



**Financial Action Task Force**

Groupe d'action financière

**SUMMARY  
OF THE FIRST MUTUAL EVALUATION REPORT ON  
ANTI-MONEY LAUNDERING AND  
COMBATING THE FINANCING OF TERRORISM**

**PEOPLE'S REPUBLIC OF CHINA**

**29 JUNE 2007**

## SUMMARY

### 1. Background Information

1. This report provides a summary of the anti-money laundering (AML)/counter-terrorist financing (CFT) measures in place in the People's Republic of China (China) as of 24 November 2006, and shortly thereafter. The report describes and analyzes those measures, and provides recommendations on how certain aspects of the system could be strengthened. It also sets out the China's levels of compliance with the FATF 40+9 Recommendations (see the attached table on the Ratings of Compliance with the FATF Recommendations).

2. In a very short time, China has made significant progress in implementing AML/CFT measures. China first began seriously focusing on AML/CFT issues in 2003, with the enactment of three sets of regulations that imposed some relevant AML/CFT requirements on the banking, trust and finance sectors. In 2004, the People's Bank of China began conducting on-site AML compliance inspections across the country, and also filed an application for FATF membership. Shortly after becoming an observer to the Financial Action Task Force (FATF) in 2005, China enacted its AML/CFT law and two related regulations in October 2006 which are applicable to all financial institutions. Since then, China has actively continued to refine and enhance its AML/CFT regime.

### 2. Legal System and Related Institutional Measures

3. China has criminalised money laundering in three separate articles of the Penal Code (PC): article 349 PC (laundering the proceeds of drug-related offences); article 191 PC laundering the proceeds of drug-related offences, smuggling, organised crime, terrorism, corruption or bribery, disrupting the financial management order and financial fraud); and article 312 PC (originally a receiving and handling illegally acquired goods offence, which was recently extended to cover certain types of money laundering activity on the basis of an all crimes approach). These three offences, taken together or separately, cover most of the relevant types of money laundering activity, with the exception of the sole and knowing acquisition and use of proceeds. All but one designated category of predicate offence is fully covered, as the TF offence of article 120bis does not cover an adequate range of activity. Self-laundering is not criminalised, even though there is no fundamental principle of Chinese law that would prevent this. Criminal sanctions for money laundering are effective and dissuasive and comparable with that for other economic crimes (from 5 to 10 years imprisonment, depending on the seriousness of the offence, fines and confiscation of the proceeds). Corporate criminal liability extends to money laundering activity committed pursuant to article 191 PC, but not articles 312 and 349 PC. However, natural persons directly responsible for or representing the legal persons can be criminally liable. Additionally, legal persons incur administrative liability which may lead to withdrawal of their licence or confiscation of their assets. There seems to be a reluctance to go after money laundering as a stand-alone offence, except as an offshoot of a known predicate criminal activity. Although article 191 PC already covered 4 categories of predicate offences since 1997 (drugs, organised crime, smuggling and terrorism), only 3 genuine money laundering cases (involving 4 offenders) have yet been brought before the court. Prosecutions in relation to article 312 PC were relatively high between 2002 and 2005, but are not really relevant in the present context since, at that time, it was exclusively a receiving offence. Since 2002, there have been 146 persons convicted pursuant to article 349 (harbouring drugs, drug offenders, or drug money). This number is low, particularly in the context of the size of the country and the level of money laundering risk. Overall, the effectiveness of the criminal AML effort should be enhanced by raising awareness with the prosecutorial and judicial authorities of the importance of bringing more stand-alone money laundering cases before the court.

4. Article 120bis PC (which was introduced on 29 December 2001) criminalises terrorism financing in the sense that “any person who financially supports a terrorist organisation or an individual who commits terrorist activities” is guilty of a crime. Not all of the terrorist offences that are listed in the International Convention for the Suppression of Terrorist Financing (1999) are clearly covered, because the Penal Code does not define the term “terrorist activities”, neither in a generic formulation, nor by way of a list. Moreover, the activity of collecting funds for terrorists or terrorist organisations (either for the purpose of committing a terrorist act or any other purpose) is not criminalised. To the extent that terrorist financing is criminalised, it is a predicate offence for money laundering. Article 120bis PC expressly provides for corporate criminal liability when the offence is committed under the umbrella of or through a legal person, in addition to the personal criminal liability of agents acting on behalf of or within the legal entity. However, at the time of the on-site visit there had been no terrorist financing investigations, prosecutions or convictions. The dissuasive effect of the sanctions is questionable as the punishment for violation of article 120bis PC seems quite low in comparison with the serious threat that the offence poses for public security and society as a whole (a fine and imprisonment of no more than 5 years, unless the circumstances are “serious”, in which case the maximum term for imprisonment is 15 years). However it is undefined and left to the discretion of the judge to decide what is to be understood as “serious”.

5. The seizure and confiscation regime is generally both comprehensive and quite detailed. It provides sufficient legal instruments to enable an effective recovery of criminal assets. Some legal imperfections remain, however, such as the fact that the Penal Code does not contain any provision specifically covering the confiscation of property of corresponding/equivalent value. Criminal confiscation is conviction based and mandatory, and covers all illegally obtained assets (“all money and property”), illegal objects (“contraband”) and items used in the commission of the offence. Additionally, there is a fairly extensive administrative enforcement system that is mostly used in cases where the conduct, though unlawful, is not considered serious enough to warrant the application of criminal procedures. Most agencies with administrative enforcement powers can also seize and confiscate assets related to violations within their area of competence. Confiscation is quite actively pursued overall. However, in terms of efficiency the judicial authorities should give more attention to a systematic application of the confiscation of the proceeds, which is a mandatory measure anyway under Chinese law.

6. China has not implemented UNSCR 1267 and UNSCR 1373 in a manner that meets the specific requirements of FATF Special Recommendation III. China has opted for a one-sided criminal procedure approach, using traditional and existing means, to an international requirement that is predominantly of a preventive nature necessitating exceptional measures and adapted procedures. It is clear that these means are inadequate, at the very least incomplete, to meet the obligations deriving from the UN resolutions in an appropriate and effective way. Although some elements are already present to some extent (such as a basic communication and dissemination process to some financial institutions), and China’s positive attitude towards foreign freezing/seizure requests should be noted, the approach needs to be revisited as a whole, with special attention to: giving clear instructions and guidance to all relevant sectors on their obligations in this respect; ensuring that there are efficient communication lines among law enforcement authorities, the supervisory bodies, the financial institutions and other affected sectors; implementing a screening procedure and authority responsible for evaluating the foreign list based requests; implementing effective compliance monitoring by supervisory bodies within an adequate sanctioning framework; establishing appropriate and publicly known procedures for de-listing, unfreezing or in any other way challenging the listing and freezing measure before a court or other designated authority; and enacting regulations on (restricted) access to the frozen assets and protecting the rights of bona fide third parties. Currently, no assets have been reported in China within the context of the UN Security Council Resolutions on freezing terrorist funds.

7. China’s financial intelligence unit (FIU) is located in the PBC. The FIU function is divided between two operational units of the PBC under a single deputy governor—the Anti-Money Laundering Bureau (AMLB) and the China Anti-Money Laundering Monitoring & Analysis Center

(CAMLMAC). CAMLMAC was established in April 2004. Its function is to receive and analyse suspicious transaction reports (STRs) and large value transaction reports (LVTs), and to act as the central point of contact for foreign FIUs. The AMLB, which was established in October 2003 organises and co-ordinates China's AML affairs, and carries out administrative investigation, dissemination and policy oversight. While CAMLMAC and the AMLB work together to conduct follow-up analysis on LVTs and STRs, most of the additional analysis and dissemination functions are carried out by the AMLB. The FIU has access to information held by other bodies for the purpose of facilitating its analysis; however, such access could be improved or streamlined. The FIU has applied, but is not yet a member of the Egmont Group. Nevertheless, the FIU exchanges information with its foreign counterparts on a case-by-case basis. CAMLMAC began receiving STRs in August 2004. After an initial settling in period, CAMLMAC now receives around 130 000 reports on suspicious RMB transactions (RMB STRs) and 350,000 reports on suspicious foreign currency transactions (FX STRs) each month. Last year (from 1 July 2005 to 30 June 2006), CAMLMAC received 619,962 RMB STRs and 2,245,267 foreign currency suspicious transactions. Consideration should be given to the problem of how to deal effectively with such a large volume of STRs coming directly to CAMLMAC (60 staff strong). Since its inception, the FIU has transferred 57 files (involving about 80,000 suspicious transactions) to the Ministry of Public Security (MPS) for investigation. Nine have resulted in cases being filed for investigation and one has been referred for prosecution. Additionally, over 10 suspicious transaction dossiers have been transferred to other agencies, including 5 to the Ministry of State Security (MSS) since October 2005. Four of those cases are still being investigated by the MSS. The other one was closed after investigation.

8. The MPS is China's main law enforcement body, responsible for following up on STRs and for guiding and co-ordinating public security authorities across China in investigations involving money laundering and the seizure, freezing and confiscation of proceeds of crime. Most of these responsibilities are concentrated in the AML Division of the MPS Economic Crime Investigation Department (ECID). The Anti-Terrorism Bureau of the MPS is responsible for investigating general crimes relating to terrorism (financing). Crimes against state security (including terrorism and related crimes) are the responsibility of the Ministry of State Security (MSS). The Supreme People's Procuratorate (SPP) supervises and directs the approval of arrests, prosecution, and supervision of cases involving money laundering crimes. The Supreme People's Court (SPC) supervises and directs the trial of money laundering crimes. Both can issue judicial interpretations. Law enforcement agencies are authorised to use a wide range of powers, including special investigative techniques, when conducting investigations of money laundering, terrorist financing and predicate offences. These powers include seizing articles relevant to the crime, including all (customer) records held by financial institutions. Law enforcement and prosecutorial authorities currently focus on pursuing predicate offences, to the exclusion of ML/FT. Overall, China should take measures to improve the effectiveness of its AML/CFT regime by ensuring that law enforcement and prosecutorial authorities also focus on money laundering and terrorist financing cases.

9. China has implemented a combined disclosure/declaration system, operated by the General Customs Administration (GCA). All cross-border transportations of cash exceeding RMB 20 000 for local currency or USD 5 000 for foreign currency must be declared. Bearer negotiable instruments do not need to be declared, but cross-border transportation of RMB through the mail system or in vehicles is not permitted. China has also implemented a disclosure system based on a risk-based targeting system. The GCA is authorised to conduct checks of persons entering or leaving the country, seize undeclared cash, and question and detain and sanction anyone who violating any requirement. Those who carry out a physical cross border transportation that is related to money laundering or terrorist financing are also subject to the regular criminal sentences. Almost all of the sanctions stipulated for a false declaration, non-disclosure (whether or not ML/TF related) include the ability to freeze, seize and confiscate the cash involved. Mechanisms which would enable CAMLMAC to systematically receive all cash declarations should, but have not been implemented. Even though the GCA and CAMLMAC already exchange information in special

cases if warranted. From January 2005 to October 2006, there were 4,926 cases detected relating to travellers who did not disclose cash being carried, but this data is not effectively being utilised for ML or TF purposes. The GCA is able to use its own powers to confiscate in administrative cases. However, if a criminal offence or smuggling is involved, the decision to confiscate is made by a court. From 2002 to 2005, the GCA confiscated RMB 498 million (EUR 47.7 million/USD 65.2 million).

### 3. PREVENTIVE MEASURES - FINANCIAL INSTITUTIONS

10. In late 2006, China implemented a new legal framework that applies a uniform set of AML/CFT measures to the entire financial system (rather than providing for a risk based approach to the application of preventive measures for financial institutions). The legal framework is based on the AML Law and the two new rules issued by the People's Bank of China (PBC): the "Rules for Anti-Money Laundering by Financial Institutions" (the AML Rules) and the "Administrative Rules for the Reporting of Large-Value and Suspicious Transaction by Financial Institutions" (the LVT/STR Rules). The AML Law and the AML Rules came into effect on 1 January 2007. The LVT/STR Rules came into force on 1 March 2007.

11. China implemented a suspicious transaction and large value transaction reporting system in 2003 pursuant to the Administrative Rules for the Reporting of Large-value and Suspicious RMB Payment Transactions (RMB-LVT/STR Rules) (which applied to transactions involving domestic currency) and the Administrative Rules for the Reporting of Large-Value and Suspicious Foreign Exchange Transactions (FX-LVT/STR Rules) (which applied to transactions involving foreign currency). This reporting regime only covered the banking sector (which includes foreign exchange and MVT services). The reporting obligation has since been extended to all financial institutions through the new LVT/STR Rules which came into force on 1 March 2007. Implementation of the new LVT/STR Rules was deferred to allow the banking sector to modify its systems, and the securities and insurance sectors to institute reporting procedures for the first time. In the meantime, the 2003 reporting rules remained in effect. As a result of this timing, the substantive assessment of the STR obligations (including the rating) is based upon the 2003 rules, although a description of the new obligations, and of their likely impact, is also provided.

12. The banking sector has been subject to limited customer due diligence (CDD) requirements since 2003. The new AML Law (which came into force on 1 January 2007) extended some CDD obligations to all financial institutions, including the securities and insurance sectors. However, certain key elements of the FATF Recommendations are still not explicitly set out in comprehensive laws or regulations. Moreover, since the new requirements have been enacted only recently, it is too early to draw any conclusions about the effectiveness of their implementation.

13. The AML Law explicitly prohibits financial institutions from opening or maintaining anonymous accounts or accounts in fictitious names. Financial institutions are required to identify their customers on the basis of an original and valid identity card or other identity document (such as a passport in the case of a foreign citizen) when establishing a business relationship. This includes verifying the customer's identity documents (i.e. examine their authenticity, completeness and legality) and keeping a record of the identity information obtained. Although the same procedures are to be followed when providing occasional services to customers above a "prescriptive amount", it is questionable whether this obligation is enforceable since the "prescriptive amount" has not yet been fixed by the Chinese authorities. Similar procedures must be performed when processing foreign exchange transactions for customers, carrying out wire transfers, upon discovery of any abnormality (including money laundering activity), or when there is any doubt about the authenticity, validity or integrity of previously-obtained identification information. Financial institutions must verify the identity of any authorised representatives of the customer, and maintain records of identification information. However, there is no explicit statutory requirement for financial institutions to determine whether a customer is acting on behalf of another person. Specific CDD requirements also apply when accepting legal arrangements (*i.e.*

an express trust) as a customer. Only the banking sector is subject to specific requirements relating to the identification of legal persons, including the obligations to set up customer information files that enable them to understand the ownership and control structure of customers who are legal persons when the customer is opening a bank.

14. There is no statutory requirement to identify the “beneficial owner” of customers that are legal persons or arrangements as defined in the Glossary of the 40 Recommendations [*i.e.* the natural person(s) who ultimately own or control the customer].

15. Financial institutions must know the purpose and nature of the transactions made by their customers. However, there is no obligation that would cover other elements of a comprehensive ongoing due diligence process on the business relationship (e.g. an explicit requirement to ensure that the transactions being conducted are consistent with the institution’s knowledge of the customer, their business and risk profile, and where necessary, the source of funds). In contrast to the banking sector, insurance companies are not required to keep documents, data or information collected under the CDD process up-to-date and relevant by undertaking reviews of existing records.

16. Financial institutions are required to apply the same CDD measures to all customers, rather than classifying customer types by risk. This means that financial institutions are not required to perform enhanced due diligence for higher risk categories of customer, business relationship or transactions. Likewise, financial institutions are not allowed to perform reduced or simplified due diligence with regard to any kind of customer, business relationship or transaction.

17. Financial institutions are not allowed to provide any services to (such as opening an account) or conduct transactions with any customer (new or existing) whose identity is yet to be clarified. Although financial institutions are not explicitly required to terminate the business relationship, in practice, the prohibition on performing any transactions for the customer produces the same result. However, there is no corresponding obligation on the financial institution to consider making a suspicious transaction report, other than the general obligation (which currently only applies to banks) to file an STR when “other suspicious payment transactions” are detected. In 2005, the PBC began verifying all existing “settlement” accounts (meaning current accounts) throughout China to ensure the authenticity, completeness, and compliance of the account information. However, similar measures have not been taken in the insurance or securities sectors.

18. When entering into correspondent banking relationships with overseas financial institutions, a financial institution is required to satisfy itself that the overseas financial institution has implemented effective customer identification procedures and is able to provide the customer identification information as needed. However, there is no compulsory legal requirement for banks to gather sufficient information about the respondent institution to understand fully the nature of its business, reputation and the adequacy and quality of supervision and controls. Nor is it compulsory to document the respective AML/CFT responsibilities within correspondent relationships. No specific requirements have been implemented in relation to politically exposed persons (PEPs).

19. The general record-keeping requirements on financial institutions are extensive and, for the most part, require the maintenance of books and records for long periods of time. However, the focus is largely on accounting and similar records, and there appears to be no specific provision requiring institutions to retain business correspondence and other related documents. The authorities' legal powers to override the confidentiality provisions, where necessary for regulatory or investigative purposes, are extensive. These powers appear to be used on a regular basis, and the financial institutions indicated that they recognise the authorities' right to access a broad range of information, and are generally willing to comply.

20. Only commercial banks and postal institutions in China are authorised to handle wire transfers. For cross-border transfers of any amount, the domestic remitting bank must obtain

transmit, with the wire transfer, the originator's name, address and account number. The verification requirements for cross-border transfers are the same as for domestic payments although no threshold has yet been set. Such a threshold should not exceed USD 1 000 as required by the FATF Recommendations. Intermediary banks are required to maintain a copy of the payment instructions for five years in an easily retrievable form and to ensure that all of the originator information is passed on in the transfer chain. When receiving wire transfers with incomplete or questionable information, the bank must make inquiries to the relevant bank and may only complete the transaction after receiving satisfactory replies. The PBC is responsible for monitoring financial institutions' compliance with these requirements, and has the power to sanction violations.

21. The reporting system was (and remains) an unusual transaction reporting system regime, based on defined typologies, with only a very limited degree of discretion being given to the financial institutions to determine what might be genuinely suspicious. The Chinese authorities chose this framework with the objective of acclimatising the banks more quickly to the entire concept of an STR reporting programme. It is recognised that the very prescriptive nature of the 2003 rules has forced banks to focus on AML concepts. However, the current STR regime operates with very little input from the reporting institutions by way of analysis to determine if there is an underlying suspicion, resulting in a very large number of reports (over 5 million STRs in just two years), the majority of which are of relatively little value in respect of money laundering investigations. (It should be noted that the applicable laws and regulations refer to both unusual and suspicious transactions as "suspicious" transactions). Consequently, it is recommended that a greater move towards a more subjective STR regime be implemented once the new sectors brought into the system in March have become familiar with the overall concepts. The authorities have recognised that the current system tends towards over-prescription and have sought to modify the requirements under the new LVT/STR Rules.

22. The new LVT/STR Rules consolidate the previous two sets of reporting rules into a single document and provide for a number of significant improvements. Critically, the reporting obligation has been extended to all financial institutions. As well, the list of defined suspicious transactions which must be reported has been significantly reduced and subjective factors that might provide the basis for suspicion have been added to many of the transaction types. Nevertheless, two amendments to the new LVT/STR Rules should be made at the earliest opportunity. First, reporting should be extended to attempted transactions; and, second, a clear and direct obligation to report suspicious transactions that may be related to terrorist financing should be added.

23. China should implement a mechanism that allows the authorities to implement countermeasures against countries that do not sufficiently apply the FATF Recommendations. As well, all financial institutions should be required to pay special attention to business relationships and transactions involving jurisdictions that have not sufficiently implemented the FATF standards.

24. Chinese law effectively prohibits establishing a shell bank in China. However, there are no specific legal requirements that prohibit domestic banks from establishing connections with a foreign shell bank. Additionally, financial institutions are not required to satisfy themselves that respondent financial institutions in a foreign country do not permit their accounts to be used by shell banks.

25. The AML Law and the accompanying rules require all financial institutions to (a) establish internal AML control programmes; (b) designate a specialist AML unit; (c) establish a customer identification programme; (d) establish and maintain record-keeping procedures; (e) comply with the STR and large-value reporting requirements; and (f) provide appropriate training to their staff. The application of these obligations in relation to foreign branches or subsidiaries should be clarified. Although financial institutions are required to have an internal designated AML unit that is responsible for ensuring compliance with AML obligations, there are no explicit requirements to

designate an AML/CFT compliance officer at the management level, maintain an adequately resourced and independent audit function to test compliance with internal AML/CFT controls, or communicate AML/CFT policies and procedures to their employees. Moreover, because there is no obligation to report terrorist financing activities, it must be assumed that the internal control environment is not set up to address this risk. The PBC and the regulatory authorities have been given the task, to varying degrees, to monitor and inspect for compliance with these obligations. Prior to the enactment of the AML Law, the responsibility fell primarily upon the PBC, but the new legislation maps out a division of responsibilities, such that the PBC will have an overarching responsibility for AML compliance (including a specific focus on the STR and LVT procedures), while the regulatory authorities will have primary responsibility for reviewing internal control procedures.

26. Under the new AML Law, the PBC is responsible for the AML supervision of all financial institutions. However, certain AML responsibilities are also shared with the financial sector regulators: the China Banking Regulatory Commission (CBRC) which supervises the banking sector (including foreign exchange and MVT services), the China Insurance Regulatory Commission (CIRC) which supervises the insurance sector; and the China Securities Regulatory Commission (CSRC) which supervises the securities sector. This division of labour will mean, in practice, that the PBC will retain overarching responsibility for AML policy and compliance, but that the sector regulators will take the lead on formulating policy on, and assessing compliance with, appropriate internal control standards. While the PBC and, to a lesser extent, the CBRC have had experience since 2003 in exercising regulatory responsibilities with respect to AML, the new legislation brings the CSRC and CIRC into the mainstream of AML for the first time.

27. All financial institutions are subject to registration and supervision. Under the various regulatory laws, all financial institutions wishing to undertake business in China must apply for, and be granted, a licence by the appropriate authority. Approval must be withheld if the authority cannot be satisfied that the applicant's AML programme will be adequate.

28. Only banks are authorised to provide money or value transfer (MVT) services in China. This means that operators of MVT services (*i.e.* banks) are subject to the same laws and regulations (including the same supervisory and sanctions regimes) that apply to banks and which relate to relevant FATF Recommendations. Overall, China has achieved good results in combating illegal underground banking. In 2005, 47 underground banks were destroyed, resulting in RMB 1.7 million worth of funds being frozen, 165 suspects being arrested and fines worth RMB 10 million being imposed. In December 2006, the Chinese authorities uncovered seven additional underground banks that were handling more than RMB 14 billion. Police arrested 44 people suspected of involvement in these underground banks operating in several Chinese provinces.

29. The PBC, CBRC, CSRC and CIRC have the power to supervise and examine the observance of the AML/CFT regulations by financial institutions, to gain access to all relevant information, and to impose administrative penalties on those who fail to fulfil their obligations. Although the detailed legal provisions relating to the powers of each agency vary, overall they appear adequate to permit the authorities to gain appropriate access for the purposes of both routine and special AML inspections.

30. The PBC and the financial sector regulatory authorities have the power to apply administrative penalties, including warnings, fines and removal from office, in relation to failures by financial institutions to comply with the AML Law, the rules or the regulatory laws. In cases of criminal violations, the cases are transferred to the judicial authorities for investigation and prosecution, based on the Penal Code and the Code of Criminal Procedure. Financial institutions may be criminally sanctioned by a fine and the person who is directly in charge, and any other person who is directly responsible for the crime may be sentenced to fixed-term imprisonment of not more than five years or, in the most serious cases to criminal detention of not less than five but



not more than 10 years. A fine, equivalent to not less than five percent and no more than 20% of the money laundered may be levied in addition to, or instead of the prison sentence.

31. Administrative sanctions may also be levied, including a warning, confiscation of any illegal gains, and a fine of up to five times the value of the illegal gains in cases where the gains exceeds RMB 500 000, or a fine ranging from RMB 500 000 to RMB 2 million in cases where there is no illegal gains or the gains are less than RMB 500 000. In addition, any director, senior manager and other personnel directly responsible for the act may be issued with a warning or a fine ranging from RMB 50 000 to RMB 500 000. In the event that misconduct results in the actual occurrence of money laundering, the institution must be fined between RMB 500 000 and RMB 2 million. The directors, senior managers and other person(s) directly responsible for the misconduct must also be given a warning and be fined between RMB 50 000 and RMB 500 000. The PBC can also propose to the relevant financial regulatory authorities that they apply additional administrative sanctions to the directors, senior managers and other person(s) directly responsible for the misconduct, including disqualification from office and exclusion from working in the financial sector.

32. From January to December 2005, the PBC and its branches conducted AML examinations of 3 351 bank branches. Based on these examinations, the PBC imposed administrative penalties on 600 financial institutions for violations of the AML regulations. A total of RMB 56 million (USD 7 million) was levied in fines as a result of these failures. The most punitive sanctions (by value) were in the range of 1 to 1.5 million RMB. The CBRC, CSRC and CIRC have not carried out any examinations relating to AML/CFT. Consequently, the overall effectiveness of the AML compliance monitoring regime has yet to be tested. Further guidance should be issued to the financial sector to assist it in the implementation of the new requirements contained in the 2006 AML Law and its associated regulations. This guidance should also be focused on ensuring that financial institutions fully understand the regulatory approach that will be taken.

#### **4. Preventive Measures—Designated Non-Financial Businesses and Professions**

33. The application of AML requirements to DNFBPs is so far limited to trust service providers, which are regulated and supervised as financial institutions. Some of the general laws and regulations that apply to certain DNFBPs contain very limited customer identification and record keeping procedures – none of which substantially meets the specific elements that are required by FATF Recommendations. All DNFBPs are subject to licensing and registration requirements (approval from the authorities must be obtained to conduct any type of business in China), and supervision or monitoring by a government authority or SRO. DNFBPs are also subject to wide range of sanctions for violation of applicable laws, regulations, professional ethics and standards. However, with the exception of trust investment companies, none of these supervisory frameworks relate to AML/CFT.

34. The AML Law provides for the issuance of regulations that designate categories of non-financial institutions which are subject to AML/CFT measures. Authorities have begun discussion to extend AML/CFT measures to accountants, lawyers, real estate agents, auctions, the lottery and pawning industries. Gambling, casino's and internet casino's are illegal in China. China should impose specific and comprehensive AML/CFT requirements on dealers in precious metals and stones, lawyers, notaries, real estate agents and company service providers. Such measures should include supervision or monitoring to ensure compliance with applicable AML/CFT measures. (Accountants in China are not authorised to perform the types of financial activities that mandate their coverage under the FATF Recommendations.) China should also enhance the customer identification and record keeping requirements that currently apply to trust service providers.

35. China is primarily a cash-based economy. However, the authorities are implementing a legal framework and technical infrastructure to promote the development of modern and secure payment techniques.

## **5. Legal Persons and Arrangements & Non-Profit Organisations**

36. All legal persons are required to apply for registration. The registration criteria differ, depending upon the type of legal person making the application. However, none of these data, procedures and examination processes are directed towards determining beneficial ownership. The ultimate result is that the registry only contains information about legal ownership. Additionally, there is no requirement for legal persons to keep a record of beneficial ownership information. The investigatory powers available to the public security, prosecutorial and customs agencies to compel the disclosure of information are generally sound and widely used; however, these powers are only effective if there is beneficial information to be found. Consequently, the Chinese authorities should implement measures to ensure that adequate, accurate and current information concerning the beneficial ownership of legal persons is available to the authorities on a timely basis. Such measures should extend to bearer shares.

37. Chinese law allows the creation of domestic express trusts, but foreign trusts are not recognised. The concept of the trust is new in Chinese law and according to the authorities; very few such arrangements have been established. In practice, trusts are administered by trust investment corporations, which are subject to the AML provisions relating to systems and controls, customer identification and record-keeping. However, these quasi-banks are not obligated to establish the beneficial ownership of legal persons that are the beneficiaries of trusts. In addition, it remains legally possible for such trust arrangements to be established and administered outside the (AML/CFT)-regulated sector. In such cases there would be no basis on which the competent authorities would be able to access information on the beneficial ownership and control of the trust.

38. China has a very robust and deep reaching system for the oversight of NPOs. However, since the system was established before the creation of Special Recommendation VIII, it has developed to serve purposes other than preventing NPOs from being misused by terrorist financiers. China should, therefore, undertake periodic reviews of its NPO sector for the purpose of identifying NPOs which are at a possible risk of being misused by terrorist financiers, and develop an effective outreach program with a view to raising the sector's awareness of the risks of terrorist abuse and the available measures to protect against it.

## **6. National and International Co-Operation**

39. China has a robust framework for domestic co-operation, especially between the FIU and the MPS. Another highlight is the co-operation between MPS, PBC and regulatory agencies to address the issue of illegal money remitters. Nevertheless, operational co-operation between the law enforcement and prosecutorial authorities could be improved.

40. Overall, the Chinese mutual legal assistance regime presents a coherent and comprehensive picture. China provides mutual legal assistance (MLA) in AML/CFT investigations on the basis of bilateral treaties and international conventions that China is a party to, with the Ministry of Justice as the channel for request. In the absence of formal agreements, MLA is provided on the basis of sole reciprocity through the Ministry of Foreign Affairs (MFA). The principle of dual criminality is applied. This rule is however not a mandatory one, but provides an option for refusal. The conditions and formalities of the MLA treaties do not contain extraordinary burdening or delaying elements that may put obstacle to an efficient and expeditious execution of MLA. Nonetheless, it is uncertain if there is sufficient legal justification for executing equivalent value seizures and confiscations requests in China, as Chinese law does not specifically provide for such measures in the domestic context. Equally, the partial coverage of the terrorist financing offence in the Penal Code (sole collection of funds not criminalised) constitutes an impeding element when the dual criminality principle is applied in relation to a foreign MLA request.

41. Overall the extradition regime of China is solid and well organised. China has signed extradition treaties, based on the Extradition Law, but the relevant UN Conventions may also serve

as a further basis for providing extradition to other Convention parties. China can also consent to extradite on an ad hoc basis, subject to reciprocity. All extraditions are conditional to dual criminality, and to a minimum punishment of 6 month or one year imprisonment. Requests for extradition must be made to the MFA and are subjected to the scrutiny of the SPC. The ultimate decision on extradition rests with the State Council. China does not extradite its own nationals. Nonetheless, most treaties China has signed also state that when one of the countries refuses to extradite based on nationality, the requested country must submit the request to its competent authorities for public prosecution in line with the request of the requesting party.

42. Overall, in the context of other types of international co-operation, China conducts comprehensive co-operation with many countries in relation to law enforcement co-operation, intelligence exchange, assisted investigations, recovering illegally acquired property, arrest and seizure. China has entered into over 70 MOUs and co-operation agreements with more than 40 countries. China has exchanged police liaison officers with five countries; concluded treaties on criminal and judicial coordination with 26 countries; and concluded bilateral extradition treaties with 18 countries. Since 1998, the Chinese police have assisted foreign law enforcement agencies in investigating more than 20 clues regarding terrorist-related funds and provided help to foreign law enforcement agencies in carrying out relevant investigations and evidence collection in China. Another highlight which demonstrates the excellent law enforcement co-operation is the fact that the police authorities hold regular meetings with foreign law enforcement agencies. However, China's law enforcement authorities and financial supervisors cannot spontaneously offer assistance to their foreign counterparts. Also, the effectiveness of the FIU's ability to cooperate with its foreign counterparts is impeded by the relatively small number of MOUs that it has entered into, something which should be more actively pursued.

## **7. Resources and Statistics**

43. For the most part, the authorities seem to have sufficient resources and, in recent years, the Chinese authorities have operated extensive training programmes focused on AML/CFT issues. However, there is some concern that the number of FIU staff is inadequate given the large number of reports that it receives. Moreover, although there are about 35,000 police officers in the public security authorities available for investigation of money laundering and terrorism financing and other relevant tasks, and 200 police officers in the ECID/MPS, the AML Division of the ECID only includes 10 persons who are responsible for the investigation of money laundering and terrorist financing crimes. This number seems insufficient.

44. The Joint Ministerial Conference is mandated with reviewing the effectiveness of the AML regime on a regular basis. Overall, the Joint Ministerial Conference and other review mechanisms appear to be working effectively. Additionally, the Chinese authorities collect and maintain most of the statistics required by the FATF Recommendations.

## TABLES

Table 1: Ratings of Compliance with FATF Recommendations

Table 2: Recommended Action Plan to improve the AML/CFT system

Table 1. Ratings of Compliance with FATF Recommendations

The rating of compliance vis-à-vis the FATF Recommendations should be made according to the four levels of compliance mentioned in the 2004 Methodology [Compliant (C), Largely Compliant (LC), Partially Compliant (PC), Non-Compliant (NC)], or could, in exceptional cases, be marked as not applicable (na).

Forty Recommendations	Rating	Summary of factors underlying rating <sup>1</sup>
<b>Legal systems</b>		
1. ML offense	PC	<ul style="list-style-type: none"> <li>• The relevant offences, taken together or separately, do not fully cover the sole and knowing acquisition and use.</li> <li>• One designated category of predicate offence (“terrorism, including terrorist financing”) is not adequately covered because collection of terrorist funds is not criminalised.</li> <li>• Self-laundering is not criminalised, although no fundamental principle in Chinese law is prohibitive.</li> <li>• Article 191 PC is not effectively implemented, as witnessed by the low number of convictions for money laundering.</li> </ul>
2. ML offense–mental element and corporate liability	PC	<ul style="list-style-type: none"> <li>• No corporate criminal liability is provided for the offences covered by article 312 and 349 PC.</li> <li>• Article 191 PC is not effectively implemented, as witnessed by the low number of convictions for money laundering.</li> </ul>
3. Confiscation and provisional measures	LC	<ul style="list-style-type: none"> <li>• Equivalent value seizure and confiscation are not features of the seizure and confiscation regime.</li> <li>• Confiscation of proceeds, although mandatory, is not systematically pursued and imposed by the courts, indicating a lack of awareness and implementation that needs to be addressed.</li> </ul>
<b>Preventive measures</b>		
4. Secrecy laws consistent with the Recommendations	C	<ul style="list-style-type: none"> <li>• This Recommendation is fully observed.</li> </ul>
5. Customer due diligence	PC	<ul style="list-style-type: none"> <li>• No legal obligation to identify and verify the beneficial owner.</li> <li>• Only the banking sector (which includes foreign exchange and MVT services) is subject to specific requirements relating to the identification of legal persons (e.g. requirements to verify their legal status by obtaining proof of incorporation, names of directors, etcetera).</li> <li>• No specific and comprehensive legal requirement to conduct ongoing due diligence (e.g. financial institutions are not obligated to develop a risk profile of the customer or determine the source of his/her funds; no obligation in the insurance sector to monitor transactions or business relationships even in limited cases, or to keep documents, data or information collected under the CDD process up-to-date and relevant by undertaking reviews of existing records).</li> <li>• No enhanced due diligence requirements or guidelines for high risk</li> </ul>

<sup>1</sup> These factors are only required to be set out when the rating is less than Compliant.

		<p>categories of customers.</p> <ul style="list-style-type: none"> <li>• No requirement to consider filing an STR when CDD requirements cannot be complied with.</li> <li>• Concerns relating to the continuing acceptance of first generation ID cards which are prone to forgery and the duplication of numbers on about five million manually issued first generation ID cards.</li> <li>• There is no explicit obligation on financial institutions to determine whether the customer is acting on behalf of (i.e. representing) another person.</li> <li>• While the AML Law requires a threshold and rules for handling occasional transactions, such threshold itself has not been determined.</li> <li>• Effectiveness of implementation cannot be assessed due to the recent enactment of the law.</li> </ul>
6. Politically exposed persons	NC	<ul style="list-style-type: none"> <li>• No AML requirements in relation to foreign PEPs.</li> </ul>
7. Correspondent banking	PC	<ul style="list-style-type: none"> <li>• There is no requirement for banks to gather sufficient information about a respondent institution to understand fully the nature of the respondent's business and to determine from publicly available information the reputation of the institution and the adequacy and quality of supervision and controls, in particular with regard to AML/CFT.</li> <li>• It is no requirement to document the respective AML/CFT responsibilities within correspondent relationships.</li> </ul>
8. New technologies & non face-to-face business	LC	<ul style="list-style-type: none"> <li>• In the insurance sector, there are no requirements related to non-face-to-face business, even though some on-line insurance business does exist.</li> </ul>
9. Third parties and introducers	PC	<ul style="list-style-type: none"> <li>• No requirement to obtain core customer identification data from the third-party.</li> <li>• No requirement to ascertain the status of the third-party with respect to regulation and supervision for AML purposes.</li> <li>• No conditions introduced in relation to reliance on third-parties emanating from countries with inadequate AML regimes.</li> </ul>
10. Record keeping	LC	<ul style="list-style-type: none"> <li>• No requirement for institutions to retain business correspondence and similar documents.</li> </ul>
11. Unusual transactions	PC	<ul style="list-style-type: none"> <li>• There is no legal obligation for insurance companies and securities companies to pay special attention to all complex, unusual large transactions, or unusual patterns of transactions, that have no apparent or visible economic or lawful purpose except when the transactions are done in foreign currencies.</li> </ul>
12. DNFBP – R.5, 6, 8-11	NC	<ul style="list-style-type: none"> <li>• Only very limited customer identification and record keeping requirements apply to dealers in precious metals and stones, lawyers, notaries, real estate agents and company service providers. However, none of these substantially meet Recommendations 5 and 10.</li> <li>• The customer identification and record keeping obligations that apply to trust service providers (i.e. trust investment companies) are deficient in the same ways as listed in section 3.2 and 3.5 of this report.</li> <li>• None of the DNFBP sectors legally authorised to operate in China are subject to obligations that relate to Recommendations 6, 8, 9 and 11.</li> </ul>

13. Suspicious transaction reporting	PC	<ul style="list-style-type: none"> <li>• No RMB reporting obligation for the securities and insurance sectors.</li> <li>• No explicit obligation to report suspicions of terrorist financing.</li> <li>• No obligation to report attempted transactions.</li> <li>• The rules do not define the basis upon which suspicion should be founded (i.e. to include, at least, the required list of predicate offences).</li> <li>• Significant concerns about the overall effectiveness of the system, and the lack of subjective assessment by reporting institutions.</li> </ul>
14. Protection & no tipping-off	C	<ul style="list-style-type: none"> <li>• This Recommendation is fully observed.</li> </ul>
15. Internal controls, compliance & audit	PC	<ul style="list-style-type: none"> <li>• The internal control environment is not set up to address terrorist financing risk.</li> <li>• There is no explicit requirement to communicate such policies and procedures to the employees of the financial institution.</li> <li>• There are no screening provisions in place to ensure high standards when hiring employees (with the exception of those that relate to senior management).</li> <li>• There is no explicit requirement in the AML Law or the related rules for financial institutions to maintain an adequately resourced and independent audit function to test compliance with internal AML/CFT controls.</li> <li>• There are no specific legal provisions that require financial institutions to ensure that compliance officers and other appropriate staff have timely access to relevant information</li> <li>• There is no requirement to provide relevant employees with CFT training.</li> <li>• There is no explicit requirement to designate an AML/CFT officer at the management level (although in all of the financial institutions the assessors spoke with during the on-site visit had their compliance officer at senior management level).</li> </ul>
16. DNFBP – R.13-15 & 21	NC	<ul style="list-style-type: none"> <li>• Reporting obligations have not been extended to any of the DNFBP sectors.</li> <li>• None of the DNFBP sectors is required to pay special attention to business relationships and transactions involving persons from or in countries that do not (or insufficiently) apply the FATF Recommendations.</li> <li>• Dealers in precious metals and stones, lawyers, notaries, real estate agents and company service providers are not required to establish internal AML/CFT control programs.</li> <li>• The obligations for trust investment companies to establish internal control programs are deficient in the same respects as described in section 3.8 of this report.</li> </ul>
17. Sanctions	PC	<ul style="list-style-type: none"> <li>• The level of the sanctions provided in the AML Law appears relatively low for major deficiencies.</li> <li>• The sanctions regime focuses excessively on minor deficiencies and does not appear effectively to target structural weaknesses.</li> </ul>
18. Shell banks	PC	<ul style="list-style-type: none"> <li>• There are no specific legal requirements that prohibit the establishment of connections with a foreign shell bank.</li> <li>• There are no legal provisions that require financial institutions to satisfy themselves that respondent financial institutions in a foreign country do not</li> </ul>

		permit their accounts to be used by shell banks.
19. Other forms of reporting	C	<ul style="list-style-type: none"> <li>This Recommendation is fully observed.</li> </ul>
20. Other NFBP & secure transaction techniques	C	<ul style="list-style-type: none"> <li>This Recommendation is fully observed.</li> </ul>
21. Special attention for higher risk countries	NC	<ul style="list-style-type: none"> <li>There is no requirement to give special attention to business relationships and transactions with persons (natural or legal) from or in countries that do not, or insufficiently, apply the FATF Recommendations.</li> <li>China does not have a mechanism to implement countermeasures against countries that do not sufficiently apply the FATF standards.</li> </ul>
22. Foreign branches & subsidiaries	NC	<ul style="list-style-type: none"> <li>There is no requirement for foreign branches and subsidiaries of Chinese-funded financial institutions to apply the higher standard where the AML/CFT requirements of China and the host country differ.</li> <li>There is no explicit requirement to inform the home country supervisor when a foreign branch or subsidiary is unable to observe appropriate AML/CFT measures.</li> </ul>
23. Regulation, supervision and monitoring	PC	<ul style="list-style-type: none"> <li>No supervisory programme yet implemented for the securities and insurance sectors following extension of law to these sectors.</li> </ul>
24. DNFBP - regulation, supervision and monitoring	NC	<ul style="list-style-type: none"> <li>Dealers in precious metals and stones, lawyers, notaries, real estate agents and company service providers are not monitored or supervised for compliance with AML/CFT requirements, since no such requirements yet apply to them.</li> <li>The sanctions regime that is applicable to trust service providers (i.e. trust investment companies) is deficient in the same ways as listed in section 3.10 of this report.</li> </ul>
25. Guidelines & Feedback	LC	<ul style="list-style-type: none"> <li>No guidance has been issued in relation to the new obligations under the recently-enacted 2006 AML Law and connected regulations.</li> </ul>
<b>Institutional and other measures</b>		
26. The FIU	LC	<ul style="list-style-type: none"> <li>Effectiveness: The CAMLMAC/AMLB does not have sufficient staff to effectively manage the very high volume of STRs and other reports that it receives.</li> <li>The CAMLMAC/AMLB does not have (timely) access to other bodies' information.</li> </ul>
27. Law enforcement authorities	LC	<ul style="list-style-type: none"> <li>There is no emphasis placed on pursuing ML/FT investigations. Investigators are not focused on attacking the money aspect of criminal offences.</li> <li>Investigators do not seem to be fully aware of the legal elements of ML that they need to prove.</li> </ul>
28. Powers of competent authorities	C	<ul style="list-style-type: none"> <li>This Recommendation is fully observed.</li> </ul>
29. Supervisors	LC	<ul style="list-style-type: none"> <li>As for R17, with respect to the effectiveness of sanctions.</li> <li>Effectiveness of the new role of the CBRC, CSRC and CIRC still to be tested.</li> </ul>
30. Resources, integrity and	LC	<ul style="list-style-type: none"> <li>The number of FIU staff is inadequate given the large number of reports</li> </ul>

training		<p>that it receives.</p> <ul style="list-style-type: none"> <li>The number of law enforcement staff that are specifically focused on AML/CFT is insufficient.</li> </ul>
31. National co-operation	LC	<ul style="list-style-type: none"> <li>Operational co-operation between the law enforcement and prosecutorial authorities could be improved.</li> </ul>
32. Statistics	LC	<ul style="list-style-type: none"> <li>No statistics are kept concerning: <ul style="list-style-type: none"> <li>the number of cross-border transportations of currency and bearer negotiable instruments;</li> <li>the time taken to respond to extradition requests; and</li> <li>the number of freezing, seizing or confiscation actions, or the amount of assets involved, including a breakdown of the number of cases and amounts confiscated pursuant to administrative or criminal procedures, and a differentiation between the criminal sources of the assets frozen, seized or confiscated.</li> </ul> </li> </ul>
33. Legal persons – beneficial owners	NC	<ul style="list-style-type: none"> <li>There are no measures in place to ensure that there is adequate, accurate and timely information on the beneficial ownership and control of legal persons that can be obtained or accessed in a timely fashion by the competent authorities.</li> <li>There are no measures to ensure that unregistered stocks (bearer shares) cannot be misused for money laundering.</li> </ul>
34. Legal arrangements – beneficial owners	PC	<ul style="list-style-type: none"> <li>No requirement to for trust investment companies to establish beneficial ownership of legal persons that are beneficiaries of trusts.</li> <li>No means of obtaining timely information on beneficial ownership of trusts that may be administered by private individuals under the Trust law.</li> </ul>
<b>International Co-operation</b>		
35. Conventions	PC	<ul style="list-style-type: none"> <li>Criminalisation of ML, the seizure/confiscation regime and preventative measures are not fully in line with the Vienna, Palermo and TF Conventions.</li> <li>Criminalisation of FT and ability to provide mutual legal assistance not fully in line with the TF Convention.</li> </ul>
36. Mutual legal assistance (MLA)	C	<ul style="list-style-type: none"> <li>This Recommendation is fully observed.</li> </ul>
37. Dual criminality	C	<ul style="list-style-type: none"> <li>This Recommendation is fully observed.</li> </ul>
38. MLA on confiscation and freezing	LC	<ul style="list-style-type: none"> <li>The absence of a formal legal basis for equivalent value confiscation presents an obstacle to the execution of foreign MLA requests based on such orders.</li> </ul>
39. Extradition	C	<ul style="list-style-type: none"> <li>This Recommendation is fully observed.</li> </ul>
40. Other forms of co-operation	LC	<ul style="list-style-type: none"> <li>China's law enforcement authorities and financial supervisors cannot spontaneously offer assistance to their foreign counterparts.</li> <li>The effectiveness of the FIU's ability to cooperate with its foreign counterparts is somewhat impeded by the relatively small number of MOU's that it has entered into.</li> </ul>
<b>Nine Special Recommendations</b>	<b>Rating</b>	<b>Summary of factors underlying rating</b>



SR.I Implement UN instruments	PC	<ul style="list-style-type: none"> <li>• Criminalisation of TF, preventative measures and ability to provide mutual legal assistance not fully in line with the TF Convention.</li> <li>• Implementation of UNSCR 1267 and 1373 is inadequate.</li> </ul>
SR.II Criminalize terrorist financing	PC	<ul style="list-style-type: none"> <li>• The sole collection of funds in a terrorist financing context is not criminalised (i.e. where the funds have not been handed over to the terrorist or terrorist organisation), also affecting the utility of article 120bis PC as a predicate offence.</li> <li>• There is no definition or list of what should be considered to be “terrorist activities”.</li> <li>• The assessment team is not satisfied that the terrorist financing offence also applies to instances where the beneficiaries have not yet committed or are not actually committing terrorist acts.</li> <li>• The assessment team is not satisfied that terrorist financing offence extends to a sufficiently broad and clear definition of “funds” as that term is defined in the TF Convention.</li> <li>• The penalties for terrorist financing are not sufficiently dissuasive and proportionate to the threat to society.</li> </ul>
SR.III Freeze and confiscate terrorist assets	NC	<ul style="list-style-type: none"> <li>• The direct criminal procedure (seizure) approach is insufficient to adequately and effectively respond to the freezing designations in the context of the relevant UN resolutions.</li> <li>• The present regime does not address the non-regulated sector in a meaningful way.</li> <li>• No procedure is in place to ensure an adequate and qualitative screening of foreign freezing requests.</li> <li>• Guidance for and monitoring of all implicated sectors is not effectively organised.</li> <li>• There is no clear determination of the scope of the freezing obligations in respect of what assets need to be targeted and their link with the terrorist individuals and entities.</li> <li>• No de-listing or (partial) unfreezing procedure is provided.</li> <li>• No adequate regulation on bona fide third party protection is provided.</li> </ul>
SR.IV Suspicious transaction reporting	NC	<ul style="list-style-type: none"> <li>• No explicit obligation to report suspicions of terrorist financing.</li> <li>• Concerns raised in relation to Recommendation 13 apply equally to SR IV.</li> </ul>
SR.V International co-operation	LC	<ul style="list-style-type: none"> <li>• The partial coverage of the TF offence in article 120bis PC (sole collection of funds not criminalised) constitutes an impeding element when the dual criminality principle is applied in relation to a foreign MLA request.</li> <li>• As a result of the dual criminality principle, the incomplete coverage of the TF offence in respect of the sole collection of funds may affect the legal capacity for China to comply with an extradition request based on such activity.</li> </ul>
SR.VI AML requirements for money/value transfer services	LC	<ul style="list-style-type: none"> <li>• Implementation of Recommendations 5, 6, 7, 9, 10, 13, 15, and 22 in the MVT sector suffers from the same deficiencies as those that apply to banks and which are described earlier in section 3 of this report.</li> <li>• R.17: The level of the sanctions provided in the AML Law appear relatively low for major deficiencies, and the sanctions regime focuses excessively on minor deficiencies and does not appear effectively to target structural</li> </ul>

		weaknesses.
SR.VII Wire transfer rules	LC	<ul style="list-style-type: none"> <li>• Verification of customer identification only required for payments in excess of RMB 50,000 (US\$6,300).</li> </ul>
SR.VIII Non-profit organizations	LC	<ul style="list-style-type: none"> <li>• No outreach to the NPO sector with a view to protecting the sector specifically from TF abuse.</li> <li>• Supervision and oversight of the NPO sector is not expressly focused on reviewing the sector's potential vulnerabilities to terrorist activities, or on discovering and preventing possible threats of misuse of the sector by terrorist financiers.</li> </ul>
SR.IX Cross Border Declaration & Disclosure	PC	<ul style="list-style-type: none"> <li>• System focuses exclusively on cash. Bearer negotiable instruments are not included.</li> <li>• Reports on cash declarations/seizures are not being provided to the FIU and are not being used to identify and target money launderers and terrorist financiers.</li> </ul>

Table 2: Recommended Action Plan to Improve the AML/CFT System

<i>AML/CFT System</i>	<i>Recommended Action (listed in order of priority)</i>
<b>1. General</b>	
<b>2. Legal System and Related Institutional Measures</b>	
<b>2.1 Criminalization of Money Laundering (R.1 &amp; 2)</b>	<ul style="list-style-type: none"> <li>• <i>Legislation should be amended to ensure that the sole and knowing acquisition and use are covered. It is preferable and recommended to revise the three relevant provisions to create one transparent and well-defined money laundering offence.</i></li> <li>• <i>The collection of terrorist funds should be criminalised so as to ensure that the "terrorism, including terrorist financing" designated category of predicate offence is fully covered.</i></li> <li>• <i>As no fundamental principle in the Chinese legal tradition opposes the criminalisation of self-laundering, it should be expressly provided that money laundering activity (beyond acquisition and possession) by the predicate offender is also an offence.</i></li> <li>• <i>Corporate criminal liability should extend to all money laundering activity, including the activity covered by the article 312 and 349 PC offences.</i></li> <li>• <i>The effectiveness of the criminal AML effort should be enhanced by raising awareness with the judicial authorities of the importance to recover the criminal proceeds and the opportunities that a sharper focus on money laundering creates in this respect. Jurisprudence on the proof of the predicate offence should be created by bringing more stand-alone money laundering cases before the court.</i></li> </ul>
<b>2.2 Criminalization of Terrorist Financing (SR.I)</b>	<ul style="list-style-type: none"> <li>• <i>Art. 120bis PC should be amended to ensure that the sole collection of funds for terrorist purposes is covered. In doing so, it should be irrelevant if the funds have been handed over to the terrorist (organisation) or not, as long as the intention to do so exists.</i></li> <li>• <i>The term "terrorist activities" should be specifically and unequivocally defined to be consistent with the TF Convention and Special Recommendation II.</i></li> <li>• <i>The Penal Code should specify what is to be understood as "funds" for the purpose of article 120bis.</i></li> <li>• <i>The penalties for committing a terrorist financing offence should be increased, to</i></li> </ul>

	<i>ensure that they are sufficiently dissuasive.</i>
<b>2.3 Confiscation, freezing and seizing of proceeds of crime (R.3)</b>	<ul style="list-style-type: none"> <li>• <i>The legislation should be amended to provide for equivalent value confiscation, and the related freezing or seizure of assets that may become subject to such confiscation.</i></li> <li>• <i>In the absence of established jurisprudence or authoritative interpretation on the legal basis for confiscation of “clean” terrorist financing means, it is advisable to expressly provide that such assets are subject to forfeiture as objects of the article 120bis offence.</i></li> <li>• <i>In terms of efficiency the judicial authorities should give more attention to a systematic application of the confiscation provisions, which is a mandatory measure anyway under Chinese law.</i></li> <li>• <i>Also the confiscation regime should include clear provisions and procedures on how to deal with the assets in case the proceedings come to a halt before a conviction was pronounced.</i></li> </ul>
<b>2.4 Freezing of funds used for terrorist financing (SR.III)</b>	<ul style="list-style-type: none"> <li>• <i>China should revise its implementation of Special Recommendation III, giving special attention to:</i> <ul style="list-style-type: none"> <li>– <i>giving clear instructions and guidance to all relevant sectors, including the non-regulated, on their obligations in this respect, defining in particular what assets the freezing orders target and their relation to the individuals and entities involved;</i></li> <li>– <i>ensuring that there are efficient communication lines between the law enforcement authorities, the supervisory bodies, the financial institutions and other affected sectors;</i></li> <li>– <i>implementing a screening procedure and authority responsible for evaluating the foreign list based requests;</i></li> <li>– <i>implementing effective compliance monitoring by supervisory bodies within an adequate sanctioning framework;</i></li> <li>– <i>establishing appropriate and publicly known procedures for de-listing, unfreezing or in any other way challenging the listing and freezing measure before a court or other designated authority; and</i></li> <li>– <i>enacting regulations on (restricted) access to the frozen assets and protecting the rights of bona fide third parties.</i></li> </ul> </li> </ul>
<b>2.5 The Financial Intelligence Unit and its functions (R.26)</b>	<ul style="list-style-type: none"> <li>• <i>After streamlining the STR reporting process so that STRs flow directly from the headquarters of financial institutions to CAMLMAC, consideration should be given to the problem of how to deal effectively with such a large volume of STRs coming directly to CAMLMAC (60 staff strong).</i></li> <li>• <i>The access of CAMLMAC/AMLB to information held by other bodies could be improved or streamlined.</i></li> </ul>
<b>2.6 Law enforcement, prosecution and other competent authorities (R.27 &amp; 28)</b>	<ul style="list-style-type: none"> <li>• <i>Law enforcement and prosecutorial authorities currently focus on pursuing predicate offences, to the exclusion of ML/FT. Overall, China should take measures to improve the effectiveness of its AML/CFT regime by ensuring that law enforcement and prosecutorial authorities also focus on money laundering and terrorist financing cases. In this regard, China should consider creating multi-agency, multi-disciplinary task forces which combine the skills and expertise of a number of different agencies, and are focused on money laundering and terrorist financing investigations, as opposed to investigating particular predicate offences. This may also help to address some of the overlap that currently exists between the MPS and MSS. The Joint-Ministerial Conference Mechanism on AML should also be utilised to achieve these goals.</i></li> <li>• <i>Communication between the law enforcement and prosecutorial authorities</i></li> </ul>

	<p><i>should be improved, with a view to enhancing the understanding of investigators concerning the legal elements needed to successfully prosecute a money laundering case. For example, investigators from the MPS should work more closely with the SPP in determining which criminal charges will be pursued during an investigation and how best to make use of limited resources. Investigators also need to enhance their understanding of how to pursue money laundering cases where the predicate offence has been committed overseas, but the funds are laundered in China.</i></p> <ul style="list-style-type: none"> <li>• <i>All agencies should continue to train their investigators on conducting financial investigations including "follow the money" techniques and forensic accounting skills. Investigators should also increase their understanding of financial records and corporate documents.</i></li> </ul>
<p><b>2.7 Cross Border Declaration &amp; Disclosure</b></p>	<ul style="list-style-type: none"> <li>• <i>Article 18 of the Regulation on the Administrative of Carrying of Foreign Currency for Persons Entering or Exiting the Territory should be amended to stipulate the reporting of bearer negotiable instruments. In addition, the authorities will have to implement a system where all cash declarations are automatically provided to CAMLMAC, not only those which relate to false disclosures.</i></li> <li>• <i>It is highly recommended that the threshold for reporting cash declarations to the FIU (article 12 AML Law) be consistent with the current thresholds for declaring currency.</i></li> </ul>
<p><b>3. Preventive Measures – Financial Institutions</b></p>	
<p><b>3.1 Risk of money laundering or terrorist financing</b></p>	<ul style="list-style-type: none"> <li>• <i>There are no recommendations for this section.</i></li> </ul>
<p><b>3.2 Customer due diligence, including enhanced or reduced measures (R.5 to 8)</b></p>	<ul style="list-style-type: none"> <li>• <i>The assessors were told by the PBC that it intends to enact specific CDD-Rules by the end of July 2007. In this context the assessors recommend that such Rules should cover, at a minimum, the following subjects:</i> <ul style="list-style-type: none"> <li>– <i>Financial institutions should be explicitly required to identify and verify the identity of the beneficial owner of a customer before opening an account, establishing a business relationship, or performing transactions, and to register this identity information.</i></li> <li>– <i>Specific requirements relating to the identification of legal persons (e.g. requirements to verify their legal status by obtaining proof of incorporation, names of directors, etcetera) should be extended to the securities and insurance sectors.</i></li> <li>– <i>There should be an explicit requirement to undertake comprehensive ongoing due diligence which includes the requirement to create risk profiles and determine the source of funds of all customers (both natural and legal persons). In this context, Chinese authorities should consider consolidating the various existing elements of ongoing CDD.</i></li> <li>– <i>Financial institutions should be required to conduct enhanced due diligence in relation to high risk categories of customers (such as PEPs), business relationships and transactions.</i></li> <li>– <i>Financial institutions should be required to consider filing an STR when CDD requirements cannot be complied with.</i></li> <li>– <i>Financial institutions should be explicitly required to determine whether the customer is acting on behalf of another person.</i></li> <li>– <i>An explicit threshold for all transactions that does not exceed EUR/USD 15,000 and which triggers the obligation to identify occasional or one-time customers should be set out.</i></li> </ul> </li> <li>• <i>The new CDD rules should be issued and effectively implemented as soon as possible. Additionally, the Chinese authorities should ensure that financial</i></li> </ul>

	<p><i>institutions cannot rely on first generation ID cards to identify persons.</i></p> <ul style="list-style-type: none"> <li>• <i>The Chinese authorities should introduce requirements that address the specific risks associated with foreign PEPs, in accordance with Recommendation 6.</i></li> <li>• <i>With regard to correspondent banking relationship the Chinese authorities should require banks to gather sufficient information about the respondent's business, its reputation and the adequacy and quality of supervision and controls, and its AML/CFT controls. In this context the authorities should also establish a clear requirement for banks to document the respective AML/CFT responsibilities within correspondent banking relationships.</i></li> <li>• <i>The Chinese authorities should require insurance companies to have policies and procedures in place to address the specific risks associated with non-face-to-face business.</i></li> </ul>
<b>3.3 Third parties and introduced business (R.9)</b>	<ul style="list-style-type: none"> <li>• <i>The authorities intend moving from a regime where covered financial institutions were required themselves to undertake CDD on all their customers, to one where reliance on third-party introductions may be permitted. However, the current legal framework for this transition is incomplete for compliance with the principles of Recommendation 9. Therefore, it is recommended that the introduction of this provision be suspended until the opportunity has been taken (with the intended promulgation of additional CDD rules) to supplement the existing provisions with the following requirements that the institution relying on the third-party should:</i> <ul style="list-style-type: none"> <li>– <i>obtain immediately from the introducer the core information relating to the customer's identity and the purpose of the account; and</i></li> <li>– <i>satisfy itself that the third-party is regulated and supervised for AML compliance, and complies with the FATF standards on CDD and record-keeping;</i></li> </ul> </li> <li>• <i>The authorities should also clearly identify the circumstances in which a reliance on foreign third-party introductions should not be permitted, in particular where the introducer is resident in a country that does not adequately apply the FATF Recommendations.</i></li> </ul>
<b>3.4 Financial institution secrecy or confidentiality (R.4)</b>	<ul style="list-style-type: none"> <li>• <i>There are no recommendations for this section.</i></li> </ul>
<b>3.5 Record keeping and wire transfer rules (R.10 &amp; SR.VII)</b>	<ul style="list-style-type: none"> <li>• <i>Financial institutions should be specifically required to retain business correspondence and other related documents.</i></li> <li>• <i>The threshold for the verification of customer identity for wire transfers should be implemented in line with the FATF requirement of no more than USD 1000.</i></li> </ul>
<b>3.6 Monitoring of transactions and relationships (R.11 &amp; 21)</b>	<ul style="list-style-type: none"> <li>• <i>The obligation to pay special attention to all complex, unusual large transactions, or unusual patterns of transactions should be extended to all financial sectors. This will be achieved by implementation of the new LVT/STR Rules. It is also noted that, in the new LVT/STR Rules, there is reference to a requirement for the securities and insurance sectors to take special note of business relationships with high risk money laundering countries or regions. This obligation should be extended to all financial institutions.</i></li> <li>• <i>Measures should be implemented which require financial institutions to pay special attention to business relationships and transactions with persons (natural and legal) and financial institutions from jurisdictions that have not sufficiently implemented the FATF standards. Such a requirement should be supported by sufficient information or guidelines provided by the authorities, and by a mechanism that allows the authorities to implement countermeasures against countries that do not sufficiently apply the FATF Recommendations.</i></li> </ul>
<b>3.7 Suspicious transaction reports and other reporting (R.13-14, 19, 25 &amp; SR.IV)</b>	<ul style="list-style-type: none"> <li>• <i>Two amendments to the new LVT/STR Rules should be made at the earliest opportunity. First, reporting should be extended to attempted transactions; and,</i></li> </ul>

	<p><i>second, the relevance of the reporting obligation to suspicions of terrorist financing should be made explicit, so that institutions are left in no doubt about the obligation to report all such suspicions, whether or not related to the defined transactions.</i></p> <ul style="list-style-type: none"> <li>• <i>The new LVT/STR Rules have prescribed suspicious criteria according to financial sector. However, in this regard, there are some generic criteria that should apply to all financial sectors, but where the new regulations appear to limit these to specific sectors (e.g. the requirement to monitor business relationships with high risk money laundering countries and regions, which appears only with respect to the securities and insurance sectors). It is recommended that the rules are reviewed to ensure that such general provisions are clearly stated to apply to all financial institutions.</i></li> <li>• <i>It is recommended that a greater move towards a more subjective STR regime be implemented once the new sectors brought into the system in March have become familiar with the overall concepts of suspicious transaction reporting.</i></li> </ul>
<p><b>3.8 Internal controls, compliance, audit and foreign branches (R.15 &amp; 22)</b></p>	<ul style="list-style-type: none"> <li>• <i>The Chinese authorities should explicitly require financial institutions to establish and maintain internal procedures, policies and controls to manage both AML as well as CFT risks and to communicate such policies and procedures to their employees.</i></li> <li>• <i>Financial institutions should also be required to designate a compliance officer at the senior management level and provide him/her with the necessary management and technical personnel.</i></li> <li>• <i>The relevant laws or regulations should clarify that all branches and subsidiaries of financial institutions, including branches and subsidiaries abroad, should establish internal AML control programs, establish or designate an internal department to ensure compliance with AML measures, and provide AML/CFT training to their relevant staff.</i></li> <li>• <i>Specific requirements should be implemented with respect to foreign branches and subsidiaries of Chinese financial institutions that operate in countries which do not (or insufficiently) apply the FATF Recommendations.</i></li> <li>• <i>Financial institutions should be required to inform the home country supervisor when a foreign branch or subsidiary is unable to observe appropriate AML/CFT measures. The Chinese authorities indicate that they have already noted this problem and relevant regulations are being formulated to address it.</i></li> <li>• <i>Where the AML requirements of China and the host country differ, foreign branches and subsidiaries of Chinese financial institutions should be specifically required to follow the higher standard, to the extent permitted by the laws and regulations of the host country. If they are unable to do so, they should be specifically required to inform the Chinese supervisory authorities.</i></li> <li>• <i>Regulators should ensure that violations of these requirements are not structural (as opposed to being merely technical in nature).</i></li> </ul>
<p><b>3.9 Shell banks (R.18)</b></p>	<ul style="list-style-type: none"> <li>• <i>Chinese authorities should prohibit financial institutions from establishing connections with a foreign shell bank. Additionally, financial institutions should be required to satisfy themselves that respondent financial institutions in a foreign country do not permit their accounts to be used by shell banks.</i></li> </ul>
<p><b>3.10 The supervisory and oversight system - competent authorities and SROs. Role, functions, duties and powers (including sanctions) (R.23, 29, 17 &amp; 25)</b></p>	<ul style="list-style-type: none"> <li>• <i>The new AML Law envisages that there will be close co-operation between the PBC and the regulatory authorities over the implementation of respective responsibilities. It is vital that this cooperation takes place in practice, and it is recommended that particular attention be applied to the following:</i> <ul style="list-style-type: none"> <li>– <i>To clarify the intention of article 11 of the AML Law to ensure that there is an expectation that routine exchanges of information on their respective AML compliance responsibilities take place in both directions between the PBC</i></li> </ul> </li> </ul>

	<p><i>and the financial sector regulators;</i></p> <ul style="list-style-type: none"> <li>- <i>To develop compatible procedures for compliance monitoring, so that the scope of the inspection procedure is broadly consistent, and institutions nationally have a clear understanding of what is expected by the various regulators;</i></li> <li>- <i>To give careful consideration to the objectives of the sanctioning regime, to ensure that the system focuses on bringing about structural change in those institutions that have major deficiencies. and</i></li> <li>- <i>Generally to review the level and application of sanctions to ensure that they provide a genuinely dissuasive effect for institutions that persist in having significant weaknesses in their systems and controls.</i></li> </ul> <ul style="list-style-type: none"> <li>• <i>Further guidance should be issued to the financial sector to assist it in the implementation of the new requirements contained in the 2006 AML Law and its associated regulations. This guidance should also be focused on ensuring that financial institutions fully understand the regulatory approach that will be taken (i.e. an approach that is focusing on bringing about structural change in those institutions that have major deficiencies).</i></li> </ul>
<p><b>3.11 Money value transfer services (SR.VI)</b></p>	<ul style="list-style-type: none"> <li>• <i>China should implement requirements in relation to Recommendations 6 (PEPs) and 22 (foreign branches and subsidiaries). It should also improve its implementation of There has only been partial implementation of Recommendations 5 (CDD), 7 (correspondent banking), 9 (third party introducers), 13 (suspicious transaction reporting), Recommendation 10 (record keeping) and 15 (internal controls), as discussed earlier in section 3 of this report.</i></li> <li>• <i>China should raise the level of the sanctions provided in the AML Law in relation to major deficiencies, and should ensure that major structural weaknesses are the target of the sanctions regime (i.e. rather than focusing excessively on minor deficiencies).</i></li> </ul>
<p><b>4. Preventive Measures – Non-Financial Businesses and Professions</b></p>	
<p><b>4.1 Customer due diligence and record-keeping (R.12)</b></p>	<ul style="list-style-type: none"> <li>• <i>China should impose specific customer identification and record keeping requirements, consistent with Recommendations 5 and 10, to dealers in precious metals and stones, lawyers, notaries, real estate agents and company service providers.</i></li> <li>• <i>China should enhance the customer identification and record keeping requirements that apply to trust service providers (i.e. trust investment companies), as described in section 3 of this report.</i></li> <li>• <i>Specific AML/CFT requirements relating to Recommendations 6, 8, 9 and 11 should be extended to all DNFBP sectors, including trust investment companies.</i></li> </ul>
<p><b>4.2 Suspicious transaction reporting (R.16)</b></p>	<ul style="list-style-type: none"> <li>• <i>Reporting obligations should be extended to all categories of DNFBP. It should be noted that trust investment companies are subject to the new STR/LVT rules with effect from 1 March 2007.</i></li> <li>• <i>DNFBPs should be required to give special attention to business relationships or transactions with persons from countries that insufficiently apply the FATF Recommendations.</i></li> <li>• <i>The obligation to establish internal AML/CFT control programs should be extended to dealers in precious metals and stones, lawyers, notaries, real estate agents and company service providers.</i></li> <li>• <i>The PBC has indicated that it will seek to extend AML/CFT coverage to certain DNFBPs in the first half of 2007. This process should be completed as soon as possible.</i></li> </ul>

<p><b>4.3 Regulation, supervision and monitoring (R.24-25)</b></p>	<ul style="list-style-type: none"> <li>• China should ensure that dealers in precious metals and stones, lawyers, notaries, real estate agents and company service providers are monitored or supervised for compliance with AML/CFT requirements, once such obligations have been imposed on them.</li> <li>• China should ensure that, once the AML/CFT requirements are in place, appropriate guidance is issued to these sectors.</li> <li>• China should issue appropriate AML/CFT guidance to trust investment companies (the only DNFBP sector that is currently subject to AML/CFT requirements).</li> </ul>
<p><b>4.4 Other non-financial businesses and professions (R.20)</b></p>	<ul style="list-style-type: none"> <li>• There are no recommendations for this section.</li> </ul>
<p><b>5. Legal Persons and Arrangements &amp; Non-Profit Organizations</b></p>	
<p><b>5.1 Legal Persons – Access to beneficial ownership and control information (R.33)</b></p>	<ul style="list-style-type: none"> <li>• Although the investigatory powers available to the public security, prosecutorial and customs agencies to compel the disclosure of information are generally sound and widely used, this system is only as good as the information that is available to be acquired. China should implement measures to ensure that information on beneficial ownership can be available to the law enforcement authorities.</li> <li>• The Chinese authorities should implement measures to ensure that adequate, accurate and current information concerning the beneficial ownership of legal persons is available to the authorities on a timely basis. Such measures should extend to unregistered stocks. Therefore, the Chinese authorities should consider revising the existing regulations with regard to the registry and approval process of LPABs to include not only information on the shareholders names, but also on the beneficial owner of the LPAB. In addition, such a revision should be supported by specific measures to facilitate access by financial institutions to beneficial ownership and control information of LPABs.</li> </ul>
<p><b>5.2 Legal Arrangements – Access to beneficial ownership and control information (R.34)</b></p>	<ul style="list-style-type: none"> <li>• While it may be the case that very few trusts (other than unit trusts, mutual funds and similar investments) have yet been established, and most, if not all, that exist may be administered by trust investment corporations, it remains legally possible for such arrangements to be established and administered outside the regulated sector. In such cases there would be no basis on which the competent authorities would be able to access information on the beneficial ownership and control of the trust. From the structure of the Regulations on Trust Investment Corporations it appears that the authorities may well have intended that trust administration should be the sole preserve of these corporations. If this is the case, they may wish to review whether the current framework should be amended to achieve that result. Future amendments should ensure that adequate, accurate and current information concerning the beneficial ownership of legal persons is available to the authorities on a timely basis in relation to all trusts (including those that may be established and administered outside of the sector that is currently regulated).</li> </ul>
<p><b>5.3 Non-profit organizations (SR.VIII)</b></p>	<ul style="list-style-type: none"> <li>• China should include specific measures against terrorist financing misuse in its system. In particular, China should undertake periodic reviews of the NPO sector for the purpose of identifying NPOs which are at a possible risk of being misused for TF by virtue of their activities and characteristics. Moreover, an effective outreach program should be developed, with a view to raising the sector's awareness of the risks of terrorist abuse and the available measures to protect against it. In that regard, China should consider issuing advisory papers, developing best practices or conducting regular outreach events with the NPO sector.</li> </ul>



<b>6. National and International Co-operation</b>	
<b>6.1 National co-operation and coordination (R.31)</b>	<ul style="list-style-type: none"> <li>It is of considerable practical importance to effectively incorporate new possibilities for enhancing cooperation and coordination contained in the provisions of the new AML Law into the framework of joint AML/CFT efforts at both policy and operational level. As has been pointed out in other parts of this report, the operational cooperation between the investigators (MPS) and the prosecutors (SPP) could be improved.</li> </ul>
<b>6.2 The Conventions and UN Special Resolutions (R.35 &amp; SR.I)</b>	<ul style="list-style-type: none"> <li>China should enhance its implementation of the relevant UN Conventions by criminalising the knowing acquisition and use of proceeds of crime, as required by the Vienna and Palermo Conventions.</li> <li>Legislation should be amended to provide for the seizure and confiscation of assets of equivalent value.</li> <li>The preventative measures (CDD and STR requirements) should be enhanced, consistent with article 7 of the Palermo Convention, particularly in relation to beneficial ownership.</li> <li>Terrorist financing should be fully criminalised, as required by the TF Convention, and the STR reporting regime enhanced accordingly.</li> <li>Implementation of the relevant UNSCRs should be enhanced as discussed in detail in section 2.4 of this report.</li> </ul>
<b>6.3 Mutual Legal Assistance (R.36-38 &amp; SR.V)</b>	<ul style="list-style-type: none"> <li>The legal uncertainty surrounding the equivalent value confiscation is also an issue in the international context. In the absence of precedents or specific jurisprudence, the alleged legal basis seems deficient, or at the very least open to challenge. A specific clause allowing for such confiscation in the relevant provisions will provide for the appropriate legal remedy, both in the domestic and the international context.</li> </ul>
<b>6.4 Extradition (R.39, 37 &amp; SR.V)</b>	<ul style="list-style-type: none"> <li>The extradition regime of China is solid and well organised. To make the legal framework more comprehensive it would benefit from the introduction of the possibility of simplified procedures in line with the current international practices in this domain.</li> </ul>
<b>6.5 Other Forms of Co-operation (R.40 &amp; SR.V)</b>	<ul style="list-style-type: none"> <li>The task of establishing new bilateral and multilateral relations with foreign FIUs, signing new MOUs should be more actively pursued to improve the effectiveness of the system.</li> </ul>
<b>7. Other Issues</b>	
<b>7.1 Resources and statistics (R. 30 &amp; 32)</b>	<ul style="list-style-type: none"> <li>The number of FIU staff should be increased to ensure that there is a sufficient number of staff to analyse the large number of reports being received.</li> <li>The number of law enforcement staff who are specifically focused on AML/CFT (e.g. at the ECID/MPS) should be increased to ensure that there is sufficient staff allocated to follow-up effectively on the STRs being received from CAMLMAC, and to increase the focus of law enforcement authorities on AML issues.</li> <li>The Chinese authorities should collect statistics on: <ul style="list-style-type: none"> <li>The number of freezing, seizing or confiscation actions, or the amount of assets involved. Such statistics should include a breakdown of the number of cases and amounts confiscated pursuant to administrative or criminal procedures, and should differentiate between the criminal sources of the assets frozen, seized or confiscated (i.e. if it was generated from money laundering, terrorist financing or a predicate offence).</li> <li>The number of cash declarations made. And</li> <li>The time taken to respond to extradition requests.</li> </ul> </li> </ul>