



Stable or Vulnerable? Demystifying an Enigma Facing Hong Kong's Anti-Money Laundering Efforts

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Abstract

This study assesses Hong Kong's anti-money laundering and counter-terrorist financing (AML/CFT) regime by examining regulatory compliance, prosecution results, supervision of the non-financial sector, and alignment with Financial Action Task Force (FATF) standards. Analysis of 194 jurisdictions with FATF evaluation data (2019–2023) indicates Hong Kong's technical compliance is high (70/100), but enforcement gaps remain, including limited cross-border prosecutions and inconsistent supervision of the non-financial sector. This study benchmarks AML/CFT measures, underscores the compliance challenges faced by jurisdictions and financial centres, and situates Hong Kong's issues within the context of global governance using institutional and regulatory theories.

Keywords Hong Kong · Anti-money laundering (AML) · Financial action task force (FATF) · Institutional theory · Regulatory compliance · Financial crime

Introduction

Over the years, Hong Kong has developed an anti-money laundering and counter-terrorist financing (AML/CFT) regime that is aligned with the FATF standards; however, implementation challenges persist. Legislative milestones, such as the 2012 Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO), reflect efforts to balance global norms with local enforcement realities (Kwok, 2008; Yim &

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Lee, 2021). As an international financial centre, Hong Kong has prioritised preserving financial system integrity by adopting the Financial Action Task Force (FATF)¹ standards, a strategy common among financial hubs that balances competitiveness and compliance (Kemal, 2014; Levi, 2020). This encompasses strict measures to curb illegal monetary transactions, a crucial protection given Hong Kong's position as a conduit for international capital movements (Chhina, 2022). This strategic approach has evolved through key legislative milestones that reflect domestic priorities and international obligations.

The multi-agency strategy of the Hong Kong SAR government, as demonstrated by the AML/CFT Task Force, aligns with scholarly recommendations for integrated governance frameworks to address complex financial crimes (Levi & Reuter, 2006). Hong Kong's AML/CFT policy evolution began in 1989 with the Drug Trafficking (Recovery of Proceeds) Ordinance, which targeted drug-related money laundering in response to the local narcotics trade and international pressure (Yim & Lee, 2021). These institutional developments were paralleled by progressive legal reforms, beginning with targeted measures against drug-related financial crimes in the late 1980s. The 1994 Organised and Serious Crimes Ordinance expanded coverage to diverse predicate offences, aligning it early with FATF norms (Kwok, 2008). Building on these legislative foundations, the establishment of the Joint Financial Intelligence Unit (JFIU) in 1989 marked a critical step toward operationalising inter-agency collaboration, a model that would later inform broader reform.

The establishment of the JFIU in 1989 strengthened information sharing between law enforcement and regulators, a model that was later praised for overcoming the institutional silos typical of AML/CFT regimes (Yang & Zhang, 2024). By the 2000s, Hong Kong's framework had evolved under the influence of the FATF, particularly after the 2008 mutual evaluation, which highlighted enforcement gaps in non-bank sectors (FATF, 2008). These findings catalysed reforms, culminating in the AMLO of 2012, which introduced risk-based supervision for financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs) (HKMA, 2018). Following the AMLO, regulatory bodies such as the HKMA intensified efforts to institutionalise risk-based practices, although implementation challenges soon emerged in several sectors.

Under the guidance of the Hong Kong Monetary Authority (HKMA), institutions have implemented risk assessments and due diligence systems. However, studies have noted uneven adoption across sectors, which is a challenge in other common-law jurisdictions (Arner et al., 2015). The 2018 supervisory framework of the HKMA highlighted the concept of 'proportionality', which permitted smaller institutions to adopt scaled-down control measures. However, this strategy has faced criticism for potentially creating gaps in compliance (Gaviyau & Sibindi, 2023). Despite these sectoral challenges, Hong Kong's AML/CFT framework remains structurally robust, underpinned by its dual role as a global financial hub and a jurisdiction committed to aligning itself with the FATF standards.

Hong Kong's AML/CFT Landscape

Hong Kong's AML/CFT framework adheres to FATF standards, with strengths in the financial sector compliance. However, FATF evaluations (2019–2023) have noted gaps in beneficial ownership transparency and non-financial sector supervision (Chhina, 2022). The city's status as a global financial hub necessitates a comprehensive approach to AML/CFT, primarily overseen by the HKMA and the Securities and Futures Commission (SFC) (Hameiri & Jones, 2017). These bodies enforce compliance with FATF standards through key legislation, such as the AMLO, which mandates customer due diligence, record keeping, and reporting of suspicious transactions (HKMA, 2018). However, the theoretical strength of the framework contrasts with empirical critiques of its practical execution, particularly in high-risk areas such as beneficial ownership transparency.

Previous studies of Hong Kong's AML/CFT framework have shown varying levels of compliance and effectiveness in the financial sector. The region has exhibited strength in legal adherence by aligning its regulatory framework with the global standards (FATF, 2019). However, notable deficiencies have been identified in crucial areas, including the transparency of beneficial ownership and the reporting of suspicious transactions in the financial sector. For example, transparency in beneficial ownership remains a challenge, as researchers have noted that self-reported corporate registers lack verification processes, thereby allowing the misuse of shell companies and trusts (Chhina, 2022). Similarly, while suspicious transaction reporting (STR) volumes are high, research has critiqued the prevalence of 'defensive reporting' by financial institutions, where low-quality disclosures prioritise compliance over actionable intelligence (Ferwerda et al., 2013). Empirical case studies include laundering networks that exploit real estate and cross-border trade (Johnson, 2008; Lee, 2022). Recognising these gaps, recent reforms have aimed to modernise the regime, although their success hinges on addressing the systematic enforcement limitations.

Assessing Effectiveness and Global Context

As a financial hub, Hong Kong faces an elevated risk of trade-based money laundering. FATF (2019) identified vulnerabilities in cross-border prosecution (FATF, 2023). These vulnerabilities reflect broader academic concerns regarding the susceptibility of trade-intensive economies to value transfer manipulation (FATF, 2019). While post-2019 reforms aimed to modernise enforcement, their impact was constrained by structural limitations. The persistently low prosecution rates, despite rising STRs, echo critiques of 'enforcement dilution' in jurisdictions that balance financial competitiveness with regulatory rigour (Hülse & Kerwer, 2007). This aligns with comparative analyses suggesting that AML effectiveness in financial hubs often hinges on resolving tensions between market liberalisation and supervisory capacity (Chhina, 2022).

The rapid development of financial technologies and the increasing complexity of money laundering strategies continually hinder AML/CFT measures (Demetis, 2010). While previous research has extensively documented Hong Kong's legislative efforts in AML/CFT, less is known about the real-world effectiveness of these mea-

asures, particularly in the context of the new challenges posed by virtual assets and fintech. Enhancing cross-border collaboration is crucial, as criminals exploit jurisdictional disparities to conceal their illicit assets (Levi & Reuter, 2006). Furthermore, numerous nations, such as Hong Kong, face challenges in reconciling AML/CFT compliance requirements with financial inclusion objectives, particularly in developing regions with substantial, informal economies. The current literature has yet to fully address how Hong Kong's AML/CFT regime navigates the complexities of international financial crime, particularly in light of evolving money laundering tactics that exploit digital finance technology.

This comprehensive approach aims to evaluate the effectiveness of AML/CFT measures in Hong Kong. Considering the wider global environment in which these initiatives were implemented is crucial. Hong Kong's AML/CFT framework must be evaluated in light of international AML/CFT challenges, which provide significant context for understanding the city's distinct role (Ferberda & Reuter, 2019). Even with the adoption of strong regulatory frameworks and adherence to international standards, numerous countries, including Hong Kong, face difficulties in consistently enforcing and practically applying AML/CFT measures (Kemal, 2014). Primary concerns include inadequate risk assessment methods, limited resources for financial intelligence units, and a lack of transparency in beneficial ownership (Chhina, 2022). The lack of empirical studies on AML/CFT effectiveness across jurisdictions highlights the need for thorough empirical research on specific financial centres, such as Hong Kong (Gaviyau & Sibindi, 2023). This study established theoretical frameworks (Regulatory Compliance Theory, Risk-Based Approach, and Institutional Theory) to systematically analyse Hong Kong's AML/CFT regime using publicly available FATF evaluation data from 2019 to 2023.

Theoretical Frameworks

This study employs three complementary analytical lenses that together provide a comprehensive framework for evaluating Hong Kong's AML/CFT regime: Regulatory Compliance Theory (Braithwaite & Drahos, 2000), the Risk-Based Approach (RBA) (FATF, 2012), and Institutional Theory (DiMaggio & Powell, 2002).

Regulatory Compliance Theory (Braithwaite & Drahos, 2000) examines how jurisdictions respond to transnational regulatory pressures through compliance mechanisms, ranging from deterrence to cooperation. This theory posits that compliance emerges from complex interactions among international standards, domestic institutional capabilities and enforcement priorities. When applied to Hong Kong's AML/CFT regime, this framework helps assess how Hong Kong's legislative and supervisory mechanisms align with or diverge from international standards, particularly in striking a balance between global obligations and local institutions.

The Risk-Based Approach (FATF, 2012) represents a regulatory philosophy that advocates the proportionate allocation of resources based on assessed risks. This study critically examines whether Hong Kong's implementation reflects its unique risk profile as a global financial hub or merely achieves technical compliance without addressing substantive threats.

Institutional Theory (DiMaggio & Powell, 2002) interrogates the interplay between external pressures and internal institutional dynamics that drive reform. For Hong Kong, this manifests as the adoption of FATF standards through coercive international evaluations and mimetic emulation of other financial centres, potentially prioritising legitimacy over effectiveness.

While these frameworks are widely recognised in AML/CFT, their application to Hong Kong's regime remains unexplored. This analysis demonstrates how FATF data can systematically identify AML/CFT vulnerabilities in financial hubs, providing a template for jurisdictions to reconcile technical compliance with the realities of enforcement. Rather than proposing a new model, it showcases the operational value of existing FATF metrics when contextualised through these lenses.

Objectives

Empirical research on the effectiveness of AML/CFT measures in Hong Kong remains limited. This study conducts a comparative analysis of Hong Kong's AML/CFT framework using FATF evaluation data (2019–2023) to identify systemic compliance gaps and contextualise its performance against regional peers, such as Singapore and Japan. By analysing policies, procedures, and implementation linking theoretical constructs, this study seeks to provide insights into the jurisdiction's alignment with global norms and evolving financial crime risks.

Methods

Data

This cross-sectional study encompasses a dataset of ($N=194$) jurisdictions. While FATF reports provide standardised metrics, their periodic nature may lag behind real-time regulatory developments. The findings should be interpreted as reflective of the evaluation cycle of Hong Kong from 2019 to 2023 and compared to the AML/CFT effectiveness and technical compliance ratings with those of a global network of jurisdictions, as reported in the FATF Mutual Evaluation Reports and Follow-up Reports (last updated on 23 April 2025) (FATF, 2024) (see Online Resource 1). The data include ratings for technical compliance with the 40 FATF Recommendations (see Table 1) and performance in 11 key effectiveness goals or Immediate Outcomes (IO) (see Table 2), which are widely recognised as benchmarks for AML/CFT regime evaluations (Kemal, 2014).

Data Analysis

Japan and Singapore were chosen as counterparts for benchmarking due to their status as leading regional financial hubs in the Asia-Pacific region, with comparable regulatory environments and similar AML/CFT challenges. These jurisdictions share key characteristics with Hong Kong: they function as international financial centres, face similar money laundering risks related to cross-border transactions, and operate within

Table 1 FATF 40 recommendations

Recommendations	Short title
R.1 – R.2	AML/CFT Policies and coordination
R.3 – R.4	Money laundering and confiscation
R.5 – R.8	Terrorist financing and financing of proliferation
R.9 – R.23	Preventive measures
R.24 – R.25	Transparency and beneficial ownership of legal persons and arrangements
R.26 – R.35	Powers and responsibilities of competent authorities and other institutional measures
R.36 – R.40	International cooperation

Table 2 FATF 11 immediate outcomes

Immediate outcome (IO)	Short title
1	Risk, policy and coordination
2	International cooperation
3	Supervision
4	Preventive measures
5	Legal persons and arrangements
6	Financial intelligence
7	ML investigation/prosecution
8	Confiscation
9	TF investigation/prosecution
10	TF preventive measures/sanctions
11	Proliferation of financial sanctions

comparable legal frameworks. This selection enables a meaningful evaluation of Hong Kong's AML/CFT framework against that of its peers, facing similar risks and operational challenges. The concentrated case design allows for an in-depth exploration of contextual factors that are often obscured in large-N studies, such as the role of the political economy in shaping enforcement priorities. The following steps were performed:

1) Data Extraction: Technical compliance and effectiveness ratings were extracted from FATF reports for Hong Kong. This approach aligns with the methodologies used in cross-jurisdictional AML/CFT effectiveness research (Levi & Reuter, 2006).

2) Data Transformation: The ratings were converted into numerical values for analysis and interpretation. The FATF defines seven main groupings for technical compliance within 40 recommendations. Regarding the Johnson/Yepes methodology (Johnson, 2008; Verdugo Yepes, 2011), ratings were assigned as follows: compliant (1), Largely Compliant (0.67), Partially Compliant (0.33), Not Compliant (0), and not applicable (1) (see Table 3). Applying numerical values to the FATF's 'technical compliance' ratings for each of the 40 metrics generates information that enables visual comparisons and jurisdictional rankings. The Johnson/Yepes methodology added the results for each grouping, 'demeaned' each component by subtracting its arithmetic mean, divided it by its standard deviation, and rescaled it to a value of 100. For effectiveness, the ratings were assigned as follows: high (4), substantial (3), moderate (2), and low (1) (see Table 4). This quantification method aligns with the scoring systems used in the global AML/CFT indices (Basel Institute on Governance, 2021).

Table 3 FATF technical compliance average johnson/yepes scores grouping

Rating	Multiplier
Compliant	1
Largely compliant	0.67
Partially compliant	0.33
Not compliant	0
Not applicable	1

Table 4 FATF effectiveness ratings

Rating	Extent achieved	Improvements needed	Multiplier
High	Very large extent	Minor	4
Substantial	Large extent	Moderate	3
Moderate	Some extent	Major	2
Low	Not achieved/negligible	Fundamental	1

3) Visualisation Techniques: Data visualisation techniques were used to present the data in a more accessible and informative way. This includes radar charts to illustrate the strengths and weaknesses of Hong Kong's AML/CFT regime, providing more meaningful information for evidence-based decision-making. Visual analytics translates complex compliance data into actionable insights (Evergreen, 2019).

4) Composite Analysis Methodology: The process consisted of the following steps: (1) Composite Scores: Each nation received composite scores based on technical compliance and effectiveness assessments. These scores were weighted and combined to generate the overall rankings. Weighted aggregation aligns with best practices in policy index construction (Yin, 2017); and (2) Domain Analysis: Ratings across different domains, such as the legal framework, financial transparency, and public accountability, were analysed to provide a holistic view of each country's AML/CFT regime. Domain-specific analysis is critical for identifying systematic weaknesses in AML/CFT frameworks (Gaviyau & Sibindi, 2023).

5) This study synthesises FATF evaluation data through established academic frameworks, recognising three methodological constraints: (1) reliance on secondary FATF reports rather than primary prosecution data; (2) exclusion of post-2023 regulatory developments; and (3) use of conviction rates as proxy indicators rather than direct effectiveness measures. The analysis focuses on contextualising Hong Kong's performance relative to regional peers using FATF metrics.

Results

Hong Kong improved its technical compliance post-2019, achieving 'largely compliant' ratings for 25/40 FATF recommendations. However, partial compliance with non-financial supervision (four recommendations) highlights persistent gaps (FATF, 2023). As of the latest follow-up report in 2023, Hong Kong complies with 11 FATF Recommendations, primarily with 25 and partially with 4 (FATF, 2023). This demonstrates a robust framework for combating money laundering and terrorist financing, although some areas still require improvement (Hameiri & Jones, 2017).

Technical Compliance

Hong Kong's rating is 'largely compliant' to 'compliant', with an overall mean score of 70 for technical compliance with FATF recommendations (ranging from 0 to 100), higher than the global mean score of 65 (see Fig. 1). Hong Kong's technical compliance ratings reflect the extent to which it has implemented FATF Recommendations. The most recent ratings are as follows: (1) Compliant (C): 11 recommendations, including targeted financial sanctions related to terrorism and terrorist financing (R.6), proliferation financing (R.7), non-profit organisations (R.8), and financial institution secrecy laws (R.9) (FATF, 2023); (2) Largely Compliant (LC): 25 recommendations, including customer due diligence (R.10), record keeping (R.11), and politically exposed persons (R.12) (FATF, 2023); and (3) Partially Compliant (PC): four recommendations, indicating areas where further enhancements are needed, particularly in the supervision of non-financial sectors (Gaviyau & Sibindi, 2023). However, R.3–R.4 (money laundering and confiscation) demonstrate largely compliance, with a score of 0.67, but they lag behind the global mean score of 0.75. R.9–R.23 (Preventive Measures) scored 0.67, which was slightly below the global mean score of 0.71. These compliance gaps in specific recommendations highlight systematic challenges in Hong Kong's AML/CFT framework, which will be further explored in the discussion section, particularly the tension between technical compliance and effective implementation.

Effectiveness Ratings

Although the FATF's follow-up assessment process primarily focuses on technical compliance, the upcoming fifth round of mutual evaluation will assess the effectiveness of Hong Kong's AML/CFT measures (FATF, 2023). In the 2019 round, mutual

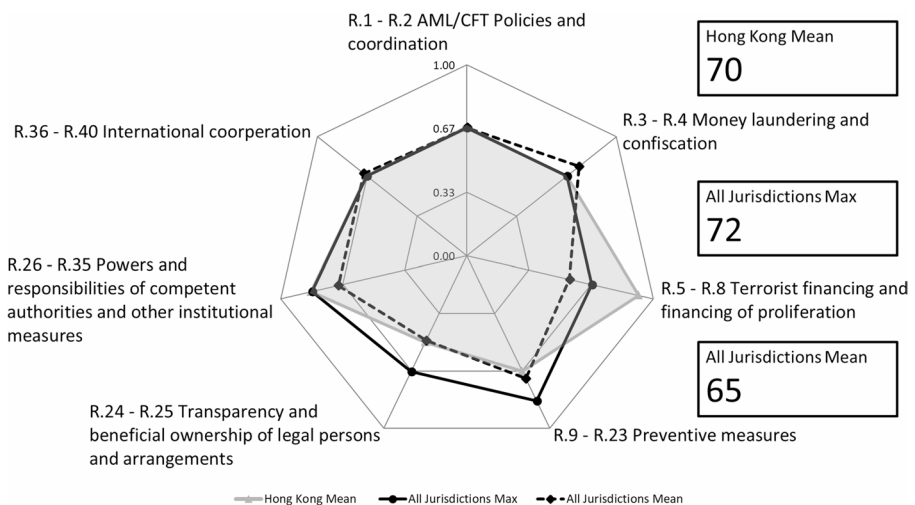


Fig. 1 FATF technical compliance average johnson/ypes scores grouping compared (Hong Kong vs. all jurisdictions)

evaluations revealed that its effectiveness in Hong Kong was moderate to substantial, with an overall mean score of 2.55 (ranging from 1 to 4), compared with an all-jurisdiction mean score of 1.83 (see Fig. 2). It highlighted several key areas: (1) Strengths: Hong Kong has a sound regime that delivers good results in combating ML/TF, with strong legal frameworks, international cooperation, and financial intelligence capabilities (FATF, 2019; Hameiri & Jones, 2017); (2) Areas for Improvement: Challenges remain in prosecuting money laundering involving crimes committed abroad and strengthening the supervision of non-financial businesses (Chhina, 2022; FATF, 2019). When considered alongside technical compliance scores, these effectiveness ratings reveal important insights into the implementation gaps in Hong Kong's AML/CFT framework, which will be examined through institutional and regulatory compliance theoretical lenses in the discussion section.

Prosecution Challenges and Contextual Factors

While the Hong Kong police have been actively pursuing money laundering cases, there has been a significant rise in arrests and prosecutions in recent years. However, many money laundering cases involve overseas perpetrators and require complex investigations, making successful prosecution difficult. The relatively low conviction rates highlight the need for continued improvement in the detection, investigation, and prosecution of money laundering cases in Hong Kong (HKSAR, 2025).

Jurisdictions Comparisons

Hong Kong outperformed both the all-jurisdiction mean score and its peers, such as Singapore and Japan, in terms of the effectiveness of immediate outcomes (IO). The mean effectiveness score for Hong Kong was 2.55, compared to 1.83 globally, 2.27 for Singapore, and 2.27 for Japan (see Figs. 2 and 3). Hong Kong's AML/CFT

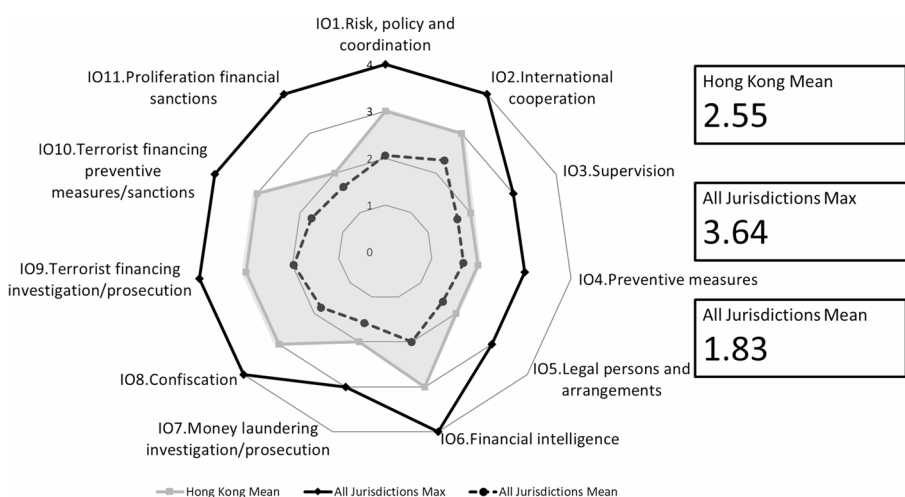


Fig. 2 AML/CFT effectiveness ratings compared (Hong Kong vs. all jurisdictions)

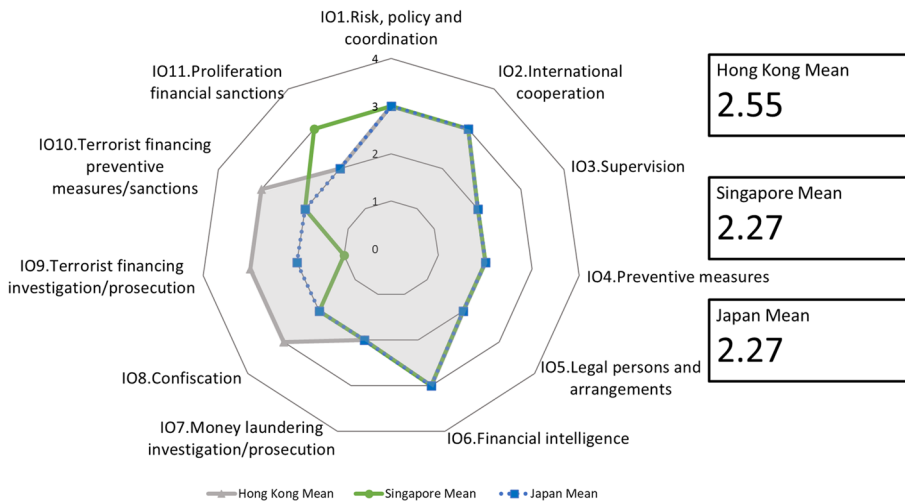


Fig. 3 AML/CFT effectiveness ratings compared (Hong Kong, Singapore and Japan)

framework is notable for its comprehensive and integrated approach, which is closely aligned with global standards and best practices (FATF, 2019). This comprehensive framework encompasses a wide range of financial and non-financial sectors, reflecting Hong Kong's commitment to maintaining the integrity of its financial system (HKMA, 2018). The proactive strategies adopted by the Hong Kong authorities, including rigorous customer due diligence, enhanced transaction monitoring, and strict reporting requirements, have established the region as a leader in the fight against financial crime (Arner et al., 2015). These initiatives bolstered Hong Kong's standing as a secure financial centre and contributed to the overall stability of the global financial system (Kemal, 2014).

Hong Kong's anti-money laundering framework is distinguished by its thorough approach and firm adherence to global standards, setting it apart from other regions (Basel Institute on Governance, 2023). Its alignment with FATF Recommendations exceeds that of regional peers, such as Singapore and Japan, particularly in areas such as financial intelligence sharing (Hameiri & Jones, 2017). This proactive positioning underscores Hong Kong's leadership in the Asia-Pacific region (Lee, 2022).

However, while Hong Kong's AML/CFT framework has notable strengths, it faces challenges in certain areas, particularly in overseeing non-financial sectors and handling cross-border prosecutions (FATF, 2023). Partially compliant ratings highlight gaps in supervising non-financial businesses and prosecuting cross-border cases, which are also observed in other financial hubs (Chhina, 2022; Levi & Reuter, 2006). These issues reflect broader systematic challenges in major financial centres, where fragmented regulatory oversight and jurisdictional complexities persist (Gaviyau & Sibindi, 2023). The complexity of international financial transactions and the evolving nature of money laundering techniques present ongoing hurdles for regulators (Demetis, 2010).

Addressing these gaps requires continued collaboration with international partners, enhanced information-sharing mechanisms (Ferwerda & Reuter, 2019), and the adoption of innovative technologies to detect and prevent sophisticated financial crimes (FATF, 2021). As Hong Kong continues to refine its AML/CFT framework, balancing regulatory effectiveness with maintaining its competitive edge as a global financial centre remains a key priority (Harris, 2022).

Discussion

Hong Kong's 70/100 technical compliance score exceeds the global average but masks enforcement gaps, such as low conviction rates for cross-border cases. This aligns with Levi and Reuter (2006) 'jurisdictional paradox,' where global standards outpace local capacities. The 2.55 effectiveness score surpasses Singapore's (2.27) in financial sector oversight but trails in non-financial supervision, revealing systemic challenges in balancing global standards with contextual implementation.

Hong Kong's Position as a Financial Hub and Systematic Challenges

Hong Kong's robust legal system and international partnerships underpin its role as a global financial hub (Arner et al., 2015). However, its AML/CFT framework faces inherent challenges, particularly in addressing cross-border financial crime. From a regulatory compliance theory perspective, Levi and Reuter (2006) "jurisdictional paradox" reflects the tension between global regulatory harmonisation (via FATF standards) and local enforcement limitations. Hong Kong's lack of authority over foreign predicate crimes exemplifies how transnational regulatory regimes create gaps when technical rules outpace the capacities of institutions. Similarly, institutional theory explains this as a mismatch between coercive isomorphism (adopting FATF norms for legitimacy) and practical enforcement capabilities, mirroring the weaknesses of the EU's post-2016 reforms (Kemal, 2014).

Critique of Compliance Vs. Effectiveness

A central critique of the AML/CFT literature is its prioritisation of technical compliance over outcome-based evaluations. The FATF methodology, critiqued as a "box-ticking regime" (Demetis, 2010), aligns with the observation of regulatory compliance theory that global standards often prioritise deterrence-based compliance over cooperative problem solving (Braithwaite & Drahos, 2000). While designed to allocate resources proportionally to risks, the RBA framework becomes diluted when technical adherence (e.g., FATF's 11 Immediate Outcomes) overshadows measurable results. Institutional theory further clarifies this as 'ceremonial conformity', where Hong Kong's focus on FATF compliance scores enhances its legitimacy but diverts resources from actionable enforcement, thereby perpetuating systematic vulnerabilities (Ferwerda et al., 2013).

Institutional Comparisons and Gaps

While Hong Kong's financial intelligence capabilities align with those of its regional counterparts, such as Singapore and Japan (Hameiri & Jones, 2017), its prosecutorial lag highlights institutional gaps. Institutional theory explains Singapore's success through mimetic isomorphism, adopting specialised units (e.g., Transnational Crime Division) as best practices to enhance legitimacy and efficiency. Hong Kong's proposed reforms reflect similar institutional mimicry but face delays owing to path dependencies within existing frameworks. The RBA framework further underscores the need for tailored institutional specialisation to address high-risk cross-border crimes, which Hong Kong's generalised enforcement structure currently lacks.

Technological and Regulatory Challenges

Hong Kong's AML/CFT struggles with FinTech innovation reveal tensions between the RBA's ideal of dynamic risk adaptation and static regulatory frameworks. While recent virtual asset regulations align with FATF standards (FATF, 2021), regulatory Compliance Theory highlights the lag in translating global technology standards into localised enforcement. Although promising, AI-driven tools exemplify institutional theory's "technological ceremonialism", adopting innovations for legitimacy without proven efficacy (Demetis, 2010). The RBA's failure to empirically assess FinTech risks (Harris, 2022) reflects the systematic under-prioritisation of emerging threats, despite their high-risk profile.

Policy Implications

Examining the policy implications of these challenges and advancements is crucial for comprehensively understanding the complexities of Hong Kong's AML/CFT regime. The framework exemplifies the complex interactions between international regulatory demands, risk-based prioritisation, and institutions' efforts to maintain legitimacy (Drezner, 2007; Suchman, 1995). The FATF exerts significant coercive isomorphic pressure, aligning Hong Kong's AML/CFT framework with international standards (Hülse & Kerwer, 2007). This influence is reflected in Hong Kong's high technical compliance with FATF recommendations (FATF, 2023). Concurrently, mimetic isomorphism is evident as Hong Kong adopts practices from other leading financial centres to bolster its AML/CFT measures (Mugarura, 2017). Nonetheless, the persistence of implementation gaps highlights the challenges of translating global standards into effective, context-specific practices (Levi & Reuter, 2006). This integration demonstrates how Hong Kong's challenges stem from competing pressures: global compliance demands (Regulatory Compliance Theory), isomorphic institutional mimicry (Institutional Theory), and the RBA's uneven implementation in dynamic risk environments.

To address FATF-identified gaps, Hong Kong should prioritise: (1) specialised units for cross-border prosecutions, (2) real-time monitoring of virtual assets; and (3) verified beneficial ownership registers (FATF, 2023). Hong Kong must strike a bal-

ance between technical compliance and measurable outcomes, invest in specialised institutions and technology, and foster cooperation across borders. Addressing evolving financial technologies and jurisdictional complexities will be critical to maintaining its status as a secure and global financial hub in the future. The necessity of implementing an adaptive RBA and undertaking more profound institutional reforms has become a crucial area for enhancement. These issues highlight the significance of aligning global standards with localised risk evaluations (Tsingou, 2020). To address these issues, Hong Kong must leverage advanced technologies such as AI-driven transaction monitoring to enhance detection capabilities (Demetis, 2018) and foster international collaboration to combat cross-border financial crime (Pattanayak & Verdugo-Yepes, 2020). By concentrating on these aspects, Hong Kong can enhance its AML/CFT framework and remain resilient to emerging threats (Drezner, 2007).

These insights have led to several important policy recommendations for enhancing Hong Kong's AML/CFT measures. (1) **Strengthening the Regulatory Framework:** Policymakers should consider revising the AMLO to fill existing coverage gaps and refine the definition of politically exposed persons (PEPs), ensuring that it aligns with the evolving standards set by the FATF (FATF, 2021). This will ensure a more comprehensive regulatory framework that addresses the vulnerabilities identified in cross-border financial flows (Chhina, 2022). Additionally, strengthening supervision is crucial, as regulatory bodies should increase their efforts to supervise DNFBPs and smaller institutions, given the persistence of gaps in oversight despite the FATF, 2019 recommendations (FATF, 2023). This includes implementing more stringent monitoring and enforcement measures, particularly for high-risk sectors (Gaviyau & Sibindi, 2023); (2) **Improving Prosecution Efforts:** Hong Kong should enhance its prosecution of money laundering cases involving foreign predicate crimes, a systematic weakness noted in the 2019 Mutual Evaluation Report (FATF, 2019). This requires collaboration with international law enforcement agencies and specialised prosecutorial teams trained in transnational financial crime (Levi & Reuter, 2006); (3) **Adopting a Risk-Based Approach:** According to FATF guidance (FATF, 2012), a risk-based strategy should be established to customise AML/CFT measures to the specific risks of each sector. This approach facilitates effective resource distribution and adherence, particularly in the fintech and virtual asset industries (Demetis, 2010).

Limitations

This study has limitations, as the analysis is confined to data from FATF reports and other publicly available sources. Any updates or modifications to the ratings that occurred after the data collection period were not included in this study, which aligns with the challenges noted in cross-jurisdictional AML/CFT research, where reliance on periodic FATF evaluations can create temporal gaps in the analyses. Furthermore, the absence of primary data collection, such as interviews or surveys with local AML/CFT practitioners, regulators, and financial institutions in Hong Kong, limits the study's ability to capture real-time challenges and operational insights from on-the-ground perspectives, which are crucial for a comprehensive understanding of effectiveness beyond compliance ratings.

Conclusions and Recommendations for Future Research

Conclusions

While Hong Kong's AML/CFT framework meets most FATF standards, systematic challenges, such as low conviction rates and uneven non-financial supervision, require targeted reforms to align technical compliance with operational outcomes. As a major global financial centre, Hong Kong faces considerable money laundering risks. The results indicate that Hong Kong has achieved notable advancements in rectifying technical compliance issues by implementing a robust legal framework, fostering effective international collaboration, and utilising sophisticated financial intelligence. However, the study identified the need to enhance the prosecution of money laundering involving crimes committed abroad and to strengthen the supervision of certain non-financial businesses. An empirical analysis positions Hong Kong as a leader in the Asia-Pacific region, although its partially compliant rating indicates the need for further improvements. This study reveals that Hong Kong's 70/100 technical score masks operational gaps in prosecution and non-financial supervision. Future reforms should prioritise inter-agency coordination for cross-border cases and real-time monitoring of virtual asset transactions, using Singapore's Integrated Money Laundering Investigation Toolkit as a reference model (FATF, 2023). The city can reinforce its status as a secure financial hub while addressing systematic vulnerabilities by focusing on high-impact areas, such as cross-border collaboration, technological modernisation, and institutional agility. These policies align with FATF standards but are tailored to Hong Kong's unique role as a bridge between mainland China and the global markets.

Recommendations for Future Research

This analysis demonstrates how FATF metrics, when interpreted through the lenses of regulatory compliance and institutional theories, can systematically identify AML/CFT vulnerabilities in financial hubs. Rather than proposing new benchmarks, it provides a template for contextualising FATF data, a middle ground between technical compliance checks (FATF's focus) and ground-level effectiveness research (academia's role). Future studies should prioritise empirical evaluations of policy effectiveness, particularly in under-researched sectors such as DNFBPs and virtual asset providers, where compliance gaps persist. Qualitative research, including interviews with regulators, financial institutions, and law enforcement, could elucidate the barriers to implementing RBAs in smaller entities and nonbank sectors. Longitudinal studies tracking recent reforms, such as public beneficial ownership registers, will provide evidence-based feedback for iterative policymaking. Finally, interdisciplinary frameworks integrating legal, economic, and data science methodologies could advance global AML/CFT benchmarking, moving beyond the FATF's compliance metrics to prioritise reductions in illicit flows. As financial crime tactics evolve, research must adopt a proactive stance and foster innovation while addressing enforcement complexities in a globalised economy.

Notes

1. Three decades ago, the G7 leaders established the Financial Action Task Force (FATF) to combat organised financial flows from crime and the drug trade. The G7 assigned the FATF the task of examining money laundering techniques and trends, reviewing actions already taken at national or international levels, and outlining measures necessary to counter money laundering. Since then, the FATF's mandate has expanded to include efforts to combat terrorist financing and the funding of weapons of mass destruction. The FATF has made significant contributions to the safety and security of society and its citizens. Through the FATF, countries have gained a better understanding of how criminals launder the proceeds of their crimes and how terrorists gather funds and assets to support their activities, which can have devastating impacts on innocent civilians. The FATF has developed a comprehensive framework of measures to help countries fight money laundering and disrupt terrorist financing. Alongside its FATF-Style Regional Bodies, the FATF ensures that over 200 countries worldwide implement these measures effectively, helping to keep criminals and terrorists out of the financial system. With a new, open-ended mandate as an international organisation, the FATF will continue to respond to emerging threats to the financial system and ensure that countries implement the necessary measures to manage these risks effectively.

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Data Availability Data supporting the findings of this study are available upon reasonable request.

Declarations

Ethical Approval Not applicable.

Informed Consent Not applicable.

Conflict of interest Not applicable.

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