Our Ref: B10/21C

11 August 2021

The Chief Executive
All Stored Value Facility Licensees

Dear Sir / Madam,

Supporting the Use of New Technologies for AML/CFT: Suggested Actions for the Hong Kong Stored Value Facility Sector

I am writing to update stored value facility (SVF) licensees regarding a recent report by the Financial Action Task Force (FATF): "*Opportunities and Challenges of New Technologies for AML/CFT*"[1], which identifies how new technologies[2], especially emerging and available solutions such as machine learning and natural language processing, can help improve the speed, quality and efficiency of AML/CFT measures. In line with global efforts, the HKMA plans to take further steps to support AML/CFT innovation and help strengthen SVF licensees' implementation of the risk-based approach to AML/CFT.

The FATF report identifies which technologies offer the most potential to positively impact AML/CFT work, addresses common challenges, and shares use cases from across the FATF Global Network, including two from Hong Kong on overcoming operational challenges and the use of network analytics. It sets out the actions necessary to ensure the FATF's global AML/CFT standards remain relevant and effective, and is a helpful addition to our industry engagement of how SVF licensees can reap the benefits of new technologies while also addressing the risks.

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[1] https://www.fatf-gafi.org/publications/fatfrecommendations/documents/opportunities-challenges-new-technologies-for-aml-cft.html

[2] In the FATF report, new technologies for AML/CFT refers to (i) innovative skills, methods, and processes that are used to achieve goals relating to the effective implementation of AMLCFT requirements; or (ii) innovative ways to use established technology-based processes to comply with AML/CFT obligations.

The HKMA will be taking a number of initiatives in the coming months as part of the broader "Fintech 2025" strategy[3] to advance SVF licensees' positive and responsible use of new technologies for AML/CFT:

(a) *To share experience and success stories of Authorized Institutions (AIs) and SVF licensees* – in September, the HKMA will host an AML webinar with speakers from law enforcement agencies and industry to focus on how the industry is combatting online fraud and money laundering networks using technology and data, underpinned by increasing public-private collaboration. To make this webinar and other relevant training materials more widely accessible to the staff of AIs and SVF licensees, an online AML/CFT training portal will be launched by the HKMA. Individual login details will be provided in the near future;

(b) *To launch AML and Financial Crime Regtech Labs for experimenting and engaging with new technologies and emerging data analytics techniques* – commencing in November 2021, the HKMA will launch a series of interactive lab sessions to allow experimentation in a facilitated environment using simulations of real-life AML/CFT Regtech use cases before significant investment decisions. The first lab will focus on the use of network analytics and natural language processing to facilitate more effective alert examination and clearance;

(c) *To promote network analytics capability for tackling online fraud and associated mule account networks* – in Q4/2021, we will commence a thematic review of progress over the past year by FMLIT[4] member AIs across a number of fundamental building blocks for the development of network analytics. We will share observations and good practices with the wider industry in 2022; and

(d) *To create a conducive environment for inclusive AML/CFT innovation* – working collaboratively with Hong Kong's AML/CFT ecosystem, the HKMA is gathering suggestions and gauging interests of stakeholders to promote innovative uses of emerging technologies to tackle AML/CFT challenges, as the first initiative in HKMA Fintech Supervisory Sandbox 3.0 or through other innovative events. Further details will be announced in Hong Kong Fintech Week 2021 in November.

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[3] See the press release, remarks made by Mr. Eddie Yue, Chief Executive, HKMA, and the media briefing made by Mr. Howard Lee, Deputy Chief Executive, HKMA on 8 June 2021 (https://www.hkma.gov.hk/eng/news-and-media/speeches/).

[4] The Fraud and Money Laundering Intelligence Task Force (FMLIT) is a public private information sharing initiative between the Hong Kong Police, the HKMA and 15 member AIs.

Senior management of SVF licensees should pay attention to these updates to ensure that the mandate for innovation in AML/CFT is supported with sufficient resources and relevant subject matter expertise. As an immediate next step, SVF licensees should coordinate relevant functions internally to provide data to help us present an updated overview of AML and Financial Crime Regtech adoption, and details will be communicated with individual SVF licensees shortly. Our analysis of the data overview will be shared in the forthcoming webinar in September and will inform further AML and Financial Crime Regtech activities by the HKMA as well as the manner of our engagement with individual SVF licensees.

SVF licensees are welcomed to approach their usual supervisory contact in the HKMA's AML and Financial Crime Risk Division on any questions or suggestions in relation to this letter.

Yours faithfully,

Carmen Chu
Executive Director (Enforcement and AML)