



Our Ref.: B10/21C

9 February 2023

The Chief Executive
All Stored Value Facility Licensees

Dear Sir/Madam,

Optimising Fraud and Financial Crime Detection and Reporting

I am writing to draw your attention to the updated *Guidance Paper on Transaction Monitoring, Screening and Suspicious Transaction Reporting* issued by the Hong Kong Monetary Authority (HKMA) today following consultation with the industry and the Joint Financial Intelligence Unit (JFIU). It follows the work priorities as set out in the *Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report*¹ to ensure that relevant requirements are in line with the latest international standards and practices.

The updated Guidance Paper is part of the HKMA's ongoing efforts to support changes stored value facility (SVF) licensees are making to improve the effectiveness and efficiency of transaction monitoring, screening and suspicious transaction reporting. It provides clarifications, additional guidance and practical examples for the design, setting and oversight of transaction monitoring and screening systems and processes, including alert handling². A key objective is to support the greater use of technology to generate targeted alerts, which deliver more actionable intelligence into the anti-money laundering and counter-financing of terrorism (AML/CFT) eco-system. There is also an increased emphasis on both data accuracy and integration of external information; for example, SVF licensees are encouraged to explore, where relevant, the greater use of data from the Commercial Data Interchange (CDI)³ to help make systems for customer due diligence and data-driven customer risk assessment and monitoring more effective.

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¹ HKMA Circular "Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report 2022 (2022 HRA)" issued on 8 July 2022

(<https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2022/20220708e3.pdf>)

² Insights from enforcement actions and recent thematic work undertaken with support from a leading Regtech provider to review the performance of a number of AIs' transaction monitoring systems have also been incorporated.

³ HKMA's initiative which aims to enhance data sharing by facilitating financial institutions to retrieve enterprises' commercial data from both public and private data providers.

(<https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/fintech/research-and-applications/commercial-data-interchange/>)

A number of updates have also been made after consulting the JFIU to optimise fraud and suspicious transaction reporting, and which build on the positive outcome in 2022: Intelligence-led suspicious transaction reports (STRs) contributed by Authorized Institutions (AIs) through the Fraud and Money Laundering Intelligence Taskforce (FMLIT)⁴ increased by 319% in 2022, leading to an increase of 113% in criminal proceeds being restrained or confiscated. The updated Guidance Paper incorporates industry developments and capabilities, including the expectation for reporting networks of suspicious accounts where identified and data points relating to cyber-enabled frauds.

SVF licensees should review the updates and implement necessary policy, operational and technical changes to align practices with those set out in the Guidance Paper as soon as practicable. Major updates are summarised in the Annex for ease of reference. The HKMA will continue its work to encourage and support innovation in AML/CFT systems and processes of SVF licensees in effectively managing heightened threats from fraud and financial crime.

Should you have any questions regarding this circular, please contact us at aml@hkma.iclnet.hk.

Yours faithfully,

Carmen Chu
Executive Director (Enforcement and AML)

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⁴ FMLIT was established in 2017, led by the Hong Kong Police Force with participation by the Hong Kong Monetary Authority and a number of retail banks. Similar to arrangements in other international financial centres, FMLIT targets current and emerging financial crime threats by adopting a public private partnership approach to information sharing, both at the strategic and tactical level.