

Strengthening Anti-Money Laundering Supervision (“AML Supervision”) – Next Steps for the Legal Profession

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Background Information

1. As an international financial centre, Hong Kong attaches great importance to safeguarding the integrity of the financial system by implementing international standards on Anti-Money Laundering and Counter-Terrorist Financing (“AML/CTF”) to deter and detect inward and outward flows of illicit funds. The effectiveness of the AML/CTF regime enables the city to promote financial dealings and enhances Hong Kong’s competitiveness as a globally trusted and reputable business centre for international institutions.
2. Hong Kong is an active member of international AML/CFT organisations, having been a member of the Financial Action Task Force (“FATF”) since 1991 and a founding member of the Asia-Pacific Group on Money Laundering (the “APG”) since 1997.
3. As a member of the FATF, Hong Kong must adhere to [FATF’s 40 Recommendations](#) to maintain its standing as an international financial centre. These standards are not optional—they form part of Hong Kong’s international obligations and underpin the credibility of its legal and financial systems.

The Law Society’s Role as a Regulatory Body

4. In respect of Designated Non-Financial Businesses and Professions (“DNFBPs”), the Anti-Money Laundering Ordinance (Cap. 615) (“AMLO”) in Schedule 1 (Interpretation), Part 2 has designated the Law Society as a **“regulatory body” (監管機構)** for legal professionals.
5. This designation imposes a duty on the Law Society to provide AML/CTF guidance and to oversee compliance of legal professionals with the statutory Client Due Diligence (“CDD”) and record-keeping requirements in line with FATF principles.
6. In particular, FATF [Recommendation 28 \(Regulation and Supervision of DNFBPs\)](#) (“Recommendation 28”) mandates that the DNFBPs, including lawyers, are subject to risk-based supervision. This requires the Law Society to establish and implement appropriate oversight measures tailored to sector-specific money laundering and terrorist financing risks and maintain systems to monitor and ensure compliance with AML/CTF obligations. This responsibility is mandated by law and reinforced by international standards. It is not optional.

FATF Mutual Evaluation and Law Society's Progress

7. The FATF conducts mutual evaluations to assess how effectively countries implement measures to combat money laundering and terrorist financing. These evaluations include assessing the effectiveness of AML/CTF supervision of DNFBPs, such as the legal sector, in accordance with Recommendation 28.
8. In its [2019 Mutual Evaluation Report](#), the FATF reviewed Hong Kong's overall AML/CTF framework, including the measures put in place for overseeing the legal sector's compliance with the AML/CTF requirements under Recommendation 28.
9. While the report praised Hong Kong's strong AML/CTF regime, it also highlighted the need to strengthen supervision of legal professionals, recommending that the Law Society develop a risk-based supervisory oversight. Following these recommendations, the Law Society undertook extensive work to establish the statutory powers and operational framework necessary to discharge its AML/CTF supervisory responsibilities. This included the development of practical measures such as guidance, learning tools, sectoral risk assessment, and training initiatives.
10. In 2023, Hong Kong's compliance rating for Recommendation 28 was upgraded in the [FATF's Follow-up Report](#) (the "Report"), reflecting significant progress.
11. The Law Society's contribution to this improvement was acknowledged, particularly the foundational work completed to initiate the AML supervision. However, the Report highlighted that while the AML supervision in the legal sector has commenced, it is not yet fully implemented, underscoring the need for continued progress.
12. Looking ahead, the next FATF Mutual Evaluation of Hong Kong is scheduled for 2029. The Law Society is taking proactive measures now to ensure that Hong Kong's legal profession is fully prepared well in advance of the review. This includes expanding supervisory activities, strengthening compliance culture, and maintaining alignment with international standards to protect the integrity of the profession and Hong Kong's reputation as a global financial centre.

The Law Society's AML Supervisory Authority

13. The Law Society is vested with statutory powers under the Legal Practitioners Ordinance (Cap. 159) ("LPO") to verify legal practitioners' compliance with the AML/CTF obligations as prescribed in the Practice Direction P ("PDP"). The PDP is a guideline issued by the Law Society that sets out mandatory AML and CTF compliance requirements for solicitors.
14. These powers enable the Law Society to ensure adherence to statutory and professional standards through inspections and information requests. In particular:
 - (a) **Section 8AA(1)(a)** empowers the Law Society to appoint inspectors on its own motion—without the need for a complaint—for the purpose of verifying compliance with any practice

direction issued by the Law Society, including, in the context of the AML/CTF obligations, compliance with the PDP.

(b) **Section 8AA(2)(b)(i)** authorises inspectors to require the production of documents or information to ascertain compliance with the PDP.

15. The Law Society has undertaken extensive work to establish the appropriate basis for the powers necessary to govern the AML supervision to discharge its supervisory responsibilities effectively. This included a scrutinised review of section 8AA of the LPO and the statutory framework governing these powers, which was subsequently validated through an independent legal assessment.

Enhancing AML Supervision - Current Progress

16. The Law Society has been continuously engaged in the development of a proportionate and effective framework for AML supervision of the legal profession. The formulation of the AML oversight framework is a complex and ongoing process that requires a careful balance between regulatory expectations and the practical realities of legal practice in Hong Kong.

17. In shaping our approach, the Law Society has been closely examining the (i) specific AML/CTF risks associated with the legal sector, (ii) relevant international standards, and (iii) assessed supervisory models already implemented across other DNFBPs in Hong Kong. In addition, we have closely studied the operational structures and oversight mechanisms adopted by legal sectors in other jurisdictions. This includes assessing both the effectiveness and the actual need for the measures in place, to create a framework that is proportionate and genuinely required.

18. Importantly, the Law Society is advancing its work with a considered and evidence-based approach, recognising that this is not a tick-box exercise but a substantive effort to ensure any proposed framework is fit for purpose. We have actively explored a range of supervisory solutions, acknowledging that there is no one-size-fits-all model.

19. The legal sector is a distinct professional domain governed by principles of confidentiality and legal professional privilege, ethical standards, stringent educational training requirements, and operational realities; any framework must reflect these characteristics. Our supervisory approach is proposed to be proportionate to AML/CTF risks presented in the sector, while preserving the independence of the legal profession and upholding the rule of law.

20. We acknowledge the challenges that strict AML supervisory measures have created for the legal profession in other jurisdictions, while also facing pressure to align with FATF requirements. Learning from these experiences, we understand that before considering any stricter measures, the Law Society must first ensure that AML/CTF requirements are clearly understood by our members. These requirements are complex, and their implementation can vary significantly across

firms. Therefore, it is essential to provide firms with sufficient opportunity to adjust and then set standardised expectations for future steps. Collaboration through training is one of the most effective tools to establish these standards in advance. Given that 87% of the legal sector comprises sole practitioners and small firms with limited resources, our role is to assist and provide guidance so that everyone is aligned and misinterpretation is avoided.

Next Steps and What to Expect

21. At this stage, the Law Society’s AML supervisory strategy is designed to foster collaboration and strengthen compliance culture across the profession through education, guidance, and relationship-building rather than enforcement. A key objective is to ensure firms can ask questions about AML/CTF requirements, while the Law Society gains a deeper understanding of their operations and practicalities. This insight will enable us to develop practical guidance, share best practices, and foster consistency and standardisation across the sector.
22. Feedback from firms is essential to this process and is best achieved through in-person training that encourages open exchange and collaboration. This approach will allow firms to raise questions, clarify uncertainties, and share operational challenges, enabling the Law Society to tailor guidance that is both practical and relevant. By fostering dialogue, we ensure that compliance measures are not only understood but also realistically implementable across diverse practices.
23. To achieve these objectives, the Law Society plans to engage firms through the following key initiatives:

(a) AML/CTF Compliance Self-Assessment Form (“AML/CTF Form”)

24. All members are required to complete the AML/CTF Form and submit it electronically. This form is designed as a “dry run” to help firms self-assess their compliance readiness and familiarise themselves with electronic submissions, which will become the standard mode of interaction going forward. It is not an enforcement exercise; rather, it will provide valuable insights into the sector’s preparedness and identify areas where additional training is needed. Firms will receive on-site training to assist with the practical implementation of these requirements as a first priority.

(a) Training and One-to-One Support

25. Starting in 2026, the Law Society will deliver targeted training sessions to law firms, either on-site or via Zoom. These sessions are collaborative in nature and will cover the following key areas:
 - **Use of the Law Society’s UN Sanctions Screening Tool** – guidance for firms without existing name-screening solutions on how to effectively use the tool.
 - **Scope of Compliance** – clarification on which legal services fall under CDD and record-keeping requirements.
 - **CDD Requirements** – practical steps for conducting due diligence in accordance with the AMLO and the PDP requirements.
 - **Red Flags and Key Risk Indicators** – identifying warning signs and risk factors associated with money laundering and terrorist financing.

- **Suspicious Transaction Reporting** – filing and reporting requirements, including best practices for timely and accurate submissions.
 - **Law Society Compliance Tools** – a walkthrough of resources and tools developed by the Law Society to support firms in meeting AML/CTF obligations.
26. As part of this process, the Law Society will contact firms to arrange a one-hour training session. Firms are also encouraged to write to us if they would like to arrange such training in advance of our engagement.
27. For clarity, the Law Society intends to deliver such training to firms irrespective of the outcome of the AML/CTF Form through seminars and online training, ensuring they receive the support needed to meet compliance obligations effectively.

Summary

28. This approach to AML supervision in the legal sector has been carefully designed, drawing on lessons learned from challenges faced by other jurisdictions during implementation. Our goal is to establish an effective and sustainable framework that promotes both compliance and professional integrity. A key element of this approach is close collaboration with members, which we recognise as essential for successful supervision.
29. AML supervision is an ongoing process. While this initial stage reflects our current strategy, the Law Society will continue to develop and implement additional measures as necessary to meet evolving regulatory requirements and the nature of this important task.