HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B10/1C
B1/15C

12 April 2018

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Feedback from Recent Thematic Review of AIs' Sanctions Screening Systems

I am writing to share key observations and good practices that have been identified in the recent thematic review of the financial sanctions screening systems of Authorized Institutions (AIs). The adequacy of AIs' sanctions screening systems and controls is a supervisory priority for the Hong Kong Monetary Authority (HKMA), especially in the light of recent geopolitical developments, and this review is part of a series of initiatives to strengthen the collective ability of AIs to meet their sanctions obligations[1].

Our review revealed that while the sanctions screening systems as examined are in general performing within industry benchmarks, there are some issues and good practices in relation to the effectiveness and efficiency of the systems, which warrant further attention by AIs. Details of our overall findings, including examples of good practices and areas for improvement, are set out in the Annex. Where weaknesses were identified, the AIs concerned have been required to undertake remedial actions.

To understand and optimize the performance of screening systems and processes, AIs are expected to (i) give consideration to adopting the good practices, where appropriate, and a gap analysis should be performed at a minimum; and (ii) to put in place, if not already, regular sanctions screening

[1] Including the HKMA's circulars on 31 January 2018 (Anti-Money Laundering / Counter-Terrorist Financing: United Nations Sanctions) and 8 March 2018 (FATF Guidance on Counter Proliferation Financing).

55th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong
Website: www.hkma.gov.hk
香港中環金融街8號國際金融中心2期55樓
網址： www.hkma.gov.hk

system testing that provides robust reporting and quality assurance[2] to senior management that the regulatory expectations set out in the Annex are being met. The HKMA will collect information from all AIs in the third quarter of 2018 on individual action plans and consider conducting further reviews on relevant data and results on AIs in due course following a risk-based approach.

To further communicate our regulatory expectations, the HKMA will host a seminar on 23 April 2018 in which key observations and practices from this review will also be discussed and to which AIs are encouraged to attend.

If you have any questions on this circular, please contact Ms Joyce Chan at 2878-8281 or Ms Queenie Chan at 2878-1514.

Yours faithfully,

Carmen Chu
Executive Director (Enforcement and AML)

Encl.

[2] This should be conducted by a party having subject matter expertise. While some AIs may have dedicated teams, others may need to seek external input depending on individual circumstances.