



PEOPLE'S REPUBLIC OF CHINA

FINANCIAL SECTOR ASSESSMENT PROGRAM

TECHNICAL NOTE ON ANTI-MONEY LAUNDERING/ COMBATING THE FINANCING OF TERRORISM

November 2025

This paper on the People's Republic of China was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on October 27, 2025.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>

International Monetary Fund
Washington, D.C.



INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA

FINANCIAL SECTOR ASSESSMENT PROGRAM

October 27, 2025

TECHNICAL NOTE

ANTI-MONEY LAUNDERING/COMBATING THE FINANCING
OF TERRORISM

Prepared By
Legal department,
International Monetary Fund

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program for the People's Republic of China, overseen by the Monetary and Capital Markets Department, International Monetary Fund, and the Finance, Competitiveness & Innovation Global Practice, World Bank. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP program can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>.

CONTENTS

Glossary	3
EXECUTIVE SUMMARY	4
AML/CFT LEGAL FRAMEWORK, AND ML/TF RISK AND CONTEXT	9
SUPERVISORY ML/TF RISK ASSESSMENT FOR BANKS AND PSPS	10
AML/CFT RISK BASED SUPERVISION OF BANKS AND PSP, AND PREVENTIVE MEASURES	12
THE IMPACT OF FINANCIAL INTEGRITY ON FINANCIAL STABILITY	15
FIT AND PROPER AND LEGAL PERSONS TRANSPARENCY	18
A. Fit and Proper Tests	18
FINTECH	21
FIGURES	
1. Short-Term Transmission Channels	17
2. Medium and Longer-Term Transmission Channels	17
TABLES	
1. Main Recommendations	7
2. AML/CFT Enforcement Actions 2021–2023	15

Glossary

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AMLB	Anti-Money Laundering Bureau
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Program
ML	Money Laundering
NRA	National Risk Assessment
NT	Near Term
PBC	People's Bank of China
PEP	Politically Exposed Person
PSNFRA	National Financial Regulatory Administration
PSP	Payment Service Providers
RRME	Regulation on the Registration of Market Entities
SAR	Special Administrative Region
TF	Terrorism Financing
VA	Virtual Asset
VASP	Virtual Asset Service Provider

EXECUTIVE SUMMARY¹

According to the recent unpublished domestic national risk assessment (NRA),² China faces relatively lower ML/TF threats from abroad with a higher risk of domestic criminal proceeds being transferred overseas. The update to the NRA concluded that the overall level of ML risk is medium and has remained the same (since 2017). Notably, there have been some changes in the major types of illicit proceeds-generating crimes, with tele and internet fraud becoming the most significant ML threat. The domestic understanding of risks including those related to corruption and domestic politically exposed persons (PEPs) may suffer from blind spots and could be further deepened. For example, given the dominant role of the state and state-owned-enterprises in the economy, more detailed analysis of corruption, as a predicate offence, would be worthwhile along with an assessment of the levels of politically exposed persons (PEPs) and the quality of related preventive measures (discussed further below). To improve the understanding of risk among government entities and the private sector responsible for reporting suspicious transactions, the publication of analysis from the NRA should be considered.

The amendments to the Anti-Money Laundering Law (AML Law) have been underway since 2020, the authorities should prioritize their swift finalization and enactment. The AML/CFT legal framework has been strengthened through the recent adoption of a series of AML/CFT laws and regulations. However, the amendments to the AML Law have been underway since 2020 and were subject to a comprehensive public consultation process. Important updates to strengthen the AML/CFT legal framework and address key ML/TF risks are envisaged including increased penalties for AML/CFT violations, and establishing the legal basis for the beneficial ownership regime.

The authorities have taken positive steps to update the supervisory ML/TF risk assessment methodology and the completion of the updated assessment should be expedited. Both banks and payment service providers (PSPs) play key roles, as gatekeepers, of the financial system and are the main access points for customers. Banks are particularly attractive for criminals to conceal illicit proceeds given their global reach, high levels of activity, and broad range of products/services and customers (e.g., PEPs and high net worth individuals). While PSPs are distinct from banks in terms of product offering, given their prevalence in China, combined with the non-face-to-face delivery of their product offering, the high transaction volumes, and broad geographic reach, the focus on the potentially heightened ML/TF risks associated with this sector is welcome. While the authorities have started to apply the results of a new risk assessment methodology it is not fully completed and, as a result, continue to rely on the output of the outdated supervisory model (for some aspects of the assessment and individual entities), and need to concentrate efforts to complete the assessment of

¹ This technical note was prepared by Grace Jackson (Legal Department, IMF), with contributions from Pierre Bardin, Indulekha Thomas (Legal Department, IMF) and Antoine Bouveret (External Expert) on the analysis related to the impact of financial integrity on financial stability.

² The NRA was not made publicly available but was circulated to selected related authorities, industry associations, financial institutions, and non-financial institutions.

all entities, in line with a risk-based approach, to ensure that supervisory efforts are directed to the highest risk entities and most relevant topics.

As part of the institutional reform, the Anti-Money Laundering Bureau (AMLB) of the People's Bank of China (PBC) remained responsible for AML/CFT supervision of banks and PSPs. The reform resulted in a restructuring of provincial branches and the abolition of county branches (established based on administrative regions). In order to sustain efforts and drive more consistent standards and effective supervisory techniques (at least for the highest ML/TF risk banks and PSPs), the AMLB should explore further opportunities to strengthen the operational structure for AML/CFT supervision, through greater centralization of activities through the AMLB Head Office.

While mechanisms are in place for collaboration between the AMLB and prudential supervisors, there is a need for an increased focus on AML/CFT considerations as part of fit and proper assessments. Fit and proper assessments in banks are led by the NFRA and for PSPs are led by the Payments Department within the PBC with contributions from the AMLB. Similar to the arrangement for banks, with the NFRA, the Payments Department and AMLB have mechanisms for regular information exchange. In order to deepen the fit and proper assessment of beneficial owners who own and control PSPs, the AMLB could play a more active role in the assessment of propriety and take a more thorough and continuous assessment to ensure that criminals are not involved in the control or ownership of PSPs. In addition, it would be beneficial to carry out fit and proper assessments, including in relation to criminal involvement, on a more frequent basis and in response to trigger events.

Banks have made progress to enhance the effectiveness of their AML/CFT preventive frameworks, with the authorities noting that some smaller PSPs continue to struggle with compliance with AML/CFT requirements. The authorities noted that the quality of preventive measures has improved in banks with more pronounced weaknesses observed in the PSP's AML/CFT systems and controls with several recent enforcement actions for AML/CFT deficiencies. PSPs with the exception of the two largest and highest ML/TF risk entities, continue to struggle with the effective implementation of AML/CFT systems and controls. These issues are particularly pronounced where the PSPs is part of a broader "Fintech" company and the core business of the Fintech company is not financial services related and, as a result, there can be a lack of focus on compliance with AML/CFT requirements. AML/CFT measures related to customer due diligence and beneficial ownership, along with the mitigation of the ML/TF risks associated with Politically Exposed Persons (PEPs) continue to require focus.

To mitigate the risk of misuse of entities for criminal purposes, progress has been made to enhance the overarching beneficial ownership regime of entities registered in China and these efforts need to continue. The PBC will be responsible for establishing a beneficial ownership registry and should ensure that it is swiftly operationalized. A centralized registry system capable of collecting, storing, and analyzing beneficial ownership information (Version 1.0) has been established but the system is not fully operationalized. The Measures for the Management of Beneficial Ownership Information (issued on April 30, 2024) will take effect on November 1 and it is

intended that Version 1.0 will then be fully operationalized. Plans for a more advanced system (Version 2.0) are underway. This upgrade is intended to integrate additional external data sources and feature enhanced data analysis capabilities. Version 2.0 is expected to be completed in November 2024.

While the registry will involve the collection of large amounts of data and the development of a robust system to ensure its availability and accuracy, the authorities should consider whether there are any opportunities for greater efficiencies in the process to establish and operationalize the system within a shorter timeframe. Improving the beneficial ownership regime will, in turn, support the collection and assessment of more accurate information as part of fit and proper assessments of banks and NPBIs, in ensuring compliance with preventive measures. The benefits associated with public access to beneficial ownership information, including tiered access, should be further considered.

Money Laundering (ML) and its predicate crimes can have a significant impact on the stability of the financial sector and the broader economy. China appears most vulnerable to the cross-border movement of illicit proceeds and should continue to monitor associated risks. The authorities have taken positive steps to enhance cooperation and information-sharing with other jurisdictions to address potential cross-border ML risks related to criminal organizations. For example, China and the United States facilitated the exchange of information and cooperation between competent authorities to combat ML associated with relevant crimes. In addition, several initiatives were launched to deal with underground transmitter activities, with recent trends showing the use of such banking arrangements to facilitate cross-border crypto activities. Banks continue to play a key role in China's financial system and are considered to present the highest ML threat, and the PBC and NFRA appreciate the nexus between financial integrity and financial stability. While large banks have more established AML/CFT controls, they are also more exposed to ML risks from abroad given their cross-border activity. In contrast, rural banks have weaker AML/CFT controls and recent scandals have shown that risks related to fraud can crystallize. While those banks are less relevant for financial stability, ML failures could trigger a loss of confidence at the local level. In order to deepen this analysis and understanding, a more concerted effort to enhance the connection between financial stability, prudential and AML/CFT supervisory topics may be required. Close collaboration between the PBC and NFRA is key to understanding the potential impact of financial integrity on financial stability at a national level.

While the issuance and transaction of crypto assets is prohibited in China, crypto assets can be accessed through circumvention of the prohibition or through illicit mechanisms. China takes a multi-pronged approach to implement the prohibition and detect ML/TF activities related to crypto assets. However, crypto-related capital flows could be significant for countries where local adoption of crypto assets is relatively high. China is actively monitoring the use of crypto assets and, in order to safeguard financial integrity, should continue to pay close attention to the illicit use of crypto assets, circumvention of the prohibition and adoption rates.

Table 1. China: Main Recommendations

Recommendation	Responsible Agency	Timeline
AML/CFT Legal Framework, and ML/TF Risk and Context		
To strengthen the understanding of ML/TF risks at a national-level, by key AML/CFT stakeholders, including financial and non-financial institutions and AML/CFT agencies in other jurisdictions, the authorities should deepen the analysis to focus on proceeds of corruption and emerging trends related to the cross-border movement of funds related to illicit activities, and publish adequately detailed information and analysis from the NRA (where necessary, the authorities could sanitize certain sensitive information while ensuring not to lose the necessary substance of the analysis).	PBC	NT
To enhance the AML/CFT legal framework, finalize and enact the amendments to the Anti-Money Laundering Law.	PBC	NT
Supervisory ML/TF Risk Assessment of Banks and PSPs		
To ensure that that supervisory activities are tailored to the highest risk entities and topics, promptly complete and finalize the supervisory ML/TF risk assessment, in line with a risk-based approach.	PBC	NT
AML/CFT Supervision of Banks and PSPs, and Preventive Measures		
To drive more consistent approaches and enhance the quality of AML/CFT supervision, explore further centralizing the role of the AMLB Head Office.	PBC	MT
To increase the effectiveness of AML/CFT efforts, increase flexibility in scope and type of supervisory interventions, to ensure that supervisors can tailor supervisory interventions (for example, the understanding of beneficial ownership requirements) to address the ML/TF risks identified as part of the supervisory ML/TF risk assessment.	PBC	NT
To mitigate the ML/TF risks associated with PEPs, take steps ensure that AML/CFT requirements are in place regarding domestic PEPs.	PBC	NT

Table 1. China: Main Recommendations (Concluded)

To ensure that there is an up to date understanding and assessment of supervised entities and to drive effective risk-based supervision, increased collaboration between the AMLB and the NFRA (for banks) and the AMLB and the Payments Department (for PSP), for example, enhancing the role of the AMLB in the review and assessment licensing applications and ongoing examinations.	PBC (AMLB and Payments Department), NFRA	MT
The Impact of Financial Integrity on Financial Stability		
To deepen the understanding of the potential impact of financial integrity on financial stability, the PBC and NFRA should continue to leverage their respective expertise and collaborate to deepen this analysis. In addition, the authorities could design scenarios to assess the impact of financial integrity issues on the banking sector (e.g., large banks with cross-border activity and local banks) and estimate the resilience of individual entities through direct or contagion channels.	PBC	NT
Fit and Proper, and Legal Person Transparency		
To continue to strengthen the beneficial ownership regime, swiftly operationalize the registry and consider publication of information, on a tiered basis. Along with identifying steps to strengthen oversight of fit and proper requirements.	PBC	NT

AML/CFT LEGAL FRAMEWORK, AND ML/TF RISK AND CONTEXT

1. **The AML/CFT legal framework has been strengthened through the recent adoption of a series of AML/CFT laws and regulations.** These updates include the Measures for Supervision on Anti-Money Laundering and Countering the Financing of Terrorism in Financial Institutions in 2021 and the issuance of Guidelines on Anti-Money Laundering and Combating Terrorist Financing in Wire Transfers. The Criminal Law was also amended, in 2020, to criminalize self-laundering.
2. **The Regulation on the Registration of Market Entities in 2021 established a centralized registry of beneficial ownership.** This regulation marked an important development to create a legal basis for a “beneficial ownership system.” The Regulation on the Registration of Market Entities came into effect on March 1, 2022 and required market entities, such as companies and partnerships, to report beneficial ownership information to the registration authority. The Measures for the Management of Beneficial Ownership Information are planned to be implemented 2024. These measures will require market entries to report beneficial ownership information when registering a new market entity, while existing market entities need to register their beneficial ownership information by June/August 2025.
3. **The amendments to the AML Law should be swiftly finalized and enacted.** The amendments to the AML Law have been underway since 2020 with a comprehensive public consultation process. Important updates to strengthen the AML/CFT legal framework and address key ML/TF risks are envisaged including, increased penalties for AML/CFT violations, and establishing the legal basis for the beneficial ownership regime.
4. **The update to the national risk assessment (NRA) concluded that the overall level of ML risk is medium, and that fraud is the most significant ML threat.** At the time of the mutual evaluation report (MER), particular emphasis was placed on the ML/TF risks associated with illegal fundraising, fraud, drug-trafficking, corruption and bribery, tax crimes, counterfeiting of products, illegal gambling, and telecommunications and internet fraud. The authorities’ most recent analysis concluded that the overall ML risk in China has remained the same (since 2017) and is categorized as medium. Notably, there have been some changes in the major types of illicit proceeds-generating crimes, with tele and internet fraud becoming the most significant ML threat. Given the dominant role of the state and state-owned-enterprises in the economy, more detailed analysis on corruption, as a predicate offence, would be worthwhile along with an assessment of the levels of PEPs and the quality of related preventive measures (discussed further below).
5. **China faces relatively lower ML/TF threats from abroad with a higher risk of domestic criminal proceeds being laundered domestically or transferred overseas.** While China considers cross-border flows, as part of the national risk analysis, the authorities should continue to deepen the assessment of domestic laundering of proceeds of corruption and related financial outflows. The authorities’ assessment considers general information on financial outflows and inflows and

concluded that the main destinations include Hong Kong Special Administrative Region (SAR), Macao SAR, Chinese Taipei, Southeast Asia, East Asia, North America, and Europe. To ensure an accurate and up-to-date understanding of cross-border financial flows, China should continue to deepen this analysis. For example, through the analysis of macro-trends related to financial flows along with projections on expected levels of flows relative to actual activity, the authorities could better identify any instances of potentially unpredicted activities that may warrant further scrutiny.

6. The publication of the NRA would support the understanding and assessment of ML/TF risks by key AML/CFT stakeholders, including financial and non-financial institutions and AML/CFT agencies in other jurisdictions. At present, the NRA has not been published. The authorities noted that the information in the NRA is too sensitive for publication and could be used by criminals that attempt to circumvent key AML/CFT systems and controls. Further consideration should be given to the publication of the full NRA, alternatively (if this is not possible) a sanitized version should be published. This sanitized version should contain the necessary information in order to accurately depict the analysis and conclusion and should strike the right balance between removing potentially “sensitive” information and supporting adequate ML/TF risk understanding among national concerned authorities and the private sector.

7. At the time of the MER in 2018, the prevalence of underground transmission/transmitters was a concern to Chinese authorities. There are two main mechanisms for underground transmission/transmitter, one relates to illegal foreign exchange activities and the other in illegal payment and settlement, with banks and PSPs being the main access points. In an attempt to deal with these concerns, there has been an increased focus on foreign exchange violations and intensified efforts to combat the use of offshore companies and underground transmission/transmitters to transfer illicit funds overseas. In 2022, the State Administration of Foreign Exchange investigated 560 cases involving underground transmission/transmitter transaction counterparts, handled over a thousand cases of foreign exchange violations, and imposed fines and forfeitures exceeding 1 billion yuan.

SUPERVISORY ML/TF RISK ASSESSMENT FOR BANKS AND PSPS

8. Both banks and PSPs play key roles, as gatekeepers, to the financial system and are the main access points for customers. While there is a large number of Rural Banking Institutions, National Commercial Banks account for 69 percent of the total assets in the banking sector. Overall, the banking sector consists of 3 policy banks,³ 18 national commercial banks, 125 urban commercial

³ Policy banks are wholly-owned by the Chinese government and provide credit support specifically for specific areas (including infrastructure development, import and export, and agricultural product purchase and sale) according to national policy needs. They do not absorb public deposits, and their asset size is relatively large, but their business model is straight-forward and their customer base is small. They only have public customers, who are mainly engaged in policy-based loan business.

banks, 19 private banks, 3,768 rural banking institutions,⁴ and 41 foreign banks.⁵ By the end of 2023, there were 186 payment institutions that hold licenses for activities including online payments, bankcard acquiring, and prepaid cards issuing and acceptance, with two PSPs holding the majority of the market share. Among them, the overall population of PSPs, 59 institutions carry out prepaid card issuing and acceptance activities, and the authorities observed that the scale of activities and number of customers are small and decreasing.

9. Based on the most recently completed supervisory ML/TF risk assessment,⁶ banks are categorized based on their level of residual ML/TF risk, but the assessment and its output lack the necessary specificity and granularity. The assessment concludes that the 3 policy banks and 12 of the national commercial banks present high ML/TF risk. The residual risk of the remaining national commercial banks, some of the large regional commercial banks and rural banking institutions are categorized as medium level. The remaining banks are deemed to present a medium-low or low level of risk. While the assessment captured the level of effectiveness of AML/CFT systems and controls, the methodology that was used did not allow supervisors to fully utilize the statistical information that was gathered and clearly delineate between different risk ratings (e.g., high, medium, low risk) and designate different financial institutions into clear categories of risk.

10. Banks and PSPs can present high and medium-high levels of inherent ML/TF risk. Banks are particularly attractive for criminals to conceal illicit proceeds given their global reach, high levels of activity, broad range of products/services and customers (e.g., domestic PEPs and high net worth individuals). While PSPs are distinct from banks in terms of product offering, given their prevalence in China, combined with the non-face-to-face delivery of their product offering, the high transaction volumes, and broad geographic reach, the focus on the potentially heightened ML/TF risks associated with this sector is welcome. Based on the authorities' assessment, banking poses the highest ML threat, with threat from PSPs categorized as "increasing."

11. The supervisory ML/TF risk assessment has recently been redesigned, and the updated assessment is underway. The methodology applies the standard approach to risk assessment, considering the inherent risk, controls environment, and (unlike the previous methodology) a conclusion on the overall residual risk. The updated model consists of 8 primary indicators and 22 secondary indicators. There is an increased reliance on data (including statistical information) to inform the analysis, and the assessment of the AML/CFT control environment now places a greater emphasis on the outcomes of AML/CFT supervisory interventions (e.g., onsite inspections and

⁴ National commercial banks have the most comprehensive business scope, which can set up branches nationwide. Regional commercial banks usually operate within a province or city according to the approval of the financial supervisory department, which do not set up branches outside the region. 3738 Rural banking institutions, as at November 2023, which consist of rural financial institutions, rural commercial banks and village banks.

⁵ Foreign banks can be engaged in general commercial banking business, but usually do not absorb small deposits, and their business and customer base are usually small.

⁶ The conclusion of the updated supervisory ML/TF risk assessment (utilizing the new methodology) is underway.

analysis) as opposed to supervised entities' response to assessment questionnaires. Given the level of data and information that is being analyzed and assessed, the authorities should continue to explore opportunities for efficiencies, such as, use of technology and data analytic tools.

12. The PBC is currently carrying out a thorough re-assessment of all financial institutions and should take steps to ensure the prompt completion of this exercise. At present, the authorities are phasing in the new methodology to assess all entities, with the pilot having commenced in 2021. While a thorough and detailed approach is being taken, there is a risk that it will require extensive resources and time to complete the level of analysis (under the new methodology) across the approximately 5,000 entities, with 300 entities assessed under the new methodology, to date. As such, the authorities could consider applying a more risk-based approach to the assessment, for example, informed by the sectoral risk assessment, the authorities could better determine the level of granularity that should be applied for the supervisory, entity-level assessment, with less detail included for lower risk sectors.

13. The consideration of ML/TF risks, on a stand-alone basis, is an important development. While the "size" of the institution is a factor to consider as part of the ML/TF risk assessment, the use of "size" as the driving force behind the conclusion of the assessment can result in a dilution of the ML/TF risk analysis and a potentially inaccurate determination of risk levels. As such, under the new methodology, the authorities have reduced the weight assigned to this aspect and have strengthened the ML/TF risk specific assessment criteria.

14. Continued coordination and collaboration between the Anti-Money Laundering Bureau (AMLB) of the PBC, and the National Financial Regulatory Administration (NFRA) and the Payments Department (within the PBC) will strengthen the supervisory ML/TF risk assessment. While there is a clear delineation between the AML/CFT, and prudential assessment of risk, the PBC and NFRA should continue to explore opportunities for increased information sharing on banks. For example, the incorporation of AML/CFT considerations into prudential risk factors, including, the assessment of governance, business model and profitability, and operational risk. Similarly, continued close collaboration with the Payments Department, on PSPs, should continue. The NFRA should also ensure that relevant prudential information is shared with the PBC in order to inform the broader understanding of banks.

AML/CFT RISK BASED SUPERVISION OF BANKS AND PSP, AND PREVENTIVE MEASURES

15. The recent institutional reform has reallocated the responsibilities of the PBC, the NFRA, and the China Securities Regulatory Commission, while restructuring the PBC's branches. However, this reform does not involve AML/CFT responsibilities, with the AMLB remaining the AML/CFT supervisor for banks and PSPs. While the overall responsibility has remained with the AMLB, the reform has had an operational impact on how AML/CFT supervision is organized through the restructuring of provincial branches and the abolition of county branches. As a result,

branches are established based on administrative region. The authorities noted that this has resulted in an overall decrease in the number of “branches” and staff with AML/CFT supervisory responsibilities but shifts the focus from the number of branches and staff to better quality branches and more skilled, qualified supervisors.

16. The authorities should explore further opportunities to strengthen the operational structure for AML/CFT supervision, via greater centralization of activities through the AMLB Head Office. In order to drive the highest standards of risk-based supervision along with consistent supervisory ML/TF risk assessment of all financial institutions, the AMLB headquarters could play a more centralized role through oversight and coordination of activities across headquarters and all branches. In addition, consideration could be given to the AMLB Head Office maintaining supervisory responsibility for all high ML/TF risk entities.

17. The AMLB implements a minimum engagement model for the AML/CFT supervision of banks and PSPs. In line with a risk-based approach, the AMLB determines the frequency of supervisory interventions, based on the ML/TF risk assessment. The highest risk firms receive four inspections every five years, and inspections are carried out on 50 percent of firms every five years, and on a responsive basis.

18. The appropriateness of the frequency of supervisory engagements is predicated on the accuracy of the ML/TF risk assessment. As the updated supervisory risk assessment has not been completed, the conclusion that drives the level of supervisory engagement may be out of date and potentially inaccurate. As such, the completion of the supervisory ML/TF risk assessment should be prioritized to ensure that supervisory attention is focused on the highest ML/TF risk institutions.

19. Input from AML/CFT supervisors is key to a robust licensing assessment. The review process should include the collection and assessment of relevant information regarding fit and proper, and AML/CFT considerations. More specifically, from an AML/CFT perspective, information should be sought on several criteria, including: the reputation of the license applicant; the reputation and experience of the proposed new managers; and any links to AML/CFT concerns. In addition, the adequacy of AML/CFT frameworks should also be assessed on a risk sensitive basis. Once obtained, the information should be challenged to ensure its veracity and completeness and then reviewed against the relevant criteria. This assessment should be carried out at the licensing stage and at regular intervals thereafter.

20. The review and assessment of license applications are led by the NFRA (for banks) and the PBC Payments Department (for PSP) and supported by the AMLB. Mechanisms are in place for the AMLB to input into the review of license applications for banks and PSPs. The authorities should consider further formalizing the process for ensuring there are active channels for sharing input into these assessments, for example, the establishment of a requirement for input from the AMLB for applications (and ongoing assessments) related to PSP in order to ensure that AML/CFT considerations are appropriately captured.

21. While supervisory intensity is an important feature of an effective regime, this should be balanced with the opportunity for tailored engagement that allows flexibility for supervisors to determine the most suitable intervention. In the 2020–2023 supervisory cycle, the PBC included 111 high risk banks in the inspection plan, going forward, the new strategy (2024–2027), requires that each bank will be subject to at least one inspection in a 3-year period. While it is important to ensure adequate supervisory coverage, the authorities should ensure that this approach is in line with a risk-based approach, and that there is scope to tailor supervisory interventions (for example, some circumstances may require a desk-based review as opposed to an inspection), along with the opportunity to select topics for assessment, in line with the ML/TF risk understanding and assessment of the bank. On the other hand, for PSPs, there is a clear focus of supervisory attention on the two highest ML/TF risk entities.

22. The authorities noted that the quality of preventive measures has improved in banks with more pronounced weaknesses observed in the PSP's AML/CFT systems and controls with several recent enforcement actions for AML/CFT deficiencies. Through the most recent supervisory engagements, the AMLB has noted improvements in banks, in both the understanding of AML/CFT requirements and the level of compliance. PSPs, on the other hand, with the exception of the two largest and highest ML/TF risk entities, continue to struggle with the effective implementation of AML/CFT systems and controls. Where these PSPs are part of a broader “Fintech” company, there is a sense that the core business of the Fintech company is not financial services related and, as a result, there can be a lack of focus on compliance with AML/CFT requirements.

23. The authorities have taken steps to strengthen the AML/CFT enforcement regime. As outlined below, there have been increases in the number and amount of fines issued against banks and PSPs. While the increased sanctioning thresholds are a positive development, the authorities need to ensure that enforcement actions are effective, proportionate, and dissuasive. As such, the continued development of a broader enforcement framework would support these efforts, for example, use of restrictions on licenses and warning letters. In addition, it should be ensured that the AMLB has the support, from the NFRA and PBC Payments Department, to utilize this full range of enforcement actions.

Table 2. China: AML/CFT Enforcement Actions 2021–2023

Year	Number of institutions sanctioned			Value of sanctions (Million yuan)			Number of individuals sanctioned		
	FI	Bank	PI	FI	Bank	PI	FI	Bank	PI
2021	346	327	8	264	223	41	635	601	12
2022	318	292	15	364	225	127	538	497	21
2023	330	295	15	2500	229	2212	536	485	15

Source: PBC

24. The authorities need to take steps to ensure that preventive measures are in place to deal with the risks associated with domestic PEPs. At the time of the 2018 MER, the absence of coverage of domestic PEPs was considered a significant vulnerability. The authorities need to take steps to ensure that AML/CFT requirements related to domestic PEPs are captured in the legal framework and subsequently incorporated as part of banks and PSP preventive measures. This could also involve supervisory guidelines on PEPs (and domestic PEPs), thematic inspections and other supervisory measures to ensure that the ML/TF risks associated with domestic PEPs are adequately understood, detected, and mitigated (e.g., increased monitoring of financial flows from China to detect potentially unexplained flows related to domestic PEP illicit activities).

25. While progress has been made to enhance the overarching beneficial ownership regime, banks and PSPs continue to struggle with understanding the concept of beneficial ownership. Banks and PSPs play a key role, as part of their preventive measures framework, in identifying who ultimately owns or controls companies and other types of corporate structures (the beneficial owner). Identifying and understanding who the beneficial owner is, is key to ensuring that banks and PSPs can effectively understand and mitigate the risks that a customer presents. The authorities should take further steps to provide guidance and outreach to supervised entities to ensure that beneficial ownership requirements are fully understood, along with incorporating specific assessment of this area as part of ongoing supervisory activities.

THE IMPACT OF FINANCIAL INTEGRITY ON FINANCIAL STABILITY

26. ML and its predicate crimes (corruption, tax evasion, fraud, etc.) can have significant impacts on the stability of the financial sector and broader economy with China being most vulnerable to the origination of illicit proceeds. These effects can manifest in jurisdictions where illicit proceeds originate, where they transit, and where they are integrated. Based on China's ML/TF risk profile, ML origination, domestic laundering, and transit out of China are the main channel for illicit financial flows. In line with the most recent NRA, China is not considered an attractive destination for transiting or integrating illicit proceeds with low levels of illicit inflows identified by

the authorities. Macro-critical impacts of ML and its predicate crimes can be grouped into (i) destabilizing effects on the financial sector through several channels, such as valuation or credit losses, and/or liquidity pressures; (ii) adverse impacts on the broader economy; and (iii) inward and outward spillover effects.⁷ As such, identifying and measuring the transmission channels through which ML shocks could affect financial stability is key to mitigating those risks.

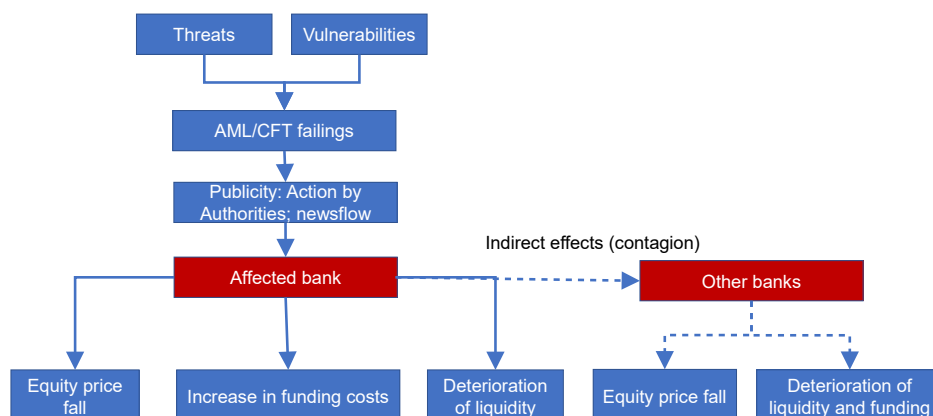
27. As noted above, banks continue to play a key role in China's financial system and are considered to present the highest ML threat. While financial stability covers the entire financial system, the main focus of the coverage in this note is on banking system stability, given the key role played by credit institutions and the high ML/TF as the adverse effects of ML and its predicate crimes are commonly channeled through the banking sector. However, given the role of PSPs and high levels of adoption and use in China, along with the authorities' assessment that the ML/TF risk is increasing, may also be an area for further analysis and may be necessary to include under the work related to the potential impact of financial integrity and financial stability.

28. Financial integrity events can manifest in a variety of ways and the recent fraud that involved four rural banks in China emphasizes the importance of a robust AML/CFT framework to protect financial stability. A financial integrity failure could involve an ML scandal (e.g., a failure of AML/CFT preventive measures), fines for breaches of AML/CFT requirements, or criminals involved in the ownership or control of a bank. A recent rural banking scandal that impacted 4 institutions in central China's Henan province, with reports estimating funds involved that amounted to 40 billion yuan.⁸ The case, allegedly, involved a complex scam that was perpetrated by criminals who had assumed roles in the ownership and control of the impacted banks.

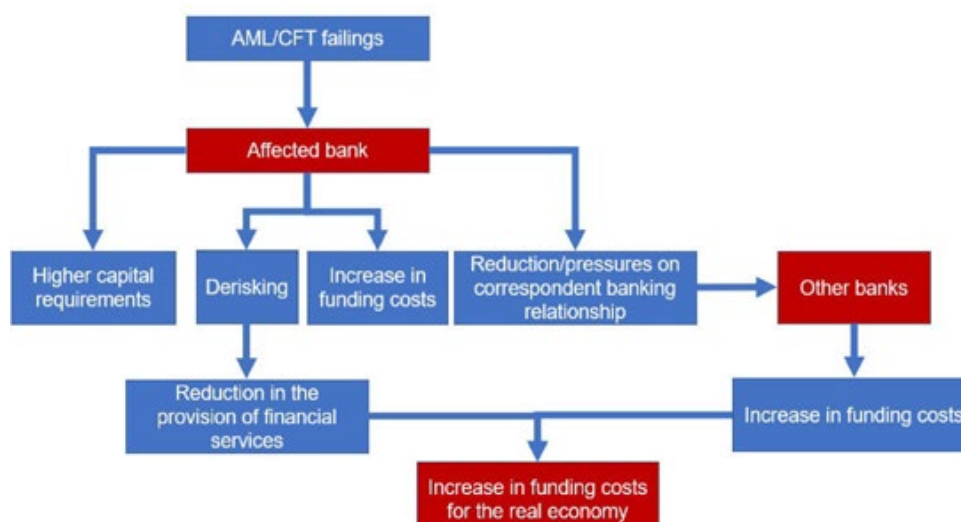
29. Such an event can trigger short, medium, and longer-term effects on the financial stability of some banks or the banking sector. In the short term, banks facing AML/CFT failures could face tensions related to wholesale funding and liquidity, and these outcomes could be potentially transmitted to other banks through direct and indirect effects. In the medium and longer-term, such banks may experience higher funding costs, loss of correspondent banking relationships and the cost of equity and regulatory requirements can also reduce their profitability. Finally, in certain instances, impacted banks could face increased costs to preserve financial stability due to higher resolution and liquidation costs.

⁷ 2023 Review of The Fund's Anti-Money Laundering and Combating the Financing of Terrorism Strategy—Background Papers. [2023 Review of The Fund's Anti-Money Laundering and Combating The Financing of Terrorism Strategy—Background Papers \(imf.org\)](#)

⁸ [Henan Bank Crisis: China Arrests Hundreds in Nation's Biggest-Ever Bank Fraud - Bloomberg](#)

Figure 1. Short-Term Transmission Channels

Source: IMF staff

Figure 2. Medium and Longer-Term Transmission Channels

Source: IMF staff

30. Small, rural banks are perceived to have weaker AML/CFT systems and controls compared to larger banks.

While the authorities concluded that rural banks, on a residual basis, present medium to low ML/TF risk this assessment is driven by the size of the individual bank. While the overall risk conclusion may remain the same, different AML/CFT supervisory responses may be required following a deeper examination of the specific risks presented by rural banks. For example, in these entities, while increased supervisory reviews of key AML/CFT systems and controls may not be required, greater focus on fit and proper requirements, with particular attention given to ensuring that owners and controllers meet these standards, which is further discussed below.

31. Larger banks have higher inherent threats related to their significant cross-border activities. The domestic and global footprint of the largest Chinese banks has been increasing substantially over the last decade. High cross-border exposures could represent a threat to the banking sector, although strong AML/CFT controls help mitigate vulnerabilities. Nevertheless, further analysis of the potential impact on the banking sector of adverse ML events occurring in a large bank could be explored to assess the impact of ML risks on financial stability.

32. The PBC and NFRA appreciate the nexus between financial integrity and financial stability and should continue to leverage their respective expertise to deepen the analysis of this area. Using the transmission channels outlined previously as well as the results of calibration exercises, the authorities could design scenarios to assess the impact of financial integrity issues on the banking sector and estimate the resilience of individual entities through direct or contagion channels. The banks in scope could be systemic entities as well as banks for which ML/TF risks are identified as high, or those with a specific ML/TF concern (e.g., fit and proper weaknesses in rural banks). For example, the exercise could calibrate run-off rates based on past ML events, apply “local” scenarios to banks with weak AML/CFT controls and apply regional scenarios to banks with large cross-border activities.

33. A more concerted effort to increase the connection between financial stability, prudential, and AML/CFT supervisory topics may be required. Close collaboration between the PBC and NFRA is key to understanding the impact of financial integrity on financial stability at a national level. Given potential transmission channels between financial integrity and financial stability, stress tests, and risk analyses in the banking sector could include components related to financial integrity issues. An understanding of ML threats and vulnerabilities in the banking sector, derived from AML/CFT supervisors would be key in selecting banks for deployment of the financial integrity stress test scenario.

FIT AND PROPER AND LEGAL PERSONS TRANSPARENCY

A. Fit and Proper Tests

34. China takes steps to ensure that criminals do not own or control banks and PSPs, as part of the licensing process. The FATF standards require that competent authorities or financial supervisors take the necessary legal or regulatory measures to prevent criminals or their associates from holding (or being the beneficial owner of) a significant or controlling interest or holding a management function in financial and non-financial institutions. As part of the review of a licensing application, the NFRA carries out a review of senior management’s expertise and qualifications (including those related to AML/CFT experience). To ensure that financial institutions are not owned or controlled by criminals, the NFRA reviews the background of relevant personnel, and if any person is suspected of criminal offenses and is subject to criminal liability, their employment will be revoked.

35. The NFRA could better leverage the expertise of the AMLB as part of the fit and proper reviews related to banks. While the necessary arrangements are in place to facilitate collaboration and information sharing between the NFRA and AMLB, the NFRA should ensure that the AMLB plays a regular and active role in assessing the implementation of fit and proper measures (both those within the financial institutions and those that the NFRA carries out) to ensure that criminals do not own and control licensed entities. For example, the NFRA could establish a formal process with the AMLB that would trigger their input against a pre-agreed set of criteria for assessment, at both licensing stage and regular intervals thereafter (including trigger events).

36. Fit and proper assessments of PSPs are led by the Payments Department within the PBC, with contributions from the AMLB. Similar to the arrangement for banks, with the NFRA, the Payments Department and AMLB have mechanisms for regular information exchange. To deepen the fit and proper assessment of beneficial owners and those with key management functions within PSPs, the AMLB could play a more active role in the assessment of propriety and take a more thorough and continuous assessment to ensure that criminals are not involved in the control or ownership of PSPs.

37. It would be beneficial to carry out fit and proper assessments, in relation to criminal involvement, on a more frequent basis and in response to trigger events. While fit and proper assessments are carried out at licensing and at regular intervals thereafter, it would seem that the level of oversight, to ensure criminals are not involved, may be insufficient (in light of the recent cases involving rural banks). In line with a risk-based approach, the authorities should review the frequency of checks that are carried out and ensure that sufficient resources are available to carry out responsive reviews related to fit and proper requirements. For example, following the identification of criminal involvement in the rural banks, a review of the current process and frequency of assessment should be carried out, to ensure its adequacy, and consideration could be given, in line with cooperation and coordination with the NFRA, to including fit and proper “follow-up” checks as part of other planned AML/CFT supervisory engagements. Entity Transparency

38. Since the 2019 MER, China has made progress to enhance the beneficial ownership of legal persons framework. At the time of the MER, several deficiencies were noted in China’s beneficial ownership regime, including a limited understanding of the risks of legal entities, deficiencies in the legal requirements, and a lack of implementation of related preventive measures by financial institutions. The 2022 Third Enhanced Follow-Up Report outlined progress through the definition of different types of legal persons and the establishment of a process for their registration and creation through amendments to the Civil Code (2020), the Company Law (2018), and the Foreign Investment Law (2019), and the establishment of the Regulation on the Registration of Market Entities (RRME) (2022). These requirements extended to the requirements to collect, maintain, or have beneficial ownership information available and the imposition of sanctions if a market entity fails to report its beneficial ownership.⁹

⁹ [Follow-Up-Report-China-2022.pdf.coredownload.inline.pdf \(fatf-gafi.org\)](https://www.fatf-gafi.org/publications/fatf-reports/Fatf-Follow-Up-Report-China-2022.pdf)

39. A centralized registry for beneficial ownership was established and “the Measures for the Management of Beneficial Ownership Information” are scheduled for implementation in 2024. While the RRME established the centralized registry, the Measures (approved by the State Council), which will require existing market entities and new market entities to register their beneficial ownership information have not yet taken effect.

40. The PBC will be responsible for establishing the registry and should ensure that it is swiftly operationalized. The information will be collected by the State Administration for Market Regulation and transferred to the PBC. A centralized registry system capable of collecting, storing, and analyzing beneficial ownership information (Version 1.0) has been established but the system is not fully operationalized. While the registry will involve the collection of large amounts of data and the development of a robust system to ensure its accuracy, the authorities should consider whether there are any opportunities for greater efficiencies in the process in order to establish and operationalize the system within a shorter timeframe.

41. Improving the beneficial ownership regime will, in turn, support the collection and assessment of more accurate information as part of fit and proper assessments of banks and PSPs. The authorities will need to take steps to ensure that the information is up to date and accurate and supports the effective implementation of beneficial ownership measures. The PBC will operate the centralized registry and intends to take steps to ensure that the information on the registry is up to date and accurate. As a first step, the PBC will receive feedback from competent authorities and reporting institutions (including banks and PSPs) on the quality of the information. Once this feedback has been received and considered the PBC will consider the use of technological solutions (e.g., data analytics) in order to process the anticipated large volumes of data and improve its accuracy.

42. The benefits associated with public access to beneficial ownership information, including tiered access, should be further considered. The information in the registry will only be available to competent authorities and reporting institutions. Given the authorities plans to significantly invest in ensuring that the information is accurate and up to date, public access to beneficial ownership data means that additional parties can check the legal and beneficial ownership information and provide feedback to ensure the accuracy of the information. As part of the design considerations, the authorities are conscious of data privacy concerns (which is one of the motivations for a non-public registry). As such, a tiered access system with variation in the level of and type of information that is available to different categories of parties could be considered to balance data privacy concerns with benefits of public access. For example, the general public might be given access to the name and country of residence of a beneficial owner, whereas reporting entities, who are required to carry out preventive measures including customer due diligence checks, may additionally be given access to the type of information that they would normally have to ask of customers (e.g., date of birth, address).¹⁰

¹⁰ [Unmasking Control: A Guide to Beneficial Ownership Transparency | IMF eLibrary](#), page 48

FINTECH

43. The issuance and transaction of crypto assets is prohibited in China. China published the “Announcement on Preventing the Risk of Financing through Issuing Tokens” in 2017 and the “Notice on Further Preventing and Handling Virtual Currency Transactions and Associated Risks” in 2021 to formalize the prohibition.

44. China is actively monitoring the use of crypto assets and should pay close attention to circumvention of the prohibition and adoption rates. Although prohibited in China, crypto assets can be converted into fiat in other jurisdictions and have the possibility to be a tool for illicit cross-border use. While the issuance and transaction of crypto assets is prohibited, crypto assets can be accessed through circumvention of the prohibition or through illicit mechanisms, and crypto-related capital flows could be significant for countries where local adoption of crypto assets is relatively high, with China ranked eleventh in a recent Global Crypto Adoption Index Top 20.¹¹

45. The authorities noted an overall decrease in the level of suspicious transaction reports from financial institutions related to crypto assets and should continue efforts to detect illicit activities. As the main typology relates to the use of illegal value transfer systems (i.e., underground transmitters) and the use of crypto assets to circumvent national foreign currency control measures. Crypto assets are particularly attractive for this purpose given their decentralization and high level of anonymity to facilitate cross-border value transfer.

46. China takes a multi-pronged approach to implement the prohibition and detect ML/TF activities related to crypto assets. Several authorities including the PBC, the State Administration of Foreign Exchange, and the Ministry of Public Security have an information-sharing mechanism which combines supervisory, law enforcement, and intelligence expertise. Competent authorities utilize technological solutions to collect, process, and analyze data related to the misuse of crypto assets. Finally, China is closely monitoring foreign exchange violations with a focus on key typologies related to the use of offshore companies and underground transmitters to move illicit funds overseas.

47. The authorities should continue to take steps to ensure that effective AML/CFT measures are in place as part of the e-CNY pilot. To safeguard financial integrity, it should be ensured that the design of e-CNY (including anonymous lower-tier wallets) is in line with the authorities’ understanding and analysis of the associated ML/TF risks (including, the TF risks associated with smaller, lower value transactions), and does not interfere with the effective implementation of the full suite of FATF recommendations (including key AML/CFT preventive measures).

¹¹ Based on analysis conducted by Chainalysis using on-chain data and real-world data, “The 2023 Global Crypto Adoption Index: Central & Southern Asia Are Leading the Way in Grassroots Crypto Adoption,” September 12, 2023.

48. The recent issuance of the “Guidance on Anti-Money Laundering and Combating the Financing of Terrorism of E-CNY” is welcome. E-CNY adopts a two-tier operating model with authorized operators (e.g., banks) and cooperative institutions fulfilling the AML/CFT preventive measures. At present, there are 10 qualified “authorized operators”. Cooperative institutions could ‘partner’ with one or more of the 10 qualified authorized operators and connect to the e-CNY system directly or through their partner. The authorities should ensure that this arrangement is in line with the FATF requirements, and that cooperative institutions have robust AML/CFT capabilities and that authorized operators have effective oversight of the cooperative institutions.