



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B10/1C
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10 May 2018

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Strengthening Information and Intelligence Sharing

The *Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report*¹ contains a clear indication of the Government's policy commitment to strengthen law enforcement efforts and intelligence capability to tackle domestic and international money laundering and terrorist financing (ML/TF) activities. With the important role that the banking sector plays in meeting this objective, the Hong Kong Monetary Authority (HKMA) has been working together with the Joint Financial Intelligence Unit (JFIU), the Hong Kong Police Force (HKPF) and the banking sector in two work streams, among others, to strengthen public-private information and intelligence sharing on serious financial crimes and ML/TF activities. This circular provides an update of the latest developments and elaborates our expectations on Authorized Institutions (AIs) in these efforts.

Suspicious Transaction Reports (STRs)

The HKMA has a long-standing commitment to support AIs in meeting their reporting obligations on ML/TF activities. The HKMA has provided guidance² in support of this commitment, including a *Guidance Paper on Transaction Screening, Transaction Monitoring and Suspicious Transaction Reporting* published in 2013.

¹ Circular on "Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report (Report)" dated 2 May 2018.

² See also the AML Guideline and various training materials at <http://www.hkma.gov.hk/eng/key-functions/banking-stability/aml-cft.shtml>.

In the last few years, the number of STRs received by the JFIU has been on a rising trend, with the vast majority being filed by AIs. This trend is consistent with the experience in other international financial centres and reflects stronger awareness of ML/TF risks in the banking sector, while also presenting challenges in the management and processing of STRs by the JFIU. Moreover, whilst all STRs may contribute to the strategic assessment of the threat from ML/TF, the usability of STRs to provide immediate opportunities to tackle crime or provide intelligence to advance investigations or for future use varies greatly depending on the quality of the information provided.

While improvements in the quality of STRs filed by AIs have been observed as part of recent reporting trends, in order to further strengthen the contribution of AIs to law enforcement efforts and intelligence capability, the HKMA is issuing a revised Annex *Quality and Consistency in Suspicious Transaction Reports* which is included in a new release of the *Guidance Paper on Transaction Screening, Transaction Monitoring and Suspicious Transaction Reporting* (as enclosed). The revisions take into account recent experience and, in particular, analysis and comments from the JFIU. Making reference to the revised Annex, AIs should:

- (a) review the necessary policy, operational and technical changes to align practices for suspicious transaction reporting with those set out in the Guidance Paper, and implement such changes as soon as practicable;
- (b) adopt a consistent approach to suspicious transaction reporting and ensure that STRs are structured systematically in accordance with the guidance and expectations of the JFIU; and
- (c) keep abreast of comments and feedback provided by the JFIU from time to time as an additional resource³, and take prompt steps to enhance suspicious transaction reporting where appropriate.

The HKMA will examine, in the course of its on-site examinations and off-site reviews, the actions taken by AIs' senior management and Financial Crime Risk teams in response to these issues.

³ For example, STR Quarterly Analysis Reports (secure area of the JFIU website: <https://portalh2.police.gov.hk/my.logon.php3?check=1>), and remarks on "areas for improvement on STR reporting" in JFIU's presentation material (<http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/aml-cft/20171024e1a7.pdf>).

Fraud and Money Laundering Intelligence Taskforce (FMLIT)

As a parallel work stream to deliver improvements in the quality and usability of information and intelligence provided by AIs to the HKPF, the HKMA has also been actively supporting the FMLIT⁴. FMLIT is a public-private partnership for sharing information on cases and typologies which will assist law enforcement agencies, the HKMA and AIs in the detection, prevention and disruption of crime in a more targeted way, thereby enhancing the integrity of the financial system by developing a greater collective understanding of risks. This also helps more informed, risk-based decision making in allocating private sector AML/CFT resources. While still at a pilot stage, FMLIT has already shown concrete results, contributing to a number of successful investigations based on the usability of STRs to provide immediate opportunities to tackle crime, through arrests and freezing of funds⁵.

A central pillar of FMLIT is the Alerts Function which disseminates typologies and sanitized intelligence (Alerts) to the wider banking sector. All AIs are expected to support FMLIT by making the necessary resources and expertise available, whether through the participation in the Operations Group⁶ or as the recipient of Alerts, thereby improving the overall performance and output of this important initiative.

The HKMA will continue to work with the banking sector on further exploring how the learning and useful experience from FMLIT, including the dialogue between the HKPF and major reporting entities, can be effectively shared with the objective of strengthening the understanding, coordination, and activities across the banking sector on addressing ML/TF risks.

If you have any questions on this circular, please contact Mr Jason Chan at 2878 1315 or aml@hkma.iclnet.hk.

Yours faithfully,

Carmen Chu
Executive Director (Enforcement and AML)

⁴ HKMA press release on “Fraud and Money Laundering Intelligence Taskforce launched” dated 26 May 2017 (<http://www.hkma.gov.hk/eng/key-information/press-releases/2017/20170526-3.shtml>).

⁵ In the 11-month period since pilot launch of FMLIT, 73 arrests have been made with HK\$3.8 million restrained.

⁶ The Operations Group focuses on case-based tactical intelligence sharing.

Encl.

- cc. Commissioner of Police (Attn.: CSP NB, CSP CCB)
The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association