



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

7 February 2024

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

**Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT)
Surveillance Capability Enhancement Project**

I am writing to update you on progress of the “AML/CFT Surveillance Capability Enhancement Project” (AMLS Project) through which the HKMA has transformed its risk-based AML supervision leveraging data and Supervisory Technology (Suptech). The AMLS Project is part of the broader digital transformation under the HKMA’s “Fintech 2025” strategy¹ and responds to the need, as advocated by the Financial Action Task Force², to modernise AML supervision in light of the risks and opportunities from new and emerging technologies, and the increasingly borderless and fast-moving nature of financial crime.

The AMLS Project has delivered more proactive and collaborative AML supervision which has helped Authorized Institutions (AIs) to accelerate the transition from a focus on regulatory compliance towards effectiveness and outcomes in managing fraud, money laundering and financial crime risks.

These changes have had a number of implications for the HKMA’s AML supervision, which has become more targeted towards higher risks. Automation and process re-engineering has led to many supervisory activities being streamlined, replaced or eradicated completely, allowing a focus on higher value activities. A dedicated Macro Analytics capability, underpinned by built-for-purpose data infrastructure and access to more granular data, is unlocking new insights on ML/TF risks. A dedicated horizon scanning capability supports a more forward-looking approach to threat identification and response. Further details are provided at the **Annex**.

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¹ Also refer to the paragraph “All banks go fintech” in Hong Kong FinTech Week 2023 press release, regarding AML Suptech strategy (<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2023/11/20231102-4/>)

² Financial Action Task Force’s publication “Opportunities and challenges of new technologies for AML/CFT” in July 2021 (<https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Opportunities-Challenges-of-New-Technologies-for-AML-CFT.pdf.coredownload.pdf>)

Tailoring our approach to AML has also meant a number of changes for AIs. We have revamped how we collect and process financial crime risk data from AIs, consolidated a number of data returns into one through the web-based Common Submission Platform, collected more frequent data to provide richer and detailed analysis of sector and institution specific risk exposures, enabling more effective off-site supervision. We have used this more detailed analysis to design a thematic review which is being conducted on high-end money laundering in 2024.

The Macro Analytics pilot has focused specifically on fraud-related mule account networks and has yielded considerable new insights on the response of AIs' control systems. The programme has also helped identify effective AML practices in terms of the speed and effectiveness of individual AIs' responses, when attacked by the same threat, which we will be sharing with the industry in the near future. In the next stage of development, Macro Analytics 3.0 will further innovate the capabilities tested in the pilot, with the objective of expediting the interdiction of fraud and mule accounts at greater speed and volume, by combining multi-bank analysis with relevant interbank payment data.

The AMLS Project also recognises the deep inter-dependency between effective AML supervision and industry Regtech adoption, and a variety of engagements with the ecosystem have been used to foster collaboration and a greater collective focus on 'outcome-based' AML work. To maintain the good momentum in the digitalisation of AIs' AML systems, in 2024 we will roll out the next phase of our Regtech engagement, including more targeted AMLabs, focusing on use cases providing the greatest impact to the overall ecosystem, including anti-fraud work. Based on the latest supervisory insights, we will also issue practical guidance to the industry to support the responsible use of Artificial Intelligence in AML work, for screening and transaction monitoring in particular.

AIs are encouraged to review the **Annex** in the context of, and assess the implications for, their ML/TF risk management systems, particularly with respect to data strategies in AML, ongoing work to combat mule account networks and the adoption of Regtech solutions in their AML programmes. The HKMA will continue to engage AIs individually and collectively on follow-up actions in accordance with our risk-based supervisory approach.

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.