EU'S FINANCIAL SHIELD: STRENGTHENING AML MEASURES IN A GLOBALIZED ERA

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In an era marked by rapid globalization and technological advancement, combating money laundering and countering the financing of terrorism (AML/CFT) has become imperative for maintaining the integrity of financial systems worldwide. Nowhere is this challenge more pronounced than in the European Union, a region characterized by diverse economies and interconnected financial networks.

As a matter of fact, Money Laundering and Terrorist Financing (ML/TF) endanger the EU's economic and financial systems. Europol projected that approximately 1% of the EU's annual GDP is 'detected as being involved in questionable financial activity'. Therefore, combating ML and TF is critical for Europe's financial stability and security.

Back in 1990, the first EU Anti-Money Laundering Directive (AMLD) introduced new requirements such as customer due diligence and reporting suspicious transactions, among others. Subsequently, EU laws have undergone regular revisions to mitigate risks associated with money laundering and terrorist financing.

A significant stride was taken in this direction as the EU Parliament adopted a new AML package in April 2024, signalling a move towards harmonizing efforts to prevent money laundering and terrorist financing at the EU level.

What's new ?

I) Introduction of AMLA - a new authority in the EU

Anti-Money Laundering Authority Regulation heralds the inception of a new regulatory body at the EU level, the Anti-Money Laundering Authority (AMLA). AMLA, headquartered in Frankfurt, will derive its authority from AMLAR. This fresh supervisory institution will play a crucial role in the centralization of knowledge, procedures, and cooperation. Outlined below are the various key roles of AMLA:

·Directly supervise certain high-risk entities operating in multiple Member States and indirectly supervise all obliged entities under the EU AML framework.

·Have the authority to conduct investigation, inspection, and imposing sanctions on non-compliant institutions.
·Synchronize its efforts across the Financial Intelligence Units (FIUs) and offer regulatory standards and guidance.

II) EU Single Rulebook

With this new AML package, the EU policy maker has taken a different approach with the creation of a “Single AML Rulebook” which will bring homogeneity throughout the EU. Indeed, the rationale behind this move is to set a common standard across the EU in terms of the AML/CFT requirements. A specific case in point is the standard established for determining beneficial ownership, demanding at least a 25% ownership share (in shares, voting rights, or any other form of direct or indirect ownership interest).

A key focus in the effort to counter money laundering is to empower FIUs and competent authorities to have access to beneficial owners' registers held by obligated entities (e.g., banks, asset managers, crypto asset managers, and real estate agents) to enable them to uncover money laundering schemes and promptly freeze assets, where applicable.

The “Single AML Rulebook” will lay emphasis on more vigilance by the obliged entities in monitoring the ultra-wealthy individuals, defined as those with a total wealth of at least €50,000,000 excluding their primary residence and conducting appropriate level of due diligence. Moreover, starting in 2029, institutions must ensure rigorous due diligence and ongoing monitoring for accounts or transactions tied to major football clubs and agents.

Lastly, but equally significant, policy makers have decided to enforce a new ceiling on large cash transactions, restricting them to a maximum of €10,000 within the EU, with application extended to payment service and electronic money providers. However, payments between natural persons who are not acting in a professional function are exempted.

III) AMLD 6

One of the directives will outline a uniform methodology and jurisdictional powers for supervisory bodies across EU countries, tasked with overseeing the compliance of supervised institutions with AML regulations and imposing more rigorous penalties for any infringements.

FIUs will be granted greater authority to scrutinize and identify money laundering and terrorist financing activities, with the ability to suspend suspicious transactions, accounts, or business relationships where deemed necessary. The cornerstone of success lies in the collaboration between different FIUs and competent authorities, including the AMLA, Europol, Eurojust, and the European Public Prosecutor's office. This collaborative approach will facilitate the handling of complex cases that transcend borders through coordinated investigations.

These new directives will bring about a notable change by standardizing the information accessible on beneficial owners' registers, which will be digitally archived in national central registers and interconnected through an EU-wide system of registers.

Furthermore, there will be increased transparency regarding beneficial ownership information, allowing individuals with legitimate interest (such as journalists, media professionals, civil society organizations, competent authorities, and supervisory bodies) to obtain direct, unfiltered access upon approval.

What are the impacts ?

As things stand, large financial institutions with several branches across the EU may face increased compliance burden due to such legislative package. Resources will need to be redirected to perform a gap analysis of the new regulations and update the entire group's AML/CFT framework.

To meet the new regulatory standards set by the EU AML package, financial institutions will also need to invest in advanced technologies such as artificial intelligence, machine learning, and data analytics for better detection and prevention of money laundering activities.

Implementing the measures outlined in the EU AML package may entail significant costs for financial institutions, including expenses related to technology upgrades, staff training, and compliance efforts.

Finally, operational adjustments may be necessary for financial institutions to adapt to the new regulatory landscape, which may involve restructuring internal processes whilst revising their AML/CFT risk management framework.

The EU AML package represents a significant step forward in the fight against money laundering and terrorist financing within the European Union.

By introducing comprehensive measures aimed at enhancing transparency, cooperation, and enforcement across member states, the package seeks to fortify the EU's financial system and safeguard it against illicit activities. As the EU moves forward with the implementation of these reforms, it is poised to bolster its position as a global leader in combating financial crime and ensuring the integrity of its financial markets for years to come.

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