FATF

Anti-money laundering and counter-terrorist financing measures

Hong Kong, China

Follow-up Report & Technical Compliance Re-Rating

February 2023

Follow-up report

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CTF) standard.

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Hong Kong, China's 1st Regular Follow-up Report

Introduction

The FATF Plenary adopted the mutual evaluation report (MER) of Hong Kong, China in June 2019[1]. This FUR analyses Hong Kong China's progress in addressing the technical compliance deficiencies identified in its MER, relating to Recommendation 28. Re-ratings are given where sufficient progress has been made. This report also analyses Hong Kong, China's progress in implementing new requirements relating to FATF Recommendations that have changed since the on-site visit of Hong Kong, China in October and November 2018 (R.15).

Overall, the expectation is that countries will have addressed most, if not all, technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address what progress Hong Kong, China has made to improve its effectiveness.

Findings of the MER

The MER rated Hong Kong, China's technical compliance as follows:

Table 1. Technical compliance ratings, June 2019

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
LC	LC	LC	LC	LC	C	C	C	C	LC
R.11	**R.12**	**R.13**	**R.14**	**R.15**	**R.16**	**R.17**	**R.18**	**R.19**	**R.20**
LC	PC	C	LC	LC	LC	LC	LC	LC	LC
R.21	**R.22**	**R.23**	**R.24**	**R.25**	**R.26**	**R.27**	**R.28**	**R.29**	**R.30**
C	PC	LC	LC	PC	LC	LC	PC	C	C
R.31	**R.32**	**R.33**	**R.34**	**R.35**	**R.36**	**R.37**	**R.38**	**R.39**	**R.40**
C	C	C	LC	LC	LC	LC	LC	LC	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).
Source: Hong Kong, China Mutual Evaluation Report, June 2019

Mr. Rizumu Yokose - Deputy Director, Office for Countering Illicit Financial Flows, Ministry of Finance, Japan, conducted the analysis of the re-rating.

[1] MER-Hong-Kong-2019.pdf (fatf-gafi.org)

Section 3 of this report summarises Hong Kong, China's progress made in improving technical compliance. Section 4 sets out the conclusion and a table showing which Recommendations have been re-rated.

Overview of progress to improve technical compliance

This section summarises Hong Kong, China's progress to improve its technical compliance by:

a) addressing some of the technical compliance deficiencies identified in the MER; and

b) implementing new requirements where the FATF Recommendations have changed since the on-site visit in October and November 2018 (R.15).

Progress to address technical compliance deficiencies identified in the MER

Hong Kong, China has made progress to address the technical compliance deficiencies identified in the MER in relation to R.28, which the MER rated as PC. As a result of this progress, Hong Kong, China has been re-rated to LC on this Recommendation.

Recommendation 28 (originally rated PC)

In its 4th round MER, Hong Kong, China was rated PC on R.28, due to risk-based AML/CFT supervision not having been established in most DNFBP sectors at the time of the on-site visit. The MER also noted a minor gap related to conviction record checks intended to prevent criminals or their associates from abusing estate agents. A gap in the scope of the AML/CFT framework in relation to DPMS was also identified.

Since the adoption of its MER, Hong Kong, China has implemented risk-based AML/CFT supervision for most DNFBP sectors, which has addressed the primary deficiencies identified in the MER under R.28.5. TCSPs, real estate agents and accountants are now subject to the full range of risk-based supervision. Some other deficiencies are in the process of implementation. Risk-based supervision of the legal sector has commenced but has not yet been fully implemented. DPMS will be subject to AML/CFT framework from 1 April 2023, but as the requirements were not yet in effect at the time of TC analysis, they have not been considered for the rating of this Recommendation. Particular weighting has been given to the TCSP sector, which was considered by the MER to be the most important DNFBP sector based on Hong Kong, China's risk and context.

Hong Kong, China has addressed the deficiencies identified it its MER to a large extent. **On this basis, R.28 is re-rated largely compliant**.

Progress on Recommendations which have changed since adoption of the MER

Since the adoption of Hong Kong, China's MER, the FATF amended R.15. This section considers Hong Kong, China's compliance with the new requirements.

Recommendation 15 (originally rated LC)

In June 2019, R.15 was revised to include obligations related to virtual assets (VA) and virtual asset service providers (VASPs). These new requirements include: requirements on identifying, assessing and understanding ML/TF risks associated with VA activities or operations of VASPs; requirements for VASPs to be licensed or registered; requirements for countries to apply adequate risk-based AML/CFT supervision (including sanctions) to VASPs and for such supervision to be conducted by a competent authority; as well as requirements to apply measures related to preventive measures and international co-operation to VASPs.

In its 4th Round MER, Hong Kong, China was rated LC on R.15, as some stand-alone financial leasing and non-bank credit card companies were out of the scope of the requirements. Since its MER, Hong Kong, China has included stand-alone financial leasing and non-bank credit card companies in their latest risk assessment, although a minor deficiency related to R.15.2 remains for stand-alone financial leasing companies.

In addition, Hong Kong, China meets many of the revised requirements of R.15 in relation to VA and VASPs. Hong Kong, China included VAs and VASPs in the latest risk assessment. VASPs supervised by the SFC are subject to the same AML/CFT requirements as other entities classified as financial institutions, including risk-based supervision and sanctions. However, only centralized VA exchanges which offer the trading of at least one security token (and all VA-related activities of the centralized VA exchanges) are subject to supervision at the time of assessment, which means that the scope of entities covered is limited. The proposed AMLO (Anti-Money Laundering and Counter-Terrorist Financing Ordinance) regime will extend supervision to centralized VA exchanges trading non-security tokens in June 2023, but it was not yet in force at the time of the analysis.

It is noted that the legislative procedures for the proposals containing the AML/CFT regimes for DPMS and VASP were passed and completed on 7 December 2022. The DPMS regime will commence on 1 April 2023 and the VASP regime will commence on 1 June 2023.

Hong Kong, China has addressed most of the deficiencies noted in its MER and has met some of the new requirements introduced for VASPs, but major deficiencies related to the scope of VASPs remain. **On this basis, R.15 is re-rated partially compliant.**

Conclusion

Overall, Hong Kong, China has made progress in addressing the technical compliance deficiencies identified in its MER and has been upgraded on R.28. However, R.15 is downgraded to partially compliant because Hong Kong, China did not sufficiently meet the new requirements of R.15.

Considering progress made by Hong Kong, China since the adoption of its MER, its technical compliance with the FATF Recommendations has been re-evaluated in the following manner:

Table 2. Technical compliance ratings

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
LC	LC	LC	LC	LC	C	C	C	C	LC
R.11	**R.12**	**R.13**	**R.14**	**R.15**	**R.16**	**R.17**	**R.18**	**R.19**	**R.20**
LC	PC	C	LC	***PC***	LC	LC	LC	LC	LC
R.21	**R.22**	**R.23**	**R.24**	**R.25**	**R.26**	**R.27**	**R.28**	**R.29**	**R.30**
C	PC	LC	LC	PC	LC	LC	***LC***	C	C
R.31	**R.32**	**R.33**	**R.34**	**R.35**	**R.36**	**R.37**	**R.38**	**R.39**	**R.40**
C	C	C	LC	LC	LC	LC	LC	LC	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Hong Kong, China will remain in regular follow up.

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As a result of Hong Kong, China's progress in strengthening its measures to fight money laundering and terrorist financing since the assessment of the country's framework, the FATF has re-rated the country on Recommendation 28.

Follow-up report