

MUTUAL EVALUATION OF CHINA

- I. Order of the discussion of the Mutual Evaluation Report of China at the EAG Plenary meeting
- II. Issues for discussion at the WGEL

I. Order of the discussion of the Mutual Evaluation Report of China at the EAG Plenary meeting:

The Plenary meeting will discuss 5-8 issues, which have been forwarded from the WGEL. The discussion of the MER at the Plenary meeting is chaired by the EAG Chairman and the Executive Secretary. The Plenary meeting must make the relevant decisions on the 5-8 issues referred by the WGEL. In the case of joint mutual evaluation reports the EAG shares the FATF policy to ensure uniformity of adopted reports. In this regard amendments to the report will only be made in exceptional circumstances.

The discussion is noted in the summary record of the meeting and is published on the EAG website. The EAG Plenary discusses the draft decisions for each of the issues raised by the WGEL. The Plenary meeting may decide to drop any of the issues. The Plenary must adopt the final decisions on each issue. For joint evaluations the decisions are formed in the context of the follow-up process on the country.

1. Introduction:

- The EAG Chairman opens the discussion on the Mutual Evaluation Report.
- Introduction by the Head of the assessment team and the assessors.
- Introduction by the Head of delegation of China.

2. Procedure for discussion at the Plenary meeting:

- The EAG Secretariat briefly presents the issue.
- The representatives of China present their view.
- The assessment team presents its view.
- Interventions by the representatives of EAG member-states and observers, including on the issue of changing the draft decisions.
- If necessary, further interventions by China and the assessment team for clarifications;
- The Chairman makes the final summary, including the formulation of the final decision on each issue.
- *After all of the issues that were referred by the WGEL have been discussed the delegations of member-states and observers may raise any other issues*

II. Issues for discussion at the Plenary

1. The main issues for discussion at the Plenary are highlighted below. These are the issues discussed and highlighted by the WGEL in relation to the China report.
2. *The objective of the Plenary*– is to make the relevant decisions on each of the listed issues.

No.	Key issues	Comments
1	Recommendation 26: recommendations for the FIU	<p>By Ukraine:</p> <p>Subsection 2.5.2. Detailed recommendations are needed on how to enhance the FIU's capacity to have access to information of other law enforcement authorities on all levels.</p> <p>View by China and evaluators:</p> <p>The report contains a general recommendation for the FIU to obtain better access to the information held by other agencies. China is currently working on enhancing the FIU's capacity to the information held by other law enforcement authorities, such as the Ministry of Public Security and Customs. For example the People's Bank of China's system has been linked with the Network of the MPS system, which can verify the information of the identity card. The MPS has also seconded several officers to the FIU. The Consultation Mechanism on Suspicious transactions has been improved. The PBC is working to establish an information sharing mechanism with the customs.</p> <p>Draft decision:</p> <p><i>To closely monitor the progress of the China FIU in this sphere, including improving the access to tax and customs information, as well as information, if needed, from other authorities. To request China to provide updated information in the next follow-up report.</i></p>
2	Recommendation 5: recommended actions for IDs	<p>By Kazakhstan:</p> <p>Section 3.2.2. Para. 361. Wording of recommendation: "the Chinese authorities should ensure that financial institutions cannot rely on first generation ID cards to identify persons". It seems that a government cannot ignore the use of IDs that it has issued. It should rather be recommended to guarantee a quick transition to 2nd generation IDs.</p> <p>China view:</p>

		<p>China agrees with Kazakhstan that it is not possible for a government to ignore IDs that it has issued. On the other hand China has a 1.3 billion population and it will take some time to transfer the population to 2nd generation IDs.</p> <p>Assessor's view:</p> <p>The issue of exchange of IDs is very pressing, as there are few elements to protect them from forgery. In addition, as the process of issuing the 1st generation IDs was done manually there are approximately 5 million identical IDs.</p> <p>Draft decision:</p> <p><i>It is recommended to China to set the exchange of IDs as one of the priorities. It is proposed to request China to provide updated information on this issue in the next follow-up report to the EAG Plenary meeting. At the same time in its follow up process the EAG will take into consideration the difficulties of this issue for China and the longer period of implementation.</i></p>
3	Recommendation 5: breaches of AML regulations	<p>By Ukraine:</p> <p>Taking into account the assessment of effectiveness of Rec.5, as well as the supervisory activities of the PBC, which have revealed breaches of AML/CFT rules, perhaps it may be necessary to recommend to create procedures (established by relevant legislation), which will quickly allow to correct these technical breaches as soon as possible. This should be done with the participation of the FIU as the main coordinator in the AML/CFT system, in order to ensure that this is done not only in the banking sphere, but across all financial sectors.</p> <p>China view:</p> <p>The FATF methodology does not require the authorities to create standard procedures for the financial institutions. It is more efficient that the financial institutions create their own procedures to carry out the requirements of the rules and regulations. The supervisory activities of the PBC also show that financial institutions are learning fast and the compliance situation has improved.</p> <p>Draft decision:</p> <p><i>In order to enhance compliance it is recommended to China to establish guidance for financial institutions on the mechanism of correcting technical deficiencies for the whole range of financial institutions.</i></p>

4	Recommendation 7: criterion 7.3 is not addressed in the report	<p>By Kazakhstan:</p> <p>Criterion 7.3 has not been addressed neither in the description & analysis/recommendations & comments sections, nor in the ratings box for Recommendation 7.</p> <p>China view:</p> <p>Article 6 of the new CDD rules approved by the PBC requires FIs to obtain senior management approval before establishing correspondent business relations.</p> <p>Assessor's view:</p> <p>The response to the mutual evaluation questionnaire notes the Provisions on Control of Foreign Exchange Operations for Banks dated 09.97. It is suggested that these provisions meet the requirements of 7.3.</p> <p>Draft decision:</p> <p><i>Criterion 7.3 is not addressed in the report and the available information does not give the opportunity to verify that there are existing relevant procedures in China. It seems necessary to request that China provide the necessary legislation, which regulates this issue. Taking into account the planned on-site visit of a group of experts of the FATF to China, planned for June 2008, it is necessary to recommend to this group to specifically look into the implementation of criterion 7.3 in the Chinese legislation and practice.</i></p>
5	Recommendation 15: information access of compliance official	<p>By Kazakhstan and Ukraine</p> <p>Subsection 3.8.1. It is noted that the legislation on one hand does not foresee but, on the other does not forbid the timely access of the compliance official to all of the relevant information. Taking into account the fact that this relates to an essential criteria, it may be necessary to recommend that Chinese legislation introduce these measures explicitly.</p> <p>Draft decision:</p> <p><i>In the framework of the follow-up process China is recommended to pay attention to the subcriterion 15.1.2. The implementation of this criterion should not cause significant difficulties as it can be implemented through other enforceable means, and amendments to the basic AML Law are not needed.</i></p>