Scorecard: China

FATF Mutual Evaluation and Follow-Up Reports

StratisAdvisory

RISK | STRATEGY | CYBER COMPLIANCE MANAGEMENT

What are the FATF 40 Recommendations?

The FATF Recommendations outline and elaborate on a comprehensive and consistent framework for countries to implement as a means to combat money laundering (ML), terrorist financing (TF), as well as the financing of weapons of mass destruction. Due to the diversity and differences in the administrative, financial, legal and operational systems and measures of different countries, the FATF Recommendations serve as the international standard, which countries may adapt to their state of priorities and affairs.

AML/CFT Policies and Coordination

- **R1** Assessing risks and applying a risk-based approach
- **R2** National cooperation and coordination

Terrorist Financing and Financing of Proliferation

- **R5** Terrorist financing offence
- **R6** Targeted financial sanctions related to terrorism and terrorist financing
- **R7** Targeted financial sanctions related to proliferation
- **R8** Non-profit organisations (NPOs)

International Cooperation

- **R36** International instruments
- **R37** Mutual legal assistance
- **R38** Mutual legal assistance: freezing and confiscation
- **R39** Extradition
- **R40** Other forms of international cooperation

Transparency and BO of Legal Persons and Arrangements

- **R24** Transparency and beneficial ownership (BO) of legal persons
- **R25** Transparency and BO of legal arrangements

Money Laundering and Confiscation

- **R3** Money laundering offence
- **R4** Confiscation and provisional measures

Powers and Responsibilities of Competent Authorities and Other Institutional Measures

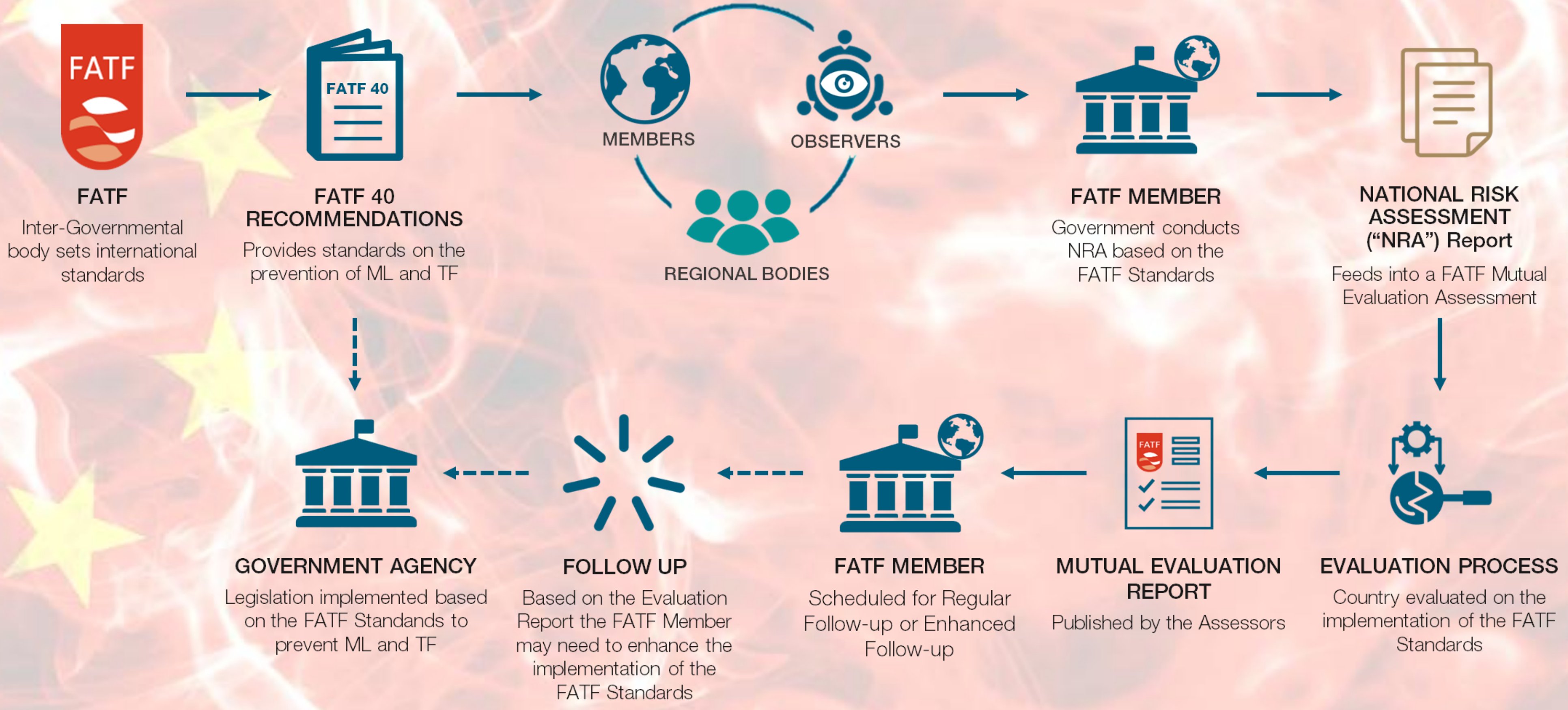
- **R26** Regulation and supervision of financial institutions (FIs)
- **R27** Powers of supervisors
- **R28** Regulation and supervision of DNFBPs
- **R29** Financial intelligence units (FIUs)
- **R30** Responsibilities of law enforcement and investigative authorities
- **R31** Powers of law enforcement and investigative authorities
- **R32** Cash couriers
- **R33** Statistics
- **R34** Guidance and feedback
- **R35** Sanctions

Preventive Measures

- **R9** Financial institution secrecy laws
- **R10** Customer due diligence
- **R11** Record keeping
- **R12** Politically exposed persons (PEPs)
- **R13** Correspondent banking
- **R14** Money or value transfer services
- **R15** New technologies
- **R16** Wire transfers
- **R17** Reliance on third parties
- **R18** Internal controls and foreign branches and subsidiaries
- **R19** Higher-risk countries
- **R20** Reporting of suspicious transactions
- **R21** Tipping-off and confidentiality
- **R22** DNFBPs: Customer due diligence
- **R23** DNFBPs: Other measures

How FATF Sets International Standards

FATF set out the methodology to assess whether a country is compliant to FATF Recommendations or Standards, and if its AML/CFT system is working effectively, assessed through on-site visits, data analysis and the publication of Mutual Evaluation Reports (MERs), or Follow-Up Reports (FURs), where applicable. Done through peer reviews from members of other countries for objectivity, these evaluations are comprehensive country reports that present analysis, findings, as well as points for improvement, regarding a country's ML/TF systems.



FATF publishes a Global Assessment Calendar, which provides a preview of planned assessments by the FATF, its FATF-Style Regional Bodies (FSRBs), the International Monetary Fund (IMF) or the World Bank. The 4th and the most recent round of MERs were measured against the 2013 Assessment Methodology. FATF commenced its 5th round of mutual evaluations in 2024, using revised the Assessment Methodology adopted in 2022. China is lined up for its 5th round of MER based on the schedule below:

COUNTRY	ASSESSMENT BODY	ME ROUND	PLANNED ONSITE SCHEDULE	PLANNED PLENARY DISCUSSION SCHEDULE
China	FATF-APG-EAG	5th	Jun 2026	Feb 2027

China 2019 FATF Mutual Evaluation Report

MUTUAL EVALUATION REPORT (MER) RATING

DATE: *April 2019*

Key Findings

1. China's domestic AML/CFT framework is well-established, but important gaps remain on its overall understanding of ML/TF risks. While FIs have adequate understanding of their AML/CFT obligations, their understanding of risks need development.
2. FIUs have a high potential to produce solid financial intelligence, but have a decentralised arrangement, making data access, analysis and dissemination fragmented, incomplete and unholistic. This also waterfalls to financial intelligence not driving ML investigations by law enforcement agencies (LEAs).
3. With a large amount of illicit funds flowing out of China annually based on previous NRAs, the deficiencies in the implementation of TF and PF targeted financial sanctions have negative impact.
4. AML/CFT supervision is mostly focused on the financial sector, lacking preventive or supervisory measures for designated non-financial businesses and professions (DNFPBs) and NPOs.

Effectiveness

Immediate Outcomes	
Risk, Policy and Coordination	
International Cooperation	
Supervision	
Preventive Measures	
Legal Persons and Arrangements	
Financial intelligence	
ML Investigation and Prosecution	
Confiscation	
TF Investigation and Prosecution	
TF Preventive Measures and Financial Sanctions	
PF Financial Sanctions	

High Substantial Moderate Low

Technical Compliance

FATF Recommendations							
R1		R11		R21		R31	
R2		R12		R22		R32	
R3		R13		R23		R33	
R4		R14		R24		R34	
R5		R15		R25		R35	
R6		R16		R26		R36	
R7		R17		R27		R37	
R8		R18		R28		R38	
R9		R19		R29		R39	
R10		R20		R30		R40	

Compliant Largely Compliant Partially Compliant Non-Compliant N/A

China 2021 FATF Follow-Up Report and Technical Compliance Updates

Progress Updates

1. There were several technical compliance deficiencies that had already been addressed in this FUR, some of which were related to limited predicate ML offences and the lack of thresholds. Progress has been made since the MER with remaining deficiencies deemed minor, improving R3 re-rating.
2. With NPOs being recognised as vulnerable to TF abuse, China needed to identify their subset of NPOs, including its donor community, and to implement risk-based monitoring, which roots from the lack of investigative expertise and capabilities. This has since been addressed, together with stronger monitoring and supervision policies, upgrading R8.
3. Deficiencies in R18 of the MER identified that FIs' obligations on internal controls did not require the consideration of ML/TF risks and the size of the business, and that there is a general lack of clarity on AML/CFT program requirements. This has since been addressed by an amendment to the existing administration and supervision measures.
4. FIU data has been consolidated into a new platform and now accessible to relevant agencies, resulting to an improved R29.
5. China has made significant progress in expedited seizing, freezing, and confiscation of foreign assets, re-rating R38.

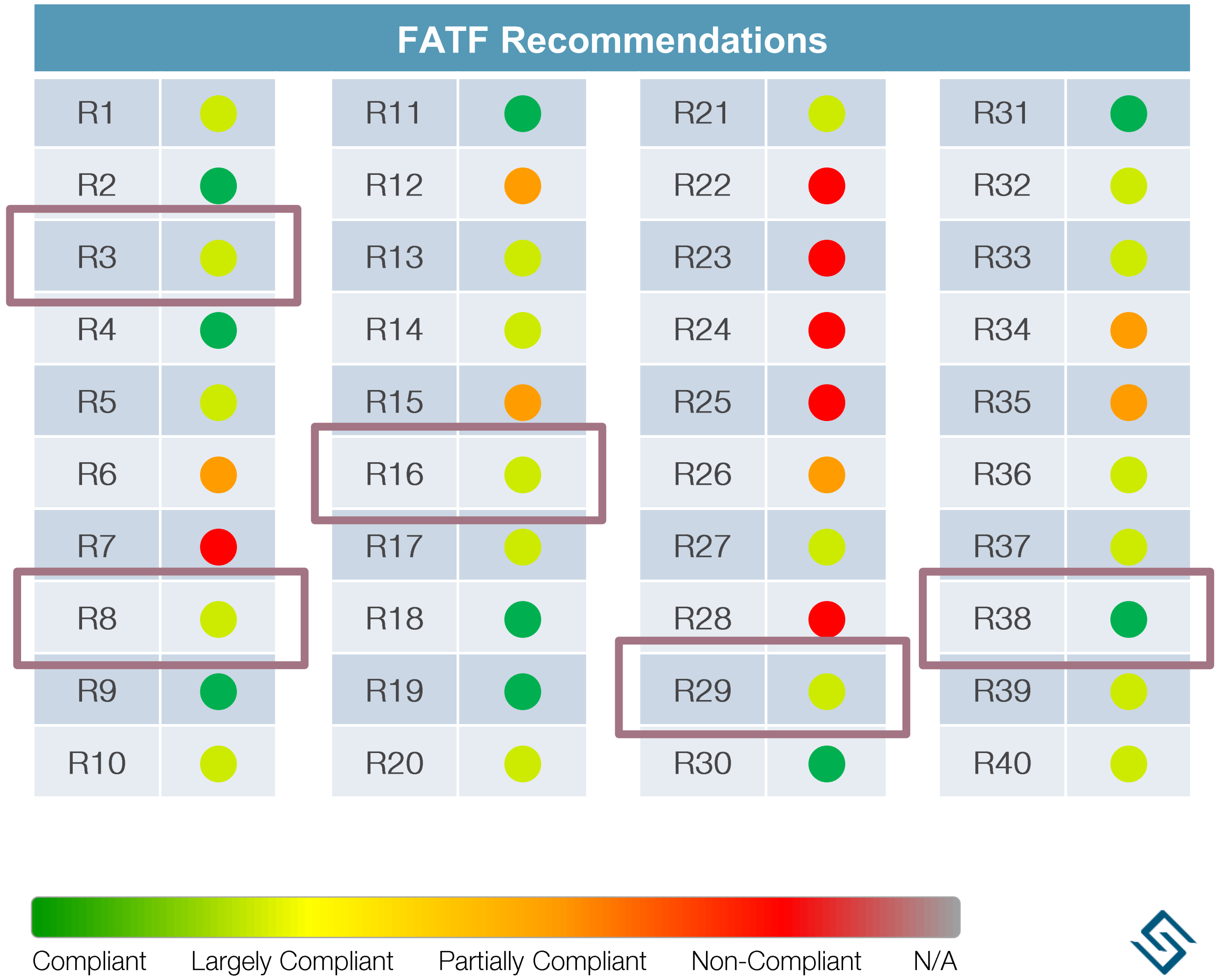
FOLLOW-UP REPORT

DATE: *October 2021*

Technical Compliance Re-Rating

Rating Updates Based on Follow-Up Report:

- R3 Upgrade
- R8 Upgrade
- R16 Upgrade
- R29 Upgrade
- R38 Upgrade



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LAUNCH | SCALE | OPTIMIZE

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