HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

13 Nov 2007

Anti-Money Laundering and Terrorist Financing - Guidance Paper on Politically Exposed Persons

Our Ref. : B10/1C

13 November 2007

The Chief Executive
All authorized institutions

Dear Sir/Madam,

**Anti-Money Laundering and Terrorist Financing -
Guidance Paper on Politically Exposed Persons**

I am pleased to inform you that the Industry Working Group on Prevention of Money Laundering and Terrorist Financing (IWG) has issued its first guidance paper to AIs, which focuses on the handling of politically exposed persons (PEPs). A copy of the guidance paper is attached to this letter.

The IWG was established in June 2006 for the purpose of further strengthening the banking industry's ability to guard against money laundering and terrorist financing activities. It is chaired by the HKMA and consists of representatives from 20 AIs and the Joint Financial Intelligence Unit. Three User Sub-groups, namely Customer Due Diligence (CDD) Process (General), CDD Process (Non-retail Accounts) and Suspicious Transaction Monitoring and Reporting, were formed under the IWG to study specific anti-money laundering and terrorist financing issues with a view to promoting industry standards and best practices.

As mentioned, this guidance paper is the first produced under the auspices of the IWG. It is developed by the User Sub-group on CDD Process (Non-retail Accounts). It seeks to provide AIs with guidance, in the form of questions and answers, on the handling of PEPs, an area presenting challenges to AIs as revealed in the self-assessment exercise conducted in 2005.

As noted in the preamble to the guidance paper, the practices recommended in the paper do not form part of the formal regulatory

requirements of the HKMA. However, the HKMA considers that the adoption of these practices would strengthen an AI's systems and procedures for combating money laundering and terrorist financing. It therefore expects every AI to give full consideration to the adoption of these practices. In cases where the management of an AI decide not to follow the recommended practices, they should satisfy themselves that either the recommended practices are not applicable to their institution, or their institution has adopted alternative control measures which are equally effective and which enable their institution to fully comply with the HKMA's AML/CFT guidelines and circulars.

The IWG will continue to study other AML/CFT issues of interest to AIs such as CDD process for offshore companies and address proof for personal customers. Guidance papers will be produced where appropriate.

The HKMA is developing a designated webpage for the IWG on its public website. On-line access to the guidance papers developed by the IWG will soon be available.

Yours faithfully,

Simon Topping
Executive Director (Banking Policy)

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Angelina Kwan)
Narcotics Division (Attn: Ms Kitty Yu)
Securities and Futures Commission (Attn: Ms Alexa Lam)
Office of the Commissioner of Insurance (Attn: Mr Clement Cheung)

Encl. IWG Guidance PEPs (PDF file, 50KB)