequacies identified.
- To strengthen suspicious transactions monitoring and reporting – The Report found important variance in the level and quality of suspicious transaction reporting among financial sectors and there is room for improvement especially in the non-banking sector. LCs and AEs are reminded to regularly review the adequacy and effectiveness of their systems and processes for identifying and reporting of suspicious transactions to the Joint Financial Intelligence Unit as soon as reasonably practicable⁵.

The SFC will continue to employ a broad range of supervisory and enforcement measures to facilitate and ensure effective implementation of policies, procedures and controls for compliance with AML/CFT requirements by securities intermediaries. The SFC will also work together with the securities sector and various stakeholders to follow up the relevant recommendations in the Report, as well as the FATF's updated risk-based approach guidance for the securities sector and continue to make a significant contribution to the effectiveness of the AML/CFT regime of Hong Kong.

Should you have any queries regarding the contents of this circular, please contact Ms Kiki Wong at 2231 1569 who will assist to refer your queries to the relevant officer.

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

End

SFO/IS/046/2019

⁴ Paragraph 2.13(a) of the AML Guideline

⁵ Paragraphs 5.8 and 7.8 of the AML Guideline