



HONG KONG MONETARY AUTHORITY
香港金融管理局

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7 March 2023

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Balanced and effective AML/CFT measures in private banking

I am writing to elaborate on the Hong Kong Monetary Authority's (HKMA) expectations with regard to anti-money laundering and counter-financing of terrorism (AML/CFT) requirements during account opening and ongoing monitoring for private banking customers. The HKMA has been working with the banking sector to implement effective AML/CFT systems and controls, which helps safeguard market integrity and financial stability and protect customers against harm from financial crimes. While AML/CFT measures exist for good reasons, applying them should not impose an undue burden on the general public and legitimate businesses when using banking services. With this in mind, and based on industry and customer feedback, the HKMA would like to provide further practical guidance on key AML/CFT requirements regarding private banking services.

The risk-based approach (RBA) is central to the effective implementation of the international standards promulgated by the Financial Action Task Force (FATF). Authorized Institutions (AIs) are moving away from a purely compliance-based approach, towards a focus on effectiveness and outcomes. The HKMA places significant emphasis on the RBA in its supervisory work and provides guidance in various formats to assist AIs in balanced and proportional application of this approach. The three guiding principles of the RBA¹ (i.e. risk differentiation, proportionality, and not a “zero failure” regime) apply equally to private banking businesses.

Industry and customer feedback reflects that private banks face challenges in customer onboarding and account maintenance, especially for three key areas: (i) establishment of source of wealth and source of funds; (ii) ongoing monitoring; and (iii) AML Regtech adoption. The HKMA has prepared a set of “*Do's and Don'ts*” and good practices with the aim of helping the management as well as staff

¹ HKMA Circular “De-risking and Financial Inclusion” issued on 8 September 2016 (<https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2016/20160908e1.pdf>)

members of private banks' AML compliance and customer-facing units to appropriately apply AML/CFT requirements to deliver effective outcomes.

AIs should review and update their policies and procedures taking into account this and other guidance, including the presentation on “Source of Wealth Requirements”² in the recent AML Seminar 2022 and Appendix 1 “Establishing source of wealth” to the Frequently Asked Questions in relation to AML/CFT published by the Hong Kong Association of Banks³.

The HKMA will continue its close engagement with the industry and provide further guidance on balanced and effective AML/CFT measures as warranted. Meanwhile, the HKMA is also introducing supervisory technology (Suptech) to strengthen its risk-based and data-driven AML supervision. This includes an upcoming revamp of the way it obtains and analyses data collected from banks, to optimise supervisory and compliance resources as well as focusing on collaborative efforts and an ecosystem response to evolving money laundering and financial crime risks, and supporting a safe and efficient platform for the development of private wealth management businesses.

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)

Encl.

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The Private Wealth Management Association

² https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/aml-cft/seminar_20221215_3.pdf

³ https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/aml-cft/AML_FAQ_20221005.pdf