HONG KONG MONETARY AUTHORITY
香港金融管理局

Our ref : B10/1C
B1/15C

9 July 2010

The Chief Executive
All authorized institutions

Dear Sir/Madam,

Amendments to Guideline on Prevention of Money Laundering and Supplement to the Guideline on Prevention of Money Laundering

I am writing to inform you that, following the consultation with the industry, the HKMA has amended the Guideline on Prevention of Money Laundering (Guideline) and the Supplement to the Guideline on Prevention of Money Laundering (Supplement) to address the issues raised in the Financial Action Task Force (FATF)'s Mutual Evaluation Report and to better reflect international standards. The major amendments are discussed below.

Supplement

Address verification

The HKMA's current Supplement includes address as an integral component of an individual's identity for verification purposes. As a result, AIs need to verify the address of the direct customer as well as all connected parties (i.e. account signatories, directors, principal shareholders, etc) which is unnecessarily onerous.

After considering the FATF's requirements and the international practices, we have decided that AIs should record and verify the address of direct customer. For connected parties and transactions undertaken by non-account holders, AIs should record the address of these parities and determine the need to verify their addresses on the basis of risk and materiality. Paragraph 3.3 and IN 5 have been amended accordingly.

Non-account holder transactions

The existing Supplement does not spell out the requirements on conducting transactions for non-account holders. To provide a clear guidance, we have inserted paragraphs 3.9 to 3.16 to spell out the requirements on conducting non-account holders' transactions in particular on wire transfers and currency exchange transactions.

Verification of identity of directors

The existing Supplement requires the identification of all directors and verification of at least two. The FATF requires identification of directors and reasonable measures to verify the identity of beneficial owners and controllers.

After careful consideration, we have amended paragraph 4.5 of the Supplement to require AIs to verify one director and consider the need to verify the identity of additional directors on the basis of risk and materiality.

Reliance on intermediaries

The FATF requires reliance on intermediaries that are supervised and regulated for AML/CFT purposes. Taking into account Hong Kong's situation and the proposals in the consultation document on the new legislation, the Supplement has been amended to allow reliance on a domestic lawyer, auditor, accountant, trust company or chartered secretary if AIs are satisfied that the domestic intermediary has appropriate customer due diligence systems in place. For overseas intermediaries, reliance is allowed on those that are from an equivalent jurisdiction and are regulated and supervised for compliance with FATF requirements.

<u>Guideline</u>

We have taken this opportunity to update the Guideline mainly to delete those sections that have been superseded by the Supplement.

Please refer to ***Annex 1*** and ***Annex 2*** for the revised Guideline and Supplement respectively. They were published in the Government Gazette today and will be effective on 1 November 2010.

If there are any questions relating to this letter, please feel free to contact Mr Andrew Clayton on 2878-1095 or Ms Sophia Lam on 2878-8281.

Yours faithfully,

Trevor Keen
Acting Executive Director (Banking Conduct)

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Angelina Kwan)

Encl.