



2026 AML/CFT Regulatory Updates in Hong Kong—Managing Compliance Risk

In 2026, the Hong Kong Securities and Futures Commission (SFC) released key Anti-Money Laundering / Counter-Financing of Terrorism (AML/CFT) updates that affect regulated firms’ reporting systems, customer due diligence, transaction monitoring, and virtual asset compliance posture. These updates apply to SFC-licensed corporations (LC), SFC-licensed virtual asset service providers (VASPs) and associated entities. The changes introduce both technical and governance risk—particularly where firms’ current controls were designed for earlier requirements.

This alert narrows down the highest-priority risk areas and suggests practical actions.

Risk area	Source & effective date	Who is affected	Priority action
STR submission via STREAMS 2	SFC circular 26 Jan 2026; mandatory from 2 Feb 2026	LCs, VASPs & associated entities	Confirm registration & XML mapping; reconcile post go-live submissions
Layering transaction monitoring	SFC circular 17 Nov 2025	LCs & virtual asset trading service providers (VATPs)	Enhance monitoring for layering typologies (fiat + VA); tighten STR escalation
VA dealing & custodian licensing	Consultation conclusions 24 Dec 2025; legislation expected at LegCo in 2026	VA dealers & custodians	Map activities; build licensing-readiness roadmap; assess third parties
Tokenised product AML controls	SFC circulars 20 Apr 2026	Product issuers & VATPs	Enforce design-time controls, smart-contract audits, complete records
Client due diligence & account opening	SFC circular 22 May 2026	LCs (esp. cross-border / Mainland clients)	Strengthen onboarding declarations, own-name settlement, document checks

Information in this alert is current as at 1 June 2026 and does not reflect subsequent developments.

1. STREAMS 2 TRANSITION RISK (STR SUBMISSION)

SFC has mandated that **from 2 February 2026**¹, all licensed institutions submit **Suspicious Transaction Reports (STRs)** through **STREAMS 2**. Legacy systems are stated to have stopped operating. Given that the new system has been in operation for four months, all institutions should immediately complete the following post-implementation verification: reconcile submission logs since go-live; review any rejections/exceptions during the transition (the legacy platform had a blackout window 28 Jan–2 Feb 2026 with manual email/phone/fax fallback); and confirm XML mapping is stable. In addition, institutions should ensure that they have established sound contingency procedures, clearly defined responsibilities and timelines, to maintain stable and sustainable declaration operations, and avoid violating legal obligations under the Anti Money Laundering and Counter Terrorist Financing Regulations (AMLO) due to system or process flaws.

¹ SFC, [Circular to Licensed Corporations, SFC-licensed Virtual Asset Service Providers and Associated Entities - Anti-Money Laundering / Counter-Financing of Terrorism Transition to the new suspicious transaction reporting platform](#), 26 Jan 2026

2. LAYERING TRANSACTION MONITORING GAPS

SFC issued regulatory requirements² on money laundering risks associated with **layering transactions** in November 2025. If existing monitoring rules fail to detect such patterns effectively, the integrity of suspicious activity detection and the effectiveness of the monitoring framework will be compromised. Firms should review and enhance monitoring rules to cover transaction sequencing, amount characteristics, and cross-account behaviours, include both fiat and virtual asset flows, and ensure anomalies are reliably identified to support timely STR decisions.

Red-Flag Indicators for Layering Detection:

- Frequent structured deposits followed by rapid withdrawals
- Accounts used as pass-through conduits with no genuine trading rationale
- Third-party or unrelated-party transactions without clear economic justification
- Transaction patterns linked to proceeds from scams or deceptive schemes
- Rapid cross-account transfers that obscure the original source of funds
- Alternating sequences of fiat-to-crypto and crypto-to-fiat transactions within short timeframes

3. VIRTUAL ASSET REGULATORY EXPANSION—LICENSING READINESS

Following two rounds of consultations completed in December 2025^{3,4}, the Financial Services and the Treasury Bureau (FSTB) and the SFC have finalised legislative proposals to introduce separate licensing regimes under the AMLO for VATPs, VASPs, VA dealers and custodians, with the bill targeted for tabling before the Legislative Council in 2026. In other words, Hong Kong will formally roll out independent licensing regimes for virtual asset trading platforms and custodians in 2026, fully integrated into the AMLO regulatory framework. Failure to timely enhance governance, private key management, custody, and audit arrangements may undermine business compliance eligibility. Firms should map their business activities, develop a licensing readiness roadmap, conduct early assessments of third-party arrangements, and progressively implement regulatory requirements.

4. TOKENISED PRODUCT AML REQUIREMENTS (DESIGN-TIME CONTROLS)

SFC issued two tokenisation-related circulars (referenced as **26EC22**⁵ and **26EC23**⁶) on **20 April 2026**, highlighting restrictions on using public permissionless blockchain environments and emphasizing design-time controls like smart contract audits and compliance mechanisms (e.g., price deviation monitoring/alerts). Delayed implementation of compliance measures will increase remediation costs and affect product approval outcomes. Firms should enforce strict design controls, standardize audit requirements, maintain complete records, and ensure full compliance with regulatory standards throughout the product lifecycle.

5. CLIENT DUE DILIGENCE AND ACCOUNT-OPENING CONTROLS

On 22 May 2026, following a review of 12 securities brokers, the SFC issued a circular tightening client onboarding and account-opening controls⁷. Deficiencies identified included inadequate verification of client documents, acceptance of questionable or forged documents, and weaknesses in handling cross-border (Mainland) clients. Firms must obtain written investor declarations, ensure settlements and fund movements occur only through eligible bank accounts in the client's own name, and apply heightened scrutiny to documentation and cross-border arrangements; accepting false documents may also engage offences under the Crimes Ordinance. Firms should refresh onboarding and source-of-funds procedures, strengthen document authentication, and reinforce ongoing CDD for higher-risk and cross-border relationships.

² SFC, [Circular – SFC urges licensed firms to detect and prevent potential layering activities in money laundering](#), 17 November 2025.

³ SFC, [Consultation Conclusions on Legislative Proposal to Regulate Virtual Asset Custodian Services](#), 24 Dec 2025

⁴ SFC, [Consultation Conclusions on Legislative Proposal to Regulate Dealing in Virtual Assets](#), 24 Dec 2025

⁵ SFC, [Circular on tokenisation of SFC-authorized investment products](#), 20 April 2026

⁶ SFC, [Circular on secondary trading of tokenised SFC-authorized investment products](#), 20 April 2026

⁷ SFC, [Circular to licensed corporations – account opening and money laundering risks \(review of 12 brokers\)](#), 22 May 2026.

GOVERNANCE AND CONTROL TAKEAWAY

These updates also raise a common operational problem: **informal control changes** (business units adjusting screening thresholds/monitoring settings without proper Compliance/IT approvals) can undermine control effectiveness and accountability. As virtual asset and product design risks increase, third-party oversight (custody providers, auditors, smart contract audit firms) becomes a key part of the control ecosystem.

How We Can Assist

Our team can support you with:

- Updating policies and internal guidance to reflect 2026 expectations (STR workflow, layering monitoring, virtual asset obligations)
- Performing a gap assessment of current tools and processes
- Designing an implementable compliance roadmap (including STREAMS 2 readiness, transaction monitoring tuning, and licensing readiness planning where applicable)

Suggested priorities for the next 90 days:

- Reconcile STREAMS 2 submissions since go-live and confirm XML mapping and exception handling
- Re-tune transaction monitoring for layering typologies across both fiat and virtual asset flows
- Refresh account-opening declarations, own-name settlement checks and source-of-funds documentation
- Map virtual asset activities against the forthcoming dealing and custodian licensing regimes

If you would like to discuss how these changes affect your organisation, contact our consulting team.



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