



HONG KONG MONETARY AUTHORITY
香港金融管理局

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4 September 2019

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

FATF Mutual Evaluation Report of Hong Kong

I am writing to inform you that the Financial Action Task Force (FATF) and Asia/Pacific Group on Money Laundering (APG) published the Mutual Evaluation Report of Hong Kong today. The Report provides an assessment of the compliance and effectiveness of Hong Kong's anti-money laundering and counter-terrorist financing (AML/CFT) regime against the international standards. It was prepared by an assessment team comprising experts from member jurisdictions of the FATF and the APG, and was examined by the full membership of FATF and APG. The report can be found at <http://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-hong-kong-2019.html>.

The Report recognises that Hong Kong has a strong legal foundation and effective system for combating money laundering and terrorist financing (ML/TF). Effectiveness is assessed across eleven immediate outcomes, the most relevant of which to the banking sector is Preventive Measures (Chapter 5 of the Report). As far as the banking sector is concerned, the Report provides positive comments on overall good understanding of ML/TF risks as well as adequate understanding and application of customer due diligence and record keeping requirements generally, and large Authorized Institutions (AIs) and those belonging to international groups in particular. The increased use of data analytics in monitoring by some of the larger AIs, including how controls are applied to correspondent banking relationships, is highlighted positively in the assessment. Some of the proactive work to which the banking industry has made substantial contributions, including the Fraud and Money Laundering Intelligence Task Force (FMLIT) and the work around proliferation financing, has also been recognised.

The HKMA appreciates the need to sustain the efforts and positive results for the banking sector and notes the recommendations made in the Report which will help

focus our efforts in the coming years. We would like to highlight a few major themes in particular:

- *As ML/TF risks continue to evolve, so must our understanding and our response* – To this end, ongoing efforts to review and update understanding of ML/TF risks¹ should continue in accordance with Chapter 2 of the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (for Authorized Institutions). The HKMA is also updating its own understanding of ML/TF risks at both the institutional and sectoral level, which will inform an updated jurisdiction-wide risk assessment. This will provide a critical element of the evidence base to determine our risk-based response in years to come.
- *The importance of quality and timeliness in suspicious transaction reporting* – While levels of understanding and reporting by large AIs are assessed favourably, there is room for improvement, especially by smaller AIs. AIs are reminded to review policies and procedures against the revised guidance on “Quality and Consistency in Suspicious Transaction Reports”² provided to AIs in May 2018.
- *Approaches and toolkits for AML/CFT efforts* – AIs should focus efforts in areas which may offer the greatest potential to address ML/TF risks; continue to develop the information-sharing approach of FMLIT; and explore how technology can be used to more effectively and efficiently combat ML/TF risks, such as analytics in monitoring. The HKMA will also continue to deploy the full range of supervisory and enforcement measures in a proportionate and graduated manner.

I would like to take this opportunity to thank your commitment in AML/CFT efforts which have contributed significantly to this positive assessment. The HKMA will continue to work together with the banking sector and various stakeholders to follow up the relevant recommendations in the Report, and through close cooperation and coordination, to continue to make a strong contribution to the effectiveness of the AML/CFT regime of Hong Kong.

Yours sincerely,

Carmen Chu
Executive Director (Enforcement and AML)

¹ Specific reference is made in the Report to money launder threats arising from foreign crimes such as corruption and tax evasion.

² HKMA circular on “Strengthening Information and Intelligence Sharing” dated 10 May 2018.