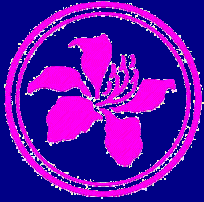


HONG KONG MONETARY AUTHORITY

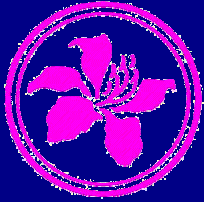
**Good Practices on Transaction Monitoring
&
Recent Developments**

22 January 2009



Background

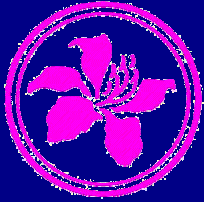
- **Produced in consultation with the IWG**
- **Highlights the essential features of an effective transaction monitoring system & assists Als in complying with requirements in the AML Supplement**
- **Als are expected to give full consideration to adopt the recommended practices in the paper**



Requirements under Supplement

Para 3.2(e)

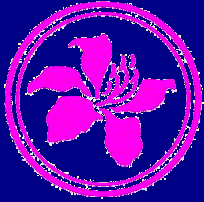
- Perform on-going scrutiny of transactions and account throughout the business relationship
- To ensure transactions are consistent with the AI's knowledge of
 - the customer;
 - its business and
 - risk profile



Requirements under Supplement

Section 13

- **Systems to identify suspicious transactions**
- **MIS reports to provide timely information**
- **Understanding of normal and reasonable activities of customer types**
- **Follow-up on unusual activity identified and document findings**
- **Reasonable measures to satisfy itself as to source and legitimacy of funds**



Detailed Guidance

Purpose

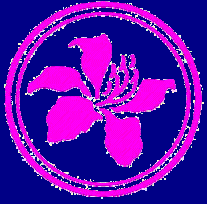
- Alert AIs to activities that appear unusual or suspicious for further investigation

Coverage

- Scope and complexity of the monitoring process should be determined on a risk-sensitive basis

KYC

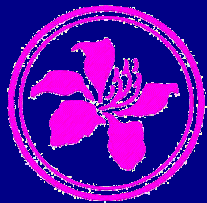
- Understanding the customer & updating their risk profile



Detailed Guidance

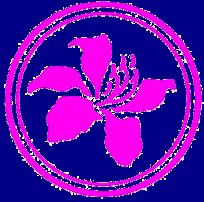
Key Components

- 1. Monitoring by front-line staff**
- 2. Regular reviews of past transactions**
- 3. Identification of suspicious transactions**



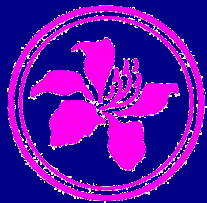
Detailed Guidance

- 4. Management of suspicious transactions**
- 5. Automation of transaction monitoring process**
- 6. Regular review of system parameters**
- 7. Management commitment**



HKAB AML Committee Letter

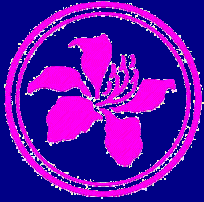
- **HKAB's AML Committee sought clarification on number of issues in relation to the application of the AML Guideline and Supplement**



HKAB AML Committee Letter

Enquiries from Law Enforcement

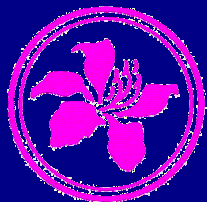
- considered trigger events**
- the extent of the review to be determined on a case-by-case basis**



HKAB AML Committee Letter

Private Banking

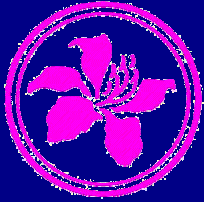
- Annex 2 of the Supplement mandatory for private banking activities
- Accounts opened in Offshore Branches
 - customer identity information must be available on request
 - records of transaction conducted on behalf of a customer of an offshore branch must be available on request



HKAB AML Committee Letter

Address Proof

- IN[17] of the Supplement allows Als to adopt RBA to verification of address for parties connected to corporate customers
- Als may waive verification if company & individual concerned both assessed to be low risk
- To be reviewed during consolidation exercise



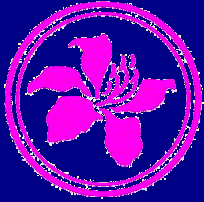
HKAB AML Committee Letter

Application of IN [17] to trusts

- extended to signatories of trust accounts

Application IN [19] to trusts

- IN[19] allows RBA to verification of identity account signatories, subject to requirement to identify a minimum of 2 signatories
- extended to signatories of trust accounts

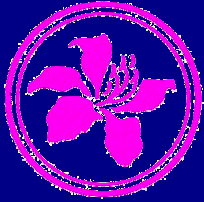


HKAB AML Committee Letter

Verification of the Identity of the Beneficial Owner of a Legal Person / Arrangement

Flexibility not to obtain and verify copies of a BO's identity document and/or address proof provided:

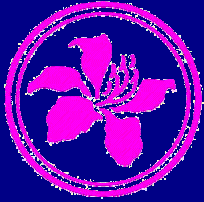
- 1. obtained other satisfactory evidence of the identity and/or address of the BO;**
- 2. efforts to obtain ID and address proof unsuccessful;**
- 3. no suspicion of ML or TF;**
- 4. used sparingly; and**
- 5. senior management approval**



HKAB AML Committee Letter

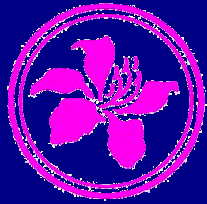
Compliance with US Sanctions

- **Case-by-case basis taking into account the legal and reputational risks**
- **Must screen to ensure no violation of domestic sanctions pursuant to UNATMO (Cap.575) and UN Sanctions Ord. (Cap.537)**
- **Must ensure do not engage in proliferation activities**
- **RBA and reasonable steps to review nature of goods based on the shipping documents**



Way Forward for 2009

- **Consolidation of AML Guideline and Supplement**
- **Next AML seminar: Tuesday 12 May 2009**
- **Complete thematic AML examination of AIs trade finance activities by June & issue best practices paper**
- **Assist HKSARG in formulation of policy response to FATF ME recommendations**



Questions