

FATF



Anti-money laundering and
counter-terrorist financing
measures

People's Republic of China

3rd Enhanced Follow-up Report &
Technical Compliance Re-Rating

Follow-up report



November 2022



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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China's 3rd Enhanced Follow-up Report

Introduction

The FATF Plenary adopted the mutual evaluation report (MER) of China in February 2019¹, its 1st enhanced follow-up report (FUR) with technical compliance re-ratings (TCRR) in October 2020² and its 2nd enhanced FUR with TCRR in October 2021³. This 3rd FUR analyses China's progress in addressing the technical compliance deficiencies identified in its MER, relating to Recommendations 6, 7, and 24. No Recommendations have changed since the adoption of its 2nd enhanced FUR.

Re-ratings are given where sufficient progress has been made. 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 China has made to improve its effectiveness.

Findings of the MER, 1st and 2nd Enhanced Follow-up Report

China's MER in addition to the 1st and 2nd FURs, rated China's technical compliance as follows:

Table1. Technical compliance ratings, October 2021

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

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

Source: China Mutual Evaluation Report, February 2019 www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-China-2019.pdf and subsequent FURs.

Given these results and China's level of effectiveness, the FATF placed China in enhanced follow-up. **Ms. Patrícia Godinho Silva, Legal Advisor, Bank of Portugal**, conducted the analysis of the re-rating. Section 3 of this report summarises China's progress made in improving technical compliance. Section 4 sets out the conclusion and a table showing which Recommendations have been re-rated.

¹ www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-China-2019.pdf

² www.fatf-gafi.org/media/fatf/documents/reports/fur/Follow-Up-Report-China-2020.pdf

³ www.fatf-gafi.org/media/fatf/documents/reports/fur/Follow-Up-Report-China-2021.pdf

Overview of progress to improve technical compliance

This section summarises China's progress to improve its technical compliance by addressing some of the technical compliance deficiencies identified in the MER.

Progress to address technical compliance deficiencies identified in the MER

China has made progress to address some of the technical compliance deficiencies identified in the MER in relation to R.7 and R.24. As a result of this progress, China has been re-rated on these Recommendations.

The FATF welcomes the progress achieved by China in order to improve its technical compliance with R.6. However, this does not justify an upgrade of this Recommendation's rating at this stage.

Recommendation 6 (originally rated PC)

In its 4th round MER, China was rated PC with R.6, due to several shortcomings including: no legal provisions that prohibit legal persons and entities from making funds available to designated entities (i.e., a prohibition), the freezing requirements in the Counter Terrorism Law and in Notice 187/2017 are incomplete in scope and only apply to FIs and designated DNFBPs, and the legal provisions do not allow for freezing without delay and without prior notice, the framework in general lacks some of the details that R.6 requires, such as designation criteria set by the UNSCRs and other details.

Since the MER, China has taken steps to address the deficiencies identified in R.6 and made positive improvements in relation to mechanisms for identifying targets for designation based on the designation criteria set out in the relevant United Nations Security Council resolutions (UNSCRs) and to the procedures to de-list and unfreeze the funds or other assets of persons and entities, by issuing in April 2022 the Working Group Rules and Procedures (WGRP). The Ministry of Foreign Affairs issued, on March 2022, the Procedures for Implementing UNSCRs Targeted Financial Sanctions (MFA Procedures) which provide the required details to submit proposals for designation to the relevant UNSC sanctions Committee. However, there are still no legal basis to implement the TFS without delay and no legal provisions that prohibit legal persons and entities from making funds available to designated entities (i.e., a prohibition).

China's progress is noted, however the rating for **R.6 remains Partially compliant**.

Recommendation 7 (originally rated NC)

In its 4th round MER, China was rated NC with R.7, due to several shortcomings including: no legal provisions that prohibit legal persons and entities from making funds available to designated entities (i.e., a prohibition), the freezing requirements in Notice 187/2017 are incomplete in scope and only apply to FIs and designated DNFBPs, and the legal provisions do not allow for freezing without delay and without prior notice, the framework in general lacks some of the details that R.7 requires, such as designation criteria set by the UNSCRs and other details that should be in place, which also impact on the compliance mechanism in addition to the limitations in scope, not all types of assets are covered.

Since its MER, China made positive progress in the implementation of PF-related TFS. The new WGRP, stipulate that all AMLJMC members are required to implement the TFS in relation to relevant UNSCRs including those related to PF. As at the time of the MER, the MFA has issued Sanctions Notices which require obliged entities to take measures based on the Notice 187/2017 issued by the People’s Bank of China (PBC). These notices are actively enforced, but there remains gaps in the coverage of all sectors, and the dissuiveness of the associated sanctions. In addition, China has publicly known procedures to submit de-listing requests to the Security Council in the case of designated persons and entities that do not or no longer meet the criteria for designation. China has put in place procedures to unfreeze the funds or other assets of persons and entities, by issuing in April 2022 the WGRP. In addition, China had put in place procedures with regard to contracts, agreements or obligations that arose prior to the date on which accounts became subject to TFS.

While PBC and its branches supervise the obliged entities on their PF-related TFS compliance in accordance with its legal authority as the AML/CFT supervisor, this does not cover all sectors within the scope of the FATF’s Standards, and there are remaining gaps with dissuiveness of sanctions. In addition, aside from the requirements in the MFA notices and WGPR, there are still no general legal requirement to implement TFS without delay and no legal provisions that prohibit legal persons and entities from making funds available to designated entities (i.e., a prohibition). These remaining shortcomings are considered moderate shortcomings.

On this basis, **China is re-rated as partially compliant on R.7.**

Recommendation 24 (originally rated NC)

In its 4th round MER, China was rated NC with R.24, due to several shortcomings including: no requirements to collect, maintain or have beneficial ownership information available, except if this collected as part of CDD (but CDD requirements are not fully compliant), measures for bearer shares, nominee shareholders and directors are also lacking, and international cooperation is limited because beneficial ownership information not available and/or difficult to obtain and/or to exchange.

Since its MER, China has enacted laws and regulations, which identify and describe different types of legal persons and their registration and creation process (the Constitution (revised in 2018), the Civil Code (“CC”) (amended in 2020), the Company Law (2018), the Foreign Investment Law (“FIL”) (2019) and the Implementation Requirements of the Regulation on the Registration of Market Entities (“IRRM”) (2022). The process is different whether it is dealing with market or non-market entities. Only market entities shall report beneficial ownership information. There are requirements to collect, maintain or have beneficial ownership information available and the imposition of sanctions if a market entity fails to report its beneficial ownership. However, there are still no measures for bearer shares, nominee shareholders and directors and no risk assessment. These issues are considered moderate shortcomings.

On this basis, China is re-rated as **Partially compliant on R.24.**

Conclusion

Overall, China has made progress in addressing some of the technical compliance deficiencies identified in its MER and has been upgraded on R.7 and R.24. However, as it has not made sufficient progress on R.6, this remains rated as partially compliant.

Considering progress made by China since the adoption of its 2nd FUR, its technical compliance with the FATF Recommendations has been re-evaluated in the following manner:

Table2. Technical compliance ratings

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

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

China will remain in enhanced follow up and will continue to inform the FATF of progress achieved on improving the implementation of its AML/CFT measures.

The FATF logo is a red vertical pill-shaped graphic containing the letters 'FATF' in white, with a stylized white and red leaf-like symbol below it.

FATF

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A scenic view of the Great Wall of China winding across rolling hills under a hazy, golden sky at sunrise or sunset.

Anti-money laundering and counter-terrorist financing measures in the People's Republic of China

3rd Enhanced Follow-up Report & Technical Compliance Re-Rating

As a result of China's progress in strengthening their measures to fight money laundering and terrorist financing since the assessment of the country's framework, the FATF has re-rated the country on 2 of the 40 Recommendations.

China has been upgraded on R.7 and R.24. However, as it has not made sufficient progress on R.6, this remains rated as partially compliant.

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