China's New AML Law

A Significant Step Forward but Not Without Challenges

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After five years of deliberation and revisions, China's newly amended Anti-Money Laundering (AML) Law has finally been enacted and came into effect on January 1, 2025 — a long-anticipated milestone. While the law aligns with Financial Action Task Force (FATF) standards, the revision reflects China's focused effort to strengthen its domestic AML framework in line with international benchmarks.

Expanding AML Coverage: DNFBPs Now Obligated

One of the most notable changes in the new AML law is applying AML obligations to Designated Non-Financial Businesses and Professions (DNFBPs). This aligns China's framework more closely with FATF recommendations and addresses a longstanding gap in its regulatory regime. DNFBPs — such as real estate agents, lawyers, accountants, and company service providers — are now required to implement the same AML measures as financial institutions.

Addressing Historical Challenges: Penalties and Compliance

China's AML penalty framework has been a point of concern, receiving a "partial compliance" rating in the FATF's fourth-round mutual evaluation. Under the new law, penalty amounts will undoubtedly increase, but they may still fall short of the levels seen in other jurisdictions. However, the broadening of penalty circumstances — such as insufficient resources for AML functions, lack of independent testing, or ineffective transaction monitoring, etc., as well as the expansion of penalty types — such as restricting business activities — adds significant weight to the consequences of noncompliance. This shift signals a broader approach to enforcement, ensuring institutions are penalised for systemic failures, potentially increasing the deterrence effect.

Additionally, while individual accountability has also been in focus, a diligence exemption principle being introduced to the law can positively guide institutions toward good-faith compliance. This balanced approach may encourage more proactive adherence to AML obligations.

Requiring Preventive Measures: Lists Screening

Preventive measures are now a central pillar of China's AML framework under the new law. One such measure is mandatory lists screening, requiring all entities and individuals — not just AML-regulated entities — to screen State-issued lists related to terrorism, targeted financial sanctions, and significant money laundering risks. These measures aim to prevent financial transactions or asset transfers linked to listed subjects.

Establishing National UBO Registry

To combat illicit activities such as shell companies and nested shareholdings, the new AML Law mandates the establishment of a national Ultimate Beneficial Ownership (UBO) registry. Filing entities are required to register UBO information, which will be consolidated into a centralised UBO database managed by the PBOC. The UBO definition incorporates both ownership and control prongs. By enhancing transparency, this initiative aligns with FATF standards and strengthens China's efforts to combat money laundering, telecom fraud, and corruption at their sources.

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Implementation Challenges and Future Developments

The enactment of the new AML law marks just the beginning of a new compliance era. The PBOC is expected to release a dozen new or amended implementing regulations or guidelines to operationalise the law. These will likely cover critical areas such as Know Your Customer (KYC) trigger scenarios and requirements, UBO requirements, etc. Institutions — both financial and DNFBPs — must embrace for these additional layers of compliance, which aim to address systemic vulnerabilities.

However, challenges persist, particularly in applying robust AML measures under the "risk-based" approach. Questions remain on how institutions can balance regulatory expectations with operational efficiency.

Strategic Priorities for Financial Institutions

Drawing from KPMG's recent AML consulting experience in China, leading financial institutions are focusing on four key areas to address evolving regulatory priorities:

Data Lineage and Governance: Building a Strong Compliance Backbone

Institutions are undertaking multi-phase initiatives to strengthen data lineage and governance mechanisms, ensuring transparent and traceable data flows for transaction monitoring. Efforts include: checking the completeness and accuracy of customer identification data, integrating customer data for effective customer-level controls, establishing AML-specific data marts, and resolving complex transactional data discrepancies arising from the usage of internal accounts and third-party payments batch settlement. The AML data governance remediation was required in recent global cases like TD Bank's $3 billion penalty.

High Risk Scenarios: Risk-based Approach

Regulators are scrutinising the adequacy of due diligence for high-risk customers. The customers flagged in enforcement cases and law enforcement inquiries are of particular concern. Institutions are prioritising enhancements to KYC and transaction monitoring controls, and adoption of proactive, risk-based approaches tailored to high-risk scenarios.

Continuous KYC: Beyond Onboarding

Institutions are overhauling their KYC frameworks, moving beyond static onboarding checks to continuous customer due diligence across the entire relationship lifecycle. While implementing in-depth KYC measures — such as understanding business purpose and corroborating sources of wealth for high-risk customers — remains challenging, achieving dynamic, ongoing monitoring is even more complex. Recent high-profile enforcement cases in Singapore and the U.S. have highlighted these challenges. Institutions are developing targeted triggering scenarios, adopting differentiated KYC processes based on customer segmentation, and integrating continuous KYC with transaction monitoring. Advanced technologies, such as big-data analytics and dynamic risk assessments, will be pivotal in enhancing the efficiency.

Combatting Emerging Threats: Telecom Fraud / Scam

Telecom fraud / scam have become the most significant money laundering threat in China, with underground banking being important channels in China's money laundering crimes. Institutions are refining the transaction monitoring rules to detect such crimes. Additionally, AI-driven RegTech solutions are increasingly being adopted as a complement to traditional rule-based models to address these evolving threats effectively.

Final Thoughts

This law, though long overdue, marks a significant step in China's ongoing battle against money laundering and financial crime. While the law's provisions are robust, effective implementation under the risk-based approach will require strategic planning and investment by institutions. With regulators and institutions under immense pressure to align with global standards, this legislation lays the foundation for a more transparent and resilient financial system.

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