



THE PEOPLE'S REPUBLIC OF CHINA

FINANCIAL SECTOR ASSESSMENT PROGRAM

June 2018

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM (AML/CFT)—TECHNICAL NOTE

This Technical Note on Anti-Money Laundering and Combating the Financing of Terrorism on the People's Republic of China was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on December 20, 2017.

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TECHNICAL NOTE

ANTI-MONEY LAUNDERING AND COMBATING THE
FINANCING OF TERRORISM (AML/CFT)

Prepared By
Legal Department

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program (FSAP) mission in the People's Republic of China. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>.

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Glossary

AML	Anti-Money Laundering
AMLB	Anti-Money Laundering Bureau
AMLL	Anti-Money Laundering Law 2007
BO	Beneficial Ownership
CAMLMAC	China Anti-Money Laundering Monitoring and Analysis Center
CBRC	China Banking Regulatory Commission
CCDI	Central Commission for Discipline Inspection
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
CIRC	China Insurance Regulatory Commission
CPC	Communist Party of China
CSRC	China Securities Regulatory Commission
DNFBP	Designated Nonfinancial Businesses and Professions
EIDR	Enterprise Information Disclosure Regime
FATF	Financial Action Task Force
FI	Financial Institution
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FUR	Follow-up Report
GBAC	General Bureau of Anti-Corruption
LEA	Law Enforcement Agency
ML	Money Laundering
MLA	Mutual Legal Assistance
MPS	Ministry of Public Security
MS	Ministry of Supervision
NBCP	National Bureau of Corruption Prevention
NRA	National Risk Assessment
PBC	People's Bank of China
PEP	Politically-exposed Persons
POC	Proceeds of Crime
SAIC	State Administration for Industry and Commerce
SHFTZ	Shanghai Free Trade Zone
SPP	Supreme People's Procuratorate
STR	Suspicious Transaction Reporting
TF	Terrorist Financing
TN	Technical Note
TPPI	Third Party Payment Institution
UNCAC	United Nations Convention Against Corruption
WB	The World Bank

EXECUTIVE SUMMARY

This technical note (TN) sets out the findings and recommendations made in the FSAP for China in the areas of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). It summarizes the findings of a targeted review of China's progress in addressing vulnerabilities with respect to the anti-corruption framework as it relates to money laundering (ML) and the supervision of financial institutions (FIs), with a focus on the banking sector. In addition, the TN also provides a factual update on the key measures taken by the authorities since China's previous assessment against the Financial Action Task Force (FATF) standard during 2006–2007. This is not, in any way, an evaluation or assessment of China's AML/CFT system. China is scheduled to undergo an assessment against the prevailing FATF standard during 2018–2019.

The authorities have taken significant measures to enhance the AML/CFT legislative and regulatory framework since the 2007 Mutual Evaluation Report (MER) and have continued after the completion of the 2012 ME follow-up report (FUR) to take additional steps to bring the AML/CFT regime in line with the revised FATF standard. Continuing to implement these initiatives will strengthen the AML/CFT regime going forward. In addition to the measures outlined in the issues described in this TN, the authorities should prioritize the completion of the National Risk Assessment (NRA) and share its findings with all AML/CFT competent authorities and representatives of all categories of reporting persons covered by the AML/CFT obligations, taking into account limitations imposed by confidentiality considerations. They should also focus on bringing the legal framework into full compliance with the FATF Recommendations. A notable example in the context of the issues discussed in this TN is the absence of a requirement to apply enhanced customer due diligence (CDD) to domestic politically-exposed persons (PEPs). The general strengthening of cooperation across all AML/CFT competent authorities would also enhance the effectiveness of AML/CFT arrangements in China.

While the Chinese government has taken important steps to address corruption, it needs to take additional steps to align its anti-corruption and AML strategies. Anti-corruption efforts have been given a prominent place in the Chinese government's agenda, which is reflected through the steps taken to implement the United Nations Convention Against Corruption (UNCAC), and a clear internal control mechanism to ensure probity in the public sector. However, China's anti-corruption framework would be enhanced if the AML/CFT regime were better aligned with the framework. On the preventive side, this means amending the legal framework to cover domestic PEPs and thereby requiring FIs to adopt enhanced measures when dealing with these customers, to increase the likelihood that they would report suspicious transactions in instances in which corruption is the underlying criminal activity.

While Article 312 of the "Criminal Law of China" does not exclude "self-laundering," the authorities indicate that concealing the proceeds of one's own crime is viewed as an extension of the predicate offense, which can and is investigated. The laundering is not sanctioned as an independent action but is considered during sentencing. The absence of prosecutions for self-

laundrying may have an impact on the authorities' perception of corruption as a threat to ML and by extension, their understanding of national ML risk.

The People's Bank of China (PBC) has taken a number of measures to strengthen its supervisory arrangements. A significant development is the initial implementation of a risk-based approach to supervision by requiring institutions to undertake self-assessments and by developing its own internal methodology for prioritizing institutions for supervisory oversight. There is nevertheless room to strengthen the existing arrangements. In developing its supervisory priorities, the PBC should increase its focus on group-wide risk. The PBC and the sector supervisors should strengthen their cooperation to ensure the effectiveness of overall supervisory activities. The PBC is also encouraged to expedite the rollout of its internal risk assessment mechanisms to banks across the country. The authorities should strengthen the sanctions that can be imposed on FIs for breaches of the Anti-Money Laundering Law 2007 (AMLL) to make them more dissuasive, especially for the large banking institutions.

Table 1. China: Main Recommendations for AML/CFT

Recommendations	Timing¹
General	
Prioritize completion of the NRA and share the findings with all competent authorities and representatives of all categories of reporting persons covered by the AML/CFT obligations, taking into account limitations imposed by confidentiality considerations.	Near term
Focus on bringing the legal framework into full technical compliance with the FATF Recommendations as some deficiencies that were outstanding at the time of the 2012 FUR have still not been addressed.	Medium term
Focus on generally strengthening the cooperation across all competent authorities to enhance the overall effectiveness of AML/CFT arrangements.	Medium term
Consider broadening the range and level of detail of AML/CFT statistics that are collected, including those on ML investigations, prosecutions, confiscated property, convictions, and Suspicious Transaction Reporting (STR).	Medium term
Anti-Corruption Efforts	
Ensure that self-laundering can be independently investigated, prosecuted and convicted as a stand-alone offense.	Medium term
Remove the provisions of the company law that allow the transfer of bearer shares to be affected by the mere delivery of such shares and do not require companies to record the names of the holders of such shares.	Medium term
Introduce a definition of domestic PEPs in line with the international standards and impose enhanced due diligence obligations on FIs when dealing with these clients.	Near term
AML/CFT Supervision of the Financial Sector with Focus on Banks	
Strengthen cooperation between the PBC and sector supervisors with respect to AML/CFT supervision.	Medium term
Strengthen PBC HQ's focus on group-wide risks rather than on institution-specific risk, in the process of developing supervisory priorities.	Medium term
Strengthen the sanctions available to the PBC as well as the sanctions actually imposed on FIs for failure to meet their obligations under the AMLL in order to create a sanctions regime that is more likely to be proportionate and dissuasive for the largest institutions, particularly the banks.	Medium term
Expedite the introduction of the "5C" or similar risk-scoring system to the banking sector across the PBC supervisory network.	Near term
¹ "Near term" is within six months; "medium term" is within six to 18 months.	

INTRODUCTION¹

1. This Technical Note (TN) provides a targeted review of China's AML/CFT system in the context of the FSAP.² This review is not, in any way, an assessment or evaluation of the Chinese AML/CFT system. A comprehensive assessment against the current FATF standard will be available during 2018–2019 (i.e., after the completion of this FSAP) when the report of the assessment undertaken by the Fund is adopted as China's mutual evaluation.

2. The review included a focus on the following:

- **Factual update** of changes made to strengthen the AML/CFT legal and regulatory framework since the February 2012 FUR, which included a desk review of responses provided by the authorities to a LEG questionnaire.
- **Anti-corruption efforts** including through the AML/CFT framework. The team focused on efforts to detect, deter, and confiscate the proceeds of corruption. This included discussions of (i) CDD, including with regard to identification of beneficial owners and enhanced CDD for high-risk customers, in particular PEPs, (ii) the STR regime, (iii) measures to identify and disrupt underground cross-border transfers and dealing in foreign exchange, (iv) the analytical and dissemination functions of the China AML Monitoring and Analysis Center (CAMLMAC); and (v) international efforts to pursue individuals suspected of corruption and recover the proceeds of corruption laundered abroad.
- **AML/CFT supervisory framework of the financial sector with a focus on banks.** The FSAP team discussed the PBC's AML/CFT supervisory program, in particular for the banking sector. The team enquired about the AML/CFT supervisory measures taken with respect to the Shanghai Free Trade Zone (SHFTZ).

3. Staff's analysis was based on a range of materials and benefited from discussions with the authorities and some FIs. Staff reviewed available information, including information submitted by China to the FATF on progress since 2007, answers provided by the authorities to a questionnaire submitted ahead of the FSAP, and a desk review of available legislation and information gathered during an onsite visit in December 2016. A list of the main agencies with which staff met appears at Annex I.

¹ This Technical Note was prepared by Ian Carrington, Senior Financial Sector Expert and Yara Esquivel Soto, Senior Financial Expert at the IMF, for the 2017 China FSAP.

² Under FSAP policy, every FSAP should incorporate timely and accurate input on AML/CFT issues. Where possible, this input should be based on a comprehensive AML/CFT assessment conducted against the prevailing standard. In instances where a comprehensive assessment against the prevailing standard is not available at the time of the FSAP (as is the case with China), staff may derive key findings on the basis of other sources of information, including already available information or information obtained in the context of the FSAP. See the Acting Chair's Summing Up—Review of the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism—Executive Board Meeting 14/22, March 12, 2014 (<http://www.imf.org/en/News/Articles/2015/09/14/01/49/pr14167>).

PROGRESS SINCE THE LAST ASSESSMENT

A. Compliance with International Standards

4. In its last FATF mutual evaluation, which was conducted in 2007, China was found to have made significant progress in a short period of time since its initial efforts to develop national AML/CFT arrangements. China only began focusing on AML/CFT issues in 2003 with the enactment of three sets of regulations that imposed some AML/CFT requirements on some financial sectors but did not include the insurance and securities sectors. Shortly thereafter, China began conducting onsite AML/CFT inspections and enacted its first AML law.

5. China was found partially compliant with sixteen of the FATF's recommendations and noncompliant with nine recommendations (FATF 2003 Recommendations). It was deemed noncompliant or partially compliant with core recommendations 1 (criminalization of ML), 5 (CDD), 13 (reporting of suspicious transactions related to ML), special recommendations (SR) II (criminalization of the financing of terrorism), and SR IV (reporting suspicious transactions related to the financing of terrorism). China was also found noncompliant or partially compliant with key recommendations 23 (regulation and supervision), 35 (international instruments), SR I (ratification and implementation of UN instruments) and SR III (freezing and confiscating terrorist assets). In June 2007, the FATF adopted the report of China's mutual evaluation and at the same time placed the country on enhanced follow-up due to its significant deficiencies.

6. The 2007 MER found that China had no AML requirements in relation to PEPs (whether foreign or domestic). By June 2007, regulations had been set in place to cover foreign PEPs and FIs were then legally required to conduct ongoing due diligence on foreign PEPs, as established by the CDD regulations. Foreign PEPs were defined in PBC circular No. 391[2008] to mean current or former foreign personnel who perform important public functions, for example heads of state, heads of government, senior politicians, senior government, judicial, or martial senior officers, senior management of state-owned enterprises, important persons of political party, or family members and other close associates of the said person. FIs are now required to establish appropriate risk management systems to determine whether a customer or a beneficial owner is a PEP, to perform enhanced due diligence in relation to foreign PEPs, and to require senior management approval to establish a commercial relationship with a PEP. From the 2012 FUR, the only remaining deficiency with respect to PEPs, in the context of the 2003 standard, is the lack of a requirement for FIs to understand the source of the wealth of these persons.

7. By February 2012, the FATF considered China had made sufficient progress to be removed from enhanced follow-up process. Substantial progress was achieved on the 25 recommendations that had been rated partially compliant or noncompliant, with sufficient progress to bring 16 of those recommendations to a level of largely compliant. In general terms, China largely criminalized ML to come into line with international standards, with the only remaining concern being the lack of criminalization of self-laundering. China has taken initiatives to bring CDD and the STR rules in line with international standards, but designated nonfinancial businesses and

professions (DNFBPs) are not yet covered by the regime. Additionally, the securities and insurance sectors were brought into China's AML/CFT regime.

8. Since the 2012 FUR, China has continued to make progress in bringing its legal framework into technical compliance with FATF standards. The Criminal Law has been amended to include the remainder terrorist financing offenses³ and the Criminal Procedure Law has been amended to include non-conviction-based asset forfeiture provisions.⁴ Other laws were issued to deal with outstanding issues, such as the Counterterrorism Law, which defines "terrorism," "terrorist activities," "terrorist organizations," and "terrorists," ensures the designating procedure of terrorist organizations and individuals, and requires that FIs and DNFBPs immediately freeze funds or assets of terrorist organizations.⁵

B. Bringing the AML/CFT Framework in Line with the Revised Standard⁶

9. The IMF is expected to evaluate China in summer 2018 against the revised FATF standard issued in 2012. The revised FATF standard introduced a number of important changes since the 2007 evaluation. First, it is now required that countries identify, assess, and understand their risks of ML and terrorism financing and that they take steps to address these risks using a risk-based approach. There is an increased focus on ease of access to beneficial ownership information and in the general strengthening the transparency of legal persons and arrangements. Under the revised standard, domestic PEPs have been included in the scope of enhanced CDD on a risk sensitive basis. Overall, the revised standard places increased emphasis on countries demonstrating the effectiveness of their AML/CFT regimes.

10. The authorities have initiated a process to develop a framework for a NRA. Members of the Joint Inter-Ministerial Conference on Anti-Money laundering (JIMCAML), under the leadership of the PBC, together with representatives of the financial and DNFBP sectors are contributing to this process. The authorities have indicated that the framework has been completed. They have made arrangements for the World Bank (WB) to assist them in conducting an NRA. The data gathered during the process currently being conducted by the authorities will feed into NRA to be conducted using the WB NRA tool. They anticipate that the NRA process will be completed in 2017.

11. Apart from the formal NRA process, the authorities have undertaken other initiatives to improve their understanding of money laundering/terrorism financing (ML/TF) risks in China. They report that for each of the last three years, the AMLB has conducted an annual National Threat Assessment. As a result of this initiative and knowledge obtained from other sources,

³ *The Amendment (IX) to the Criminal Law of the People's Republic of China* was adopted and issued on August 29, 2015, and came into force on November 1, 2015.

⁴ Second amendments to *the Criminal Procedure Law*. Chapter III "Confiscation Procedures for Illegal Income in Cases Where a Criminal Suspect or Defendant Escapes or Dies," of March 2012.

⁵ *The Counterterrorism Law of the People's Republic of China* was adopted and issued on December 27, 2015, and came into force on January 1, 2016.

⁶ Steps taken to enhance AML/CFT compliance in the banking sector and transparency of legal persons and arrangements are considered in greater detail in sections III and IV.

including a number of case studies, the authorities have concluded that the principal predicate offenses are financial fraud, undermining the order of financial management,⁷ drug-related offenses, and telecommunications crime. The latter category of offenses relates to various types of fraud perpetrated via the use of telecommunications media. Corruption is also considered to be a major criminal activity, as evidenced by significant anti-corruption initiatives in the country. Discussion with various AML/CFT stakeholders as well as FIs during the visit confirmed that corruption is considered to generate significant proceeds of crime (POC).

12. The authorities have given consideration to ML risk from a geographic perspective.

They consider that the area in the east of China and in particular the south-eastern coastal provinces and cities are particularly exposed to criminal activity linked to the illicit drug trade. They are also of the view that the financial sector activity that takes place in the SHFTZ exposes China to ML/TF risks associated with tax offenses and smuggling.

13. With respect to financial sector activity, the authorities consider that the banking sector is most at risk for ML. They believe that the rapid growth of this sector and the large volume of transactions it facilitates are major factors that contribute to this risk exposure. With respect to the DNFBP sector, the authorities consider the real estate sub-sector and dealers in precious metals and stones (DPMS) to have significant exposure to ML risks.

14. The authorities consider that the principal types of TF activities in China are the financing of terrorist organizations and individual terrorists inside China, as well as financing cross-border terrorist activities.

15. The revised FATF standard establishes a requirement for countries to develop arrangements for the management of risks associated with domestic and international PEPs. While China has enhanced preventive measures with respect to foreign PEPs in the period since its 2007 ME, the measures adopted do not extend to domestic PEPs.

16. The revised FATF standard places greater emphasis on accessing beneficial ownership information. China has taken some initial steps to comply with the revised standard by mandating FIs to obtain BO information from their customers.⁸ On October 1, 2014, the State Administration for Industry and Commerce (SAIC) established an *Enterprise Information Disclosure Regime (EIDR)*, which establishes a database on all enterprises registered on SAIC to include business registration and records for reference, property mortgages, equity pledges, administrative penalties, and annual reports. The EIDR is intended to increase the transparency of corporate entities. Example of the type of information captured by the system, which was seen by staff, has a data entry field for "legal

⁷ Crimes of undermining the order of financial management are contained in Section 4 of the Criminal Law. They include, among others, counterfeiting and dealing currency, unauthorized FIs, forging and dealing with financial instruments or negotiable instruments, and insider trading.

⁸ Strengthening the Anti-Money Laundering Work of Financial Institutions (No. 391 [2008] of the People's Bank of China) and article 7 of the *Rules for Financial Institutions on Customer Identification and Record Keeping of Customer Identification and Transaction Information (Order of PBC, CBRC, CSRC, and CIRC (No. 2 [2007]) The Identification Rules*].

representative.” While the authorities indicate that BO information is reported in this field, this is not an adequate means for obtaining such information. Besides the EIDR from the SAIC, some Industry supervisors also require regulated institutions to disclose necessary information. According to the authorities, the CIRC has issued regulations *Measures for the Administration of the Information Disclosure by Insurance Companies*, which requires that insurance companies should release annual information disclosure reports. on the company's website and in newspapers designated by the CIRC. This includes information of shareholders and actual controllers). Additionally, No.1 to 4 of the *Notice of the CIRC on Issuing the Standards for the Disclosure of Capital Use Information by Insurance Companies* require that insurance companies should disclose information on affiliated transactions, persons responsible for the risks, shares of listed companies, and large unlisted equity and large real estate investment, etc., disclosures which authorities expect will contribute to acquiring the information on real controllers and beneficial owners of insurance companies. It is, however, unclear that the system contains beneficial ownership information as set out in the FATF Recommendations.

17. Robust and comprehensive data are essential for the development of an effective risk-based approach. There is room for improving the current arrangements for maintaining statistics across a range of areas, including those related to ML, prosecutions, convictions, and confiscations and STRs.

C. Conclusions and Recommendation

18. The authorities have taken significant measures to enhance the AML/CFT legislative and regulatory framework since the 2007 MER. They have continued to do so following China's removal from the FATF's enhanced follow-up process to bring the AML/CFT regime in line with the revised FATF standard. In addition to the measures described in this TN, the authorities should prioritize the completion of the NRA and share its findings with all AML/CFT competent authorities and representatives of all categories of reporting persons covered by the AML/CFT obligations, taking into account the limitations arising from confidentiality considerations. They should also focus on bringing the legal framework into full compliance with the FATF Recommendations as some deficiencies that were outstanding at the time of the 2012 FUR have still not been addressed. To align its preventive measures with the new standard, China will need to mandate enhanced CDD for domestic PEPs on a risk sensitive basis. The authorities need to ensure that the arrangements that have been developed to record and maintain BO information are working effectively. The general strengthening of cooperation across all AML/CFT competent authorities would also enhance the effectiveness of AML/CFT arrangements in China. The authorities also should broaden the range and level of detail of the AML/CFT statistics they maintain, including those related to ML investigations, prosecutions, convictions, confiscations, STRs, and sanctions imposed on FIs.

ANTI-CORRUPTION EFFORTS

A. Policy Framework

19. Curbing corruption has been identified as a priority by Chinese authorities. Particularly since the XVIII National Congress of the Communist Party of China (CPC) in November 2012, China has taken a proactive approach to anti-corruption. China signed and ratified the UNCAC in 2006 and is an active participant in the UNCAC asset recovery working group. This year, China holds the presidency of the G20 anti-corruption group and hosted the G20 2016 summit in Hangzhou, which promoted the adoption of "G20 High-Level Principles on Cooperation on Persons Sought for Corruption and Asset Recovery," "G20 Anti-Corruption Action Plan 2017-2018," and established the G20 anti-corruption center in Beijing in September, 2016.

20. Since the ratification of UNCAC, China has taken steps to introduce its provisions into its national law. China established the National Bureau of Corruption Prevention (NBCP). While this is a distinct entity it shares resources, including staffing, with the Ministry of Supervision (MS). The minister of MS holds a concurrent post as the director general of the NBCP. A deputy director general (deputy minister or equivalents) is assigned to take charge of the daily routine. The NBCP is responsible for carrying out the work under the framework of the UNCAC. In recent years, China is actively promoting legislation on mutual legal assistance (MLA) law but new legislation in this regard has not yet been enacted.

B. Corruption as a Predicate Offense of ML

21. Corruption was included in the list of predicate offenses for ML in 2006. Article 191 of the Criminal Law, which deals with the offense of ML, contemplates corruption as a predicate offense. The investigation, prosecution and conviction of ML does not require a conviction for the predicate offense.⁹ The Chinese Criminal Law has been reformed to include all offenses required by the UNCAC, with corruption and graft included in Chapter VIII and the bribery of foreign and international public officials included in article 164.

22. While article 312 of the "Criminal Law of China" does not exclude "self-laundering", according to the authorities, concealing the proceeds of one's own crime is viewed as an extension of the predicate offense, which can and is investigated, but the laundering is not sanctioned as an independent action and is rather considered during sentencing. The mission was not presented with judicial decisions to support this observation. This approach reduces the likelihood that an investigation into corruption will lead to the opening of an ML case. This means that the AML framework cannot be used to its fullest extent, notably in regard to corruption. Undertaking prosecutions for self-laundering would reinforce the independence of the ML offense as a stand-alone offense and would provide law enforcement agencies with better tools to prosecute an

⁹ Interpretation of the Supreme People's Court on Several Issues concerning the Specific Application of Law in the Trial of Money Laundering and Other Criminal Cases (adopted at the 1,474th meeting of the Judicial Committee of the Supreme People's Court on September 21, 2009).

offender and recover assets, even after the statute of limitations for the predicate offense may have run out.

23. Conspiracy provisions in China treat third parties who launder the proceeds of corruption as co-perpetrators of the predicate offense. This further impacts the number of ML investigations with a predicate offense of corruption. Under a scenario in which a person agrees with a third party that he or she will commit the predicate offense of corruption and the third party agrees ex ante to launder the proceeds, the third party would be considered as a co-author of the predicate offense of corruption and could not be charged with a ML offense. However, if the person who commits a corruption offense and ex post facto agrees with the third party to launder the proceeds, ML charges can be brought against the third party.

C. Institutional Framework

24. Anti-corruption efforts are coordinated among several Chinese authorities, including the law enforcement agencies (LEAs) and the discipline inspection and supervision agencies. Anti-corruption initiatives can be grouped into two categories, namely, (i) administrative investigations into the ethics and probity of public officials and party members, and (ii) jurisdictional investigations into criminal offenses related to corruption, bribery, and crimes of dereliction of duty.¹⁰ Anti-corruption work in China includes international cooperation on anti-corruption, which is coordinated by the Central Commission for Discipline Inspection (CCDI) in cooperation with judicial departments, and law enforcement authorities. The MS is one department of the State Council. For the moment, it cooperates with the CCDI to perform two functions including the party's discipline inspection and administrative supervision. Administrative investigations are led by the MS, namely the CCDI, and are subject to internal party decisions, while criminal investigations are led by the Supreme People's Procuratorate (SPP) and are subject to judicial decisions.

25. The CCDI's major functions are to supervise, rectify, and curb corruption and to coordinate international anti-corruption work at a policy level. The CCDI is elected by the National Congress of the CPC for a five-year term, and is responsible for the supervision, discipline review and accountability. The main tasks of the CCDI includes organizing and coordinating the work against corruption. For Party members who violate Party discipline, the CCDI will undertake investigations and give disciplinary punishment according to the Regulations on Disciplinary Punishment of the CPC. Punishment of Party members include warnings, serious warnings,¹¹ removing of Party position,¹² depriving of Party positions,¹³ placing on probation within the Party,

¹⁰ Crimes of dereliction of duty are contemplated in Chapter IX of the Chinese Criminal Code and generally refer to abuse of power or neglect of duties with a consequence of loss or harm to property or people.

¹¹ Anyone subject to a warning is not eligible for promotion for one year. Anyone subject to a serious warning is not eligible for promotion for 18 months.

¹² Removal from party position refers to the revocation of a position held but the person subject to removal remains a member of the party.

¹³ Deprivation of party position refers to expulsion from the party.

and expulsion from the Party. In the case of a criminal suspect, the case shall be transferred to a judicial organ, which shall handle the case according to law.

26. The CCDI is embedded in many different ministries and agencies through its inspection teams. It currently, has 47 discipline inspection teams embedded in different ministries, agencies, and regulatory bodies. Through its discipline inspection teams, the CCDI strengthens the supervision of the leading bodies¹⁴ and their members and other leading cadres in order to timely identify and solve problems. These teams coordinate political and anti-corruption work in those organizations and bodies. If they discover potential corrupt behavior, they can launch an investigation, which will result in party discipline through three types of sanctions: (i) warnings, (ii) filing the findings in the official's permanent record, or (iii) firing. If there is any evidence of potential criminal behavior, the case is transferred to the law enforcement authorities for investigation. The case can be transferred to either the Ministry of Public Security (MPS) or the SPP.

27. The MPS is China's police body. The major functions of the AML division of the Economic Crime Investigation Department of the MPS are to research and study domestic and international ML trends to prevent ML crimes, to instruct and coordinate the ML investigative work of local law enforcement institutions, and to coordinate international law enforcement ML work. The public security authorities at all levels in China have corresponding departments performing AML functions. The MPS has no jurisdiction in matters involving corruption and bribery related to government officials although, in practice, the SPP will send ML cases that originate in corruption cases for further investigation by the MPS. Discussions indicate that there is a very clear delineation of the responsibilities and operational activity of these two agencies.

28. The SPP supervises and directs the approval of arrests, prosecution, and supervision of cases involving ML crimes. Within the SPP, the General Bureau of Anti-corruption (GBAC) has four units, with two of them in charge of initial investigation of corruption cases committed by public officials, the third unit in charge of giving guidelines on the prevention work of local procuratorates, and the fourth unit in charge of giving directions to local procuratorates in charge of corruption cases, including making guidelines on corruption case investigation, coordinating corruption cases and dealing with international MLA involved with corruption cases. There is classification of jurisdiction in China according to law, such as functional jurisdiction and district jurisdiction. According to the law, the GBAC has the authority over investigating corruption cases with national impact.

29. China has implemented an asset disclosure regime for public officials. China's asset disclosure regime is implemented through the Bureau of Cadre Supervision of the Organization Department of the Central Committee of CPC. China's asset disclosure regime was first set out in Regulations on Income Declaration by Party and Government Officials at or above County Levels in 1995, and is now based on Regulations on Reporting Personal Matters by Leading Party Officials from May 2010. The supervision bureau of every organization's human resources department is in charge of the asset disclosure regime. All officials above the county and division level and officials in

¹⁴ A leading body is a decision-making body comprised of several leading cadres.

public enterprises and public institutions of the same level are required to declare their property and affairs at the beginning of every year.

30. Asset declaration forms are subject to verification. There are two types of verification: (i) verification with priority, which refers to officials in line for a promotion and officials who have been identified via a tip-off; and (ii) random verification. Each year, approximately 10 percent of all asset disclosures are subject to random verification and another 10 percent are subject to verification with priority. There doesn't appear to be a risk-based approach to the verification process. Consequences for filing false information include criticism, warning and admonishment or adjusting the official's posting. Asset disclosure forms are not available to the public but are available to (i) human resource departments within the Party, (ii) the discipline inspection department, which undertakes a monitoring function within the party system, and (iii) the procuratorial authorities.

31. Since the eighteenth National Congress of the CPC (November 2012) the DIC at all levels across China received more than 9,500,000 tipping-off letters and visits, filed 1,000,000 or more cases, sanctioned more than 1,000,000 persons, and transferred 46,000 persons to judicial authorities. Where the nature of evidence held suggested criminal wrongdoing, the CCDI transferred cases against 43,000 persons for criminal investigation. Additionally, since 2014, the MS has coordinated Chinese efforts to extradite over 100 persons who escaped the jurisdiction and repatriated their proceeds of corruption.

32. China has made significant efforts to convict corrupt criminals and recover proceeds of corruption, both domestically and overseas. According to statistics provided by the PBC, between 2013 and 2015, 92,195 corruption investigations have yielded 69,017 cases resulting in convictions. Since 2014, through what is known as "Skynet operations", 2566 individuals charged with corruption who had fled Chinese justice have been arrested in more than 70 countries and regions, and over RMB 8.64 billion have been recovered. Thirty-seven individuals who were the subject of Interpol red notices have been captured. Since 2013, the Ministry of Justice has sought foreign criminal judicial assistance in 12 cases of corruption, some of which are still in process.

D. AML Support to Anti-Corruption Efforts

33. China has taken steps to prevent its financial system from being abused for laundering the international proceeds of corruption by implementing enhanced CDD of foreign PEPs.

China defines foreign PEPs as "foreign incumbent or outgoing persons who perform important public functions, such as heads of state, heads of government, senior officials, important government, judicial or military officials, state-owned corporate executives, major party members, persons holding important positions in the international organizations, and members of their families or persons in close association with them." Once a customer is identified as an international or a foreign PEP, FIs and DNFBPs must adjust their risk level and take measures to further understand the source of the customer's assets and increase the frequency of collecting and updating information on the customer. Reporting entities can further investigate PEP's transactions, including inquiring the purpose of the transaction. Restrictions can be implemented on the

customer's trading methods, such as limiting the transaction size and frequency of transactions. Reporting entities are mandated to report suspicious transactions to the CAMLMAC.

34. China's Financial Intelligence Unit (FIU) is housed within the PBC. The PBC units that constitute the FIU are, the CAMLMAC, the AMLB and the AML Divisions in PBC branches. The PBC and its branches have the power to conduct investigations on suspicious transactions and its predicate criminal activities. Results of investigations on suspicion of corruption are transferred to the CCDI and anti-corruption department in procuratorial authorities. Meanwhile, the PBC and its branches can conduct investigations at the requests of the CCDI at all levels and the anti-corruption department in procuratorial authorities.

35. The FIU analyzes STRs received from reporting entities on potential ML cases and disseminates results on corruption cases to the SPP. The FIU disseminates results related to potential ML cases with a predicate offense of corruption to the GBAC of the SPP. According to the FIU, anti-corruption is a priority of cooperation with LEAs and it has established many forms of cooperation with AC authorities, including providing intelligence and financial analysis or participation in specialized campaigns, such as the Skynet operations. In 2015, the PBC carried out AML investigation for more than 600 cases related to corruption. However, CAMLMAC's analysis of STRs, as presented to the mission, does not reflect that corruption is often the predicate crime underlying these reports.

Potential Impediments to a Fully Effective Anti-corruption Framework

36. China has yet to mandate enhanced CDD for domestic PEPs, as defined by the 2012 FATF recommendations. However, it appears that FIs are de facto conducting enhanced due diligence of domestic public officials. It appears that many FIs subscribe to databases such as those offered by Dow Jones and Bankers Yearbook, for example, to obtain information on persons in China who meet the FATF definition of a domestic PEP. The AML/CFT risk management systems employed by some banks appear to classify domestic PEPs as high-risk customers for which the international standard requires enhanced CDD. However, FIs are not required to do so by law and classify domestic PEPs in this manner on their own initiative, which means it is not clear how many of them actually conduct enhanced due diligence on domestic PEPs. Additionally, since there is no legal requirement to carry out enhanced CDD for domestic PEPs, it is likely to be challenging for supervisors to sanction FIs who do not adopt enhanced measures for such high-risk customers. It is notable that while many FIs consider domestic PEPs to be high-risk, they do not generally consider state-owned enterprises, entities with which PEPs are closely intertwined, to be high-risk customers. The authorities have set out a timetable for addressing this deficiency in the legal framework. According to the authorities, the CIRC's Guidelines for the Assessment of Money Laundering and Terrorism Financing Risks and Categorized Management of Customers of Insurance Institutions require insurance companies to conduct the same enhanced CDD measures on domestic PEPs as on foreign PEPs.

37. For the authorities to successfully investigate and prosecute cases of corruption and to be able to confiscate related proceeds, it is necessary to ensure the transparency of the

ownership and control of legal persons. While the authorities have explained that EIDR makes information on the names of the shareholders of all companies available to the public, they have also clarified that information held in the registry is limited to the names of shareholders, whether natural or legal persons. Information on controllers is not necessarily held. Discussions held with FIs on the ease with which beneficial ownership information could be obtained was mixed with some indicating that they can obtain it and others suggesting that it can be very difficult to do so. The opaqueness of legal persons is aggravated by the fact that the use of unregistered stock¹⁵ continues to be allowed. Article 139 of the Company Law (2014) requires that the transfer of registered stocks should be done with an endorsement of the shareholder who is transferring the stock and the company must record the transferee's name and address in its shareholder register. In contrast Article 140 of the Company law (2014) provides that the transfer of unregistered stock (bearer shares) is affected by the mere delivery of the stock to the transferee. Companies are not required to maintain a record of the names of the holders of an unregistered stock. Per the authorities, all stocks in China are electronically traded, and therefore all holders of bearer shares must open securities accounts and trade through the Stock Exchanges. The authorities also claim that since China requires real-name registration on securities accounts, and the registration of transfer must be done in China Securities Depository and Clearing Company, there is transparency in the ownership of all stock. Notwithstanding these arrangements described by the authorities the Company Law allows the transfer of bearer shares to be affected by the mere delivery of such shares and does not require companies to record the names of the holders of such shares.

38. The authorities' response to the questionnaire and the outcomes of threat assessments conducted to date do not identify corruption as a threat for ML. However, discussions with the authorities and FIs held during the mission suggest otherwise. Both the authorities and the FIs consider corruption to be a significant threat and the FIs link this perception to their tendency to consider domestic PEPs as high-risk customers. Furthermore, the judicial authorities' records show that since 2013, 73,029 people have been convicted of corruption with POC recovered of RMB 8.54 billion. The PBC has issued indicators on corruption to FIs and required them to focus on suspicious transactions that may be related to corruption. Notwithstanding the indicators issued by the PBC, the perception that corruption is a significant predicate offense and the high-level of corruption convictions reflected in the judicial authorities' records it is noteworthy that CAMLMAC's analysis of STRs, as presented to the mission, reveals that FIs do not identify suspicious activity related to corruption, which may reflect that the FIs are finding it difficult to identify relevant indicators in day-to-day transactions.

E. Conclusions and Recommendations

39. Anti-corruption efforts have a prominent place in the Chinese government's agenda. This is reflected by the ratification and implementation of the UNCAC into China's domestic framework, an active participation in international anti-corruption efforts, including the G20 anti-

¹⁵ Registered stock [bearer shares] are defined by the FATF as negotiable instruments that accord ownership in a legal person to the person who possesses the bearer share certificate.

corruption agenda, and clear internal control mechanisms to ensure probity in Chinese state agencies.

40. China's AML framework should be better aligned with its anti-corruption initiatives.

The authorities' interpretation that concealing the proceeds of one's own crime is viewed as an extension of the predicate offense, and broad co-authorship rules as described above, impair the ability of LEAs to investigate and prosecute all cases of laundering the proceeds of corruption. The system lacks a mandate for FIs and DNFBPs to apply enhanced measures for domestic PEPs on a risk sensitive basis. It does not ensure the transparency and availability of beneficial ownership information. It would also be useful for the PBC to develop outreach initiatives to FIs to reinforce that in their management of their ML/TF risk exposures they should be more cognizant of the possible link between the proceeds of corruption and the potential abuse of their institutions for ML purposes.

41. Going forward, the authorities should do the following:

- Ensure that self-laundering is effectively investigated, prosecuted and convicted as a stand-alone offence.
- Remove the provisions of the company law that allow the transfer of bearer shares to be affected by the mere delivery of such shares and do not require companies to record the names of the holders of such shares.
- Ensure full and comprehensive availability of information on the ownership and control of legal persons in line with the FATF Recommendations.
- Mandate enhanced CDD for domestic PEPs as set out in the FATF Recommendations.

SUPERVISION OF FINANCIAL INSTITUTIONS WITH A FOCUS ON THE BANKING SECTOR

A. Supervisory Arrangements

42. The PBC is responsible for the AML/CFT supervision for over 5,000 institutions. These include deposit taking institutions (approximately 4,270, including 70 trusts companies),¹⁶ securities and futures firms (approximately 380), insurance entities (approximately 180), and payment institutions (approximately 270). Many of the deposit taking institutions are small, rural cooperatives. In the context of its risk-based approach to AML/CFT supervision, the PBC focuses its supervisory resources, with respect to deposit taking institutions, on systemically important institutions and FIs facing higher ML/TF risks that operate in urban centers. This brings the overall number of entities on which the PBC focuses most of its supervisory resources to approximately 1,000.

¹⁶ Trust companies are legal entities licensed by the CBRC as deposit taking institutions.

43. Article 4 of the AMLL (2007) gives the PBC responsibility for the supervision of AML throughout the country. This function is undertaken by the PBC's AMLB. The law also specifies that all other state institutions shall be responsible for AML supervision and administration within their respective area of responsibility. With respect to the AML supervision of FIs, this includes the China Banking Regulatory Commission (CBRC), the China Insurance Regulatory Commission (CIRC), and the China Securities Regulatory Commission (CSRC). The PBC and the sector regulators operate through networks composed of their headquarters and branches around the country.

44. An important function undertaken by the CBRC, the CSRC, and the CIRC to supplement the PBC's AML/CFT supervisory role takes place at the point of market entry. They subject shareholders, directors, and senior managers of prospective licensees to fit and proper assessments. As a component of the integrity assessment of this process, the supervisors ascertain that the persons being examined do not have a criminal record and are generally of sound integrity. Another important component of the market entry assessment is a review of the effectiveness of an applicant's internal systems and controls, including their appropriateness for the effective management of ML/TF risks. In December 2014, the CBRC, for example, issued Circular No. 657, which requires applicants for licenses to demonstrate that they will have systems in place to effectively manage their ML/TF risks. The authorities indicate that besides the fit and proper assessments and the review of applicants' internal systems and controls, they also review the source of investment funds for AML purposes. For example, the CIRC issued the Measures for the Administration of Anti-Money Laundering Work in the Insurance Sector and requires that the application documents for the establishment of an insurance company or an insurance asset management company shall include a statement on its source of investment funds and a declaration of the legality of its source of investment funds. The sector supervisors receive support from the PBC in making these determinations.

B. The Risk-based Approach

45. In 2012, the PBC undertook the first steps to guide institutions to introduce a risk-based approach to manage ML/TF risks. A number of risk indicators were developed to assess an institution's inherent ML/TF risks and the quality of the measures it takes to manage such risks. The *Guidelines for the Assessment of ML/TF Risk and Categorized Management of Customers of FIs* set out the approach the PBC expects FIs to adopt with respect to the management of ML/TF risks. The Guidelines establish a risk analysis system based on four main indicators, namely, customer's characteristics, locations, businesses (including financial products and financial services), and industries (including occupations)¹⁷ and the types of financial products used by the customer. FIs are expected to weight each of these factors and related sub-factors in order to develop risk scores. They are required to determine a new customer's risk level within ten working days after the establishment of the business relationship and are expected to continually monitor customer's risk scores and revise them where necessary. Customers classified as high risk must have their risk scores

¹⁷ PBC Guideline for the Assessment of Money Laundering and Terrorism Financing Risks and Categorized Management of Customers of Financial Institutions—Chapter II Risk Assessment Indicator System (i) an Overview of the Indicator System.

reviewed at half-yearly intervals. FIs may develop their own risk scoring system if it can be demonstrated that it is as robust as the system required by the Guidelines. The Guidelines require that policies and procedures for the management of ML/TF risk must be approved by an FI's Board of Directors and that a senior manager must be responsible for their implementation.

46. In 2015, the PBC conducted a pilot exercise to undertake risk assessments of institutions, with a focus on the risk in the banking sector. A number of institutions, including 103 banks, one securities firm, and two insurance institutions, were requested to undertake self-assessments. The PBC reports that this exercise was a success as it resulted in the institutions identifying risk management deficiencies and taking measures to strengthen their systems and practices. Subsequent to conducting the pilot, the PBC required FIs to submit risk assessments on an annual basis. Discussions with the Shanghai and the Chengdu branches indicate that this process is at various stages of implementation across the PBC supervisory network.

47. The PBC undertakes its own risk assessments of FIs, which are fed, in part, by the self-assessments conducted by FIs. The system (the 5C system) uses five main indicators, namely, circumstance, commodity (product lines), client, communication (the sharing of information between the FI and the supervisors), and correction (risk mitigation). The outcome of these assessments is one of the main factors used by the PBC to determine AML/CFT supervisory priorities. Other factors taken into account are an institution's size and systemic importance. There are some variations in the approach used by PBC branches to prioritize institutions for supervisory oversight and to allocate their resources. While all branches are expected to adopt the 5C system, the PBC encourages them to develop any additional supervisory tools that are appropriate in the context of the environments in which they operate. The Chengdu branch has, for example, developed software that assists it to better understand the nature of the business activity of the institutions it supervises and the implications this has for ML/TF risk exposures.

48. The current methodology used by the PBC in developing supervisory priorities is focused, to a large extent, on individual institutions and does not adequately examine risk across financial groups. The PBC HQ receives risk assessments from 23 systemically important institutions, while all other risk assessments are submitted through its branches. There is currently no concerted effort to collectively assess self-assessment reports submitted by institutions that comprise a financial group to determine if there are significant group-wide risks. In identifying issues of concern at one institution, for example, the PBC is not able to determine which other related institutions might be exposed to similar risks. The concern is equally valid where deficiencies in risk management may have implications for a number of entities in a group. This is a concern in an environment characterized by the migration of some products across related entities in financial groups, such as the movement of products from banks to related trust companies, entities which the PBC noted, during discussions, often exhibit weakness in some of their CDD practices.

49. The PBC considers the SHFTZ to present unique ML/TF risks. Financial sector activity in the zone is characterized by a high level of international trade transactions and cross-border renminbi business. FIs operating in the SHFTZ are also allowed to offer services to nonresident legal and natural persons. While the PBC considers that banks are the institutions most at risk to ML/TF,

they have become increasingly concerned about the risk posed by the activity of third party payment institutions (TPPI). PBC considers tax offenses and smuggling as some of the main predicate criminal activities in the zone.

50. The PBC has responded to the challenges of managing the ML/TF risks in the SHFTZ in a number of ways. In 2014, it issued the *Notice on Effectively Conducting Work against Money Laundering and Terrorist Financing in China (Shanghai) Pilot Free Trade Zone*. The Notice sets out a number of enhanced CDD measures that should be adopted by FIs with specific reference to customer identification and on-going monitoring. It emphasizes the importance of FIs establishing an Innovation Business Money Laundering Risk Assessment System to ensure that their ML departments fully participate in the process of developing new products and services to ensure that ML/TF risks are taken into consideration in the product/service design. FIs are also required to produce an ML risk assessment report with a specific focus on innovative products and services. In light of the specific risk associated with the SHFTZ, the PBC has strengthened its collaboration with a number of government agencies in the zone, including the SHFTZ management commission, the customs and tax administrations, and the administration of industry and commerce.

51. The PBC Shanghai head office is in the process of strengthening its risk-based approach to AML/CFT supervision. It is in the process of introducing the 5C scoring system. It started with the assessment of trusts and has now expanded to TPPIs. It intends to roll out the use of the scoring system to all licenses in a number of phases. The branch is documenting its experience in implementing the new system in an effort to make it a positive learning experience. While there are sound reasons to adopt a phased introduction of the new scoring system, the branch should expedite the introduction of the system to the banking sector as it considers this sector to have the highest ML/TF risks.

52. The PBC and its branches meet twice a year to develop and review its AML/CFT supervisory strategy. At the beginning of each year, a meeting is convened at PBC HQ in Beijing to review AML/CFT supervisory activities of the previous year and to plan activities for the coming year. During this meeting, the self-assessments of all FIs are reviewed as the findings of these assessments are important criteria for the development of supervisory activities for the coming year. The meeting is also an opportunity for the branches to submit their proposals for the oversight of the FIs for which they have direct supervisory responsibility. After a review and discussion of the self-assessments and the plans submitted by branches, decisions are made about the strategic priorities for the coming year. After receiving the new supervisory strategy from HQ, the branches determine how best to apply it to their supervisory plans.

C. Supervisory Cooperation

53. As previously indicated the PBC is the overall AML/CFT supervisor of FIs in China. According to law, the CBRC, the CSRC and the CIRC should cooperate with the PBC and perform their obligations of AML supervision within their respective sectors. These supervisors support the role played by the PBC to varying degrees. Apart from the role played at market entry as discussed above the sector supervisors have issued secondary legal instruments to provide guidance to their

licensees on their obligations with respect to the effective management of ML/TF risk. Neither the CBRC nor the CSRC undertakes dedicated AML/CFT on-site inspections. While the CBRC appears to make some input to the PBC onsite inspections, the CSRC seems to have very little interaction with the PBC in this regard. In fact, there are occasions on which the CSRC is unaware that the PBC is undertaking an on-site inspection of one of its licensees. This situation is contemplated in ***Measures for AML Work in the Securities and Futures Sector***. Article 11 (i) of this regulation indicates that a securities or futures institution should inform the CSRC when it has been subject to an inspection or has been punished by the PBC.

54. The CIRC is more actively involved in on-going AML/CFT supervision. It has both an offsite and onsite supervision program for its licensees. In 2011 CIRC established an AML/CFT information reporting system which requires licensees and CIRC branches to provide information on how well institutions are meeting their AML/CFT obligations. Between 2014-2016 the CIRC organized 26 branch offices to inspect 98 provincial branches of insurance companies. The CIRC incorporated ML/TF risks into China Risk Oriented Solvency System (C-ROSS), which is used to determine the adequacy of capital of insurance companies. The CIRC has developed a methodology to prioritize insurance entities for supervisory activities including onsite inspections. There is some level of cooperation between the CIRC and the PBC with respect to onsite inspections to the extent that the CIRC would not undertake an inspection of an entity that has recently been inspected by the PBC. Since the supervisors don't use the same methodology for prioritizing institutions for onsite inspection there is no certainty that an issue which the CIRC might want to cover during an onsite inspection would have been covered by the PBC in its inspection. To date the CIRC and the PBC have not conducted joint inspections. They recognize the benefit in having this level of collaboration and plan to start undertaking joint inspections in the future.

D. Sanctions

55. Article 32 of the AML Law sets out a range of administrative sanctions that the PBC can impose on institutions for failure to meet obligations set out under the law. Fines ranging from RMB 20,000 to 50,000¹⁸ can be imposed on FIs for failure to meet specified obligations of the law, while the fines that can be imposed on a chairman, a senior manager, or other persons range from RMB 10,000 to 50,000.¹⁹ Where ML has taken place as a result of the specified breach of the AML law, the fines on FIs can range from RMB 50,000 to 5,000,000²⁰ and the fines on natural persons can range from RMB 50,000 to 500,000.²¹ The PBC can also advise the sector supervisors to (i) order the relevant FI to discipline the officer, or (ii) revoke the person's qualification to hold a post and prevent him/her from working in the financial sector.

¹⁸ Approximately US\$31,000–77,700.

¹⁹ Approximately US\$1,500–7,700.

²⁰ Approximately US\$77,700–777,000.

²¹ Approximately US\$7,700–77,700.

56. The PBC has imposed a range of sanctions for violations of the provisions of the AML Law. Over the period 2012 to 2015, it has imposed 385 sanctions on banks, 17 sanctions on securities and futures institutions, 130 sanctions on insurance institutions, and 12 sanctions on payment institutions. The most common deficiencies for which sanctions have been imposed relate to CDD failures, such as the failure to obtain the necessary identification documents and information on the source of funds. In some cases, sanctions have been imposed for the failure to file STRs. The average value of sanctions applied during the period 2013 to 2015 was RMB 164,135.²² The highest fine ever imposed by the PBC was RMB 3,000,000, which was imposed on an institution for leaking confidential information. To date, the PBC has not requested the CBRC, the CIRC, or the CSRC to impose sanctions on the staff of FIs, as is provided for under Article 32 of the AMLL. It indicates that it has not discovered any risk management deficiencies or breaches of legal obligations that were egregious enough to merit the use of these sanctions. The authorities did not provide statistics to demonstrate the actual value of sanctions applied for each institutions and nature of the violations that led to the sanctions.

57. The maximum pecuniary sanction that can be applied for a single breach of the preventive measure regime is RMB 5,000,000. This appears to be relatively modest, given the size of the largest institutions in China, particularly in the banking sector. It seems unlikely that these sanctions would be dissuasive in the context of the largest FIs, particularly the largest banks.

²² Approximately US\$25,251.

Table 2. China: Banks, Securities, and Futures—Number of Sanctions Imposed by the PBC by Sector (2012–2015)				
Year	Banks		Securities and Futures Institutions	
	No. of Inspections	No. of Sanctions	No. of Inspections	No. of Sanctions
2012	485	52	138	1
2013	529	105	123	0
2014	683	112	114	9
2015	783	116	150	7
Total	2,480	385	525	17

Table 3. China: Insurance and Payments Institutions—Number of Sanctions Imposed by the PBC by Sector (2012–2015)				
Year	Insurance Institutions		Payment Institutions	
	No. of Inspections	No. of Sanctions	No. of Inspections	No. of Sanctions
2012	544	30	6	0
2013	479	36	15	1
2014	449	35	16	6
2015	467	29	28	5
Total	1,939	130	65	12

Table 4. China: Insurance Value of Sanctions Imposed of Financial Institutions (2013–2015)				
Year	FIs			
	Number of Inspections	Number of Sanctions	Amounts of Sanctions (Yuan)	Average Value of Sanctions
2013	1,146	142	21,542,000	151,704
2014	1,262	162	27,418,500	169,250
2015	1,428	158	26,870,000	170,063
Total	3,836	462	75,830,500	164,135

E. Conclusions and Recommendations

58. The PBC has taken a number of measures to strengthen its supervisory arrangements.

A significant development is the initiative to develop a framework for implementing a risk-based approach to supervision by requiring institutions to undertake self-assessments and by developing its own internal methodology for prioritizing institutions for supervisory oversight. There is nevertheless room to strengthen the existing arrangements. In developing its supervisory priorities, the PBC should increase its focus on group-wide risk rather than on institution-specific risk. The PBC and sector supervisors should strengthen their cooperation to ensure the effectiveness of overall AML/CFT supervisory activities. The Shanghai PBC branch should expedite the introduction of the 5C risk scoring system to the banking sector as it considers this sector to have the highest ML/TF risks. As this deficiency has implications for the effectiveness of AML/CFT supervision nationwide, PBC HQ should monitor this process. The authorities should also consider strengthening the sanctions that are available to the PBC, as well as the actual sanctions imposed on FIs for breaches of AML/CFT obligations.

Annex I. Main Meetings Held During Visit

Anti-Money Laundering Bureau—People's Bank of China (Beijing)

Anti-Money Laundering Division —People's Bank of China (Shanghai Head Office)

Anti-Money Laundering Division —People's Bank of China (Chengdu Branch)

China Anti-Money Laundering Monitoring and Analysis Center—People's Bank of China

China Banking Regulatory Commission

China Insurance Regulatory Commission

China Securities Regulatory Commission

Bureau of Cadre Supervision of Organization Department of the Central Committee of the Communist Party of China

Ministry of Finance

Ministry of Public Security

Ministry of Supervision (National Bureau of Corruption Prevention)

Ministry of Justice

State Administration of Industry and Commerce

State Administration of Taxation

Supreme People's Procuratorate

China Construction Bank (Head Quarter and Sichuan sub-branch)

China Merchants Bank (Head Quarter)

Development Bank of Singapore (China)