

AML: KEY SUCCESS FACTORS



MARCUS PLEYER

Deputy Director General -
Federal Ministry of Finance,
Germany

AML: an AML gamechanger that will dovetail with national supervisors

We are taking a major step forward with the European legislative package to comprehensively combat money laundering and terrorist financing. At its heart is the establishment of the first European Anti-Money Laundering Authority (AMLA). AMLA will provide a European anchor point for the Member States' supervisory regimes and will itself play a role in the direct supervision of individual, particularly high-risk and cross-border financial institutions. In this way, we will not only set uniform substantive standards for anti-money laundering (AML) throughout the EU but will also establish a body to oversee compliance with these standards.

However, merely providing the legal basis for AMLA's establishment will not make the authority fully functional. AMLA needs state-of-the-art IT infrastructure and highly specialised

professionals, as well as expertise and support from the Member States, to bring it to life and infuse it with substance. Specifically, AMLA's General Board, which is comprised of members of the national supervisory authorities, must jumpstart the substantive regulatory regime.

The AML Regulation and the AML Directive contain a large number of provisions regarding regulatory and implementing technical standards that will be developed by AMLA. Without such standards, the unified European AML package will not be applicable in practice due to a lack of specifics. The development of such regulations requires lead time and effort. Thus, in order for the EU AML package to function effectively, it is of utmost importance that we now move on to the final steps in co-legislation and swiftly create an environment for AMLA to take up its work. Only in this way will we be able to give AMLA and national supervisory authorities the opportunity to start developing the in-depth regulatory details.

What is also still pending is where AMLA will be located. In this regard, it is important to respect the European Court of Justice's ruling that future decisions on the location of EU agencies must be made using the regular legislative procedure with the involvement of the European Parliament.

**Before the AML
package is applicable in
practice, AMLA needs
to start developing
technical standards.**

In order to ensure AMLA's optimal development, it needs to be established as quickly as possible in a location that combines first-rate connectivity with an international environment. In addition, it is essential for AMLA to be located in a city where it can engage effectively in exchanges with prudential supervisors, first and foremost the ECB, because anti-money laundering supervision and prudential supervision are closely interlinked. This is a strong argument for Frankfurt, in close

proximity to the ECB. This would also help ensuring that AMLA develops a deep understanding of the financial sector and is well equipped to perform its essential tasks.

Germany is doing more than just bidding to serve as AMLA's future home. We in Germany are keenly aware of the importance of contributing to the fight against money laundering and terrorist financing. We are currently in the process of setting up a new national Anti-Financial Crime Authority (Bundesoberbehörde zur Bekämpfung der Finanzkriminalität, or "BBF" for short) that will have a separate department specifically dedicated to AMLA.

As a Member State with a large number of obliged entities (especially in the non-financial sector), it is crucial for Germany to pool its expertise and offer AMLA and other Member State's supervisory authorities a central point of contact. We are taking up this challenge in order to drive the joint European project forward. The BBF's core task will be to pool under one roof the most important functions for combating financial crime: financial intelligence and analysis, investigations and supervision.

This includes a pillar that will be responsible for criminal police investigations of complex international money-laundering cases and for the effective enforcement of sanctions. In a second pillar, it will provide financial intelligence serving as home for the FIU. And in the third pillar, it will coordinate supervisory authorities particularly in the non-financial sector and serve as a point of contact for AMLA. The new authority will fully integrate the use of state-of-the-art digital technology into its work, strategic orientation and specialised training programs.

We must take all necessary steps to get the new anti-money laundering regime up and running quickly. This is essential in order to stop money laundering and protect the integrity of our internal market, fair competition, social peace and trust into the rule of law.



ANTE ŽIGMAN

President of the Board -
Croatian Financial Services
Supervisory Agency (HANFA)

AML - A new partner in the common EU supervisory agenda

As we know, AMLA's integrated system of AML/CFT supervision across the EU will be based on common supervisory methods and convergence of high supervisory standards. The new Authority will also have the power to create guidelines, technical standards, and opinions to further harmonize national-level supervisors' work. AMLA will have the power to adopt binding decisions and to impose pecuniary administrative sanctions. As a partner of national competent authorities, AMLA should provide expertise, knowledge, data, and coordination. It should be an AML hub for the exchange of information, best practices, and training on advanced AML/CFT supervisory methods, taking full advantage of digital and technological innovations.

The list of AMLA's tasks and responsibilities seems a mile long and includes the supervision of AML risks in crypto assets, as well as the direct supervision of high-risk and cross-border financial entities. New technology and new risks will place increased demands on AMLA (and

national authorities) regarding specialist skills and available infrastructure.

New technologies are shaping our future and our expertise and knowledge must follow this progression. Supervisors' efforts to tackle problems have been hampered at times by gaps in data quality and by difficulties in scaling up our analytical infrastructure to quickly perform a 'deep dive' analysis on a particular area of concern. In some respects, technology and data governance processes have not kept pace with the growth and increased complexity of the AML landscape. AMLA will likely have to tackle the same problem. It will be essential for AMLA to have both specialized AML experts, data analysis experts, as well as experienced AML hierarchy-trained liaison officers for direct and efficient cooperation with national authorities.

Do we expect too much of AMLA?

It is hard to tell at this point. AMLA is still a long way off from being operational. The plan (as it stands now) is to reach full staffing in 2025 and to start carrying out direct supervision in 2026.

We are opening a new chapter in our AML/CFT common agenda.

While there is no doubt that the intent is there, we should not be surprised if there are delays, and there should be contingencies in place to anticipate and address them. It will be crucial for national authorities to understand AMLA's role and integrate it into their processes, to avoid both redundancies and supervisory gaps. As with any new system, uncertainty can lead to miscommunication, and that can cause problems that should have been flagged to be overlooked. To be effective, the transition into the "AMLA age" should be made with a thorough understanding of timelines, individual responsibilities, common obligations, tasks, and available collaboration tools. From the level of AMLA's General Board to the experts in joint supervisory teams, national supervisory authorities should be proactive and driven to enhance AML results at the EU and national levels.

While AMLA is not the SSM, there are similarities and experiences that we can draw on. Adapting to the direct supervision approach may provide some challenges at first, but this model

will provide a much-needed horizontal perspective when supervising cross-border financial sector entities exposed to the highest risk of money laundering.

Direct supervision aside, AMLA will mainly function as the central authority coordinator and a facilitator for national authorities, and it will provide support for national-level supervision while having a holistic overview of the EU landscape and the risk emerging in the system. Joint supervisory teams are not a new concept and they work well for the banking system. They can and should be used by AMLA and national authorities as a tool to enhance supervisory efficiency and to provide net enhancements through collaboration.

Like in banking, AMLA can benefit from the expertise and experience of national competent authorities to avoid the pitfalls of a 'one-size-fits-all' mindset, which can be damaging for both the supervised and the supervisor. The expectation is that the new joint approach will be supported by robust empirical research on the real effects of supervision, leading to an outcome-based, forward-looking system. The experience and practice gained through cooperation and resource-sharing should be seen as additional capital for both sides.

Human resources and shared knowledge make only one side of this equation. A realistic budget and a functional infrastructure are the other. If we empower AMLA with a systemically important role, we must make sure that the role is properly funded. Otherwise, we are creating a single point of failure in the system.

All those pillars are equally important. We are opening a new chapter in our AML/CFT common agenda, and it is up to us to provide a solid framework for the future and imbue it with added value. If we do that, pooling expertise, high-quality data, and collaboration under the same umbrella should provide a recipe for better AML/CFT results.



TOBIAS THYGESSEN

Director, Fintech, Payment
Services and Governance -
Danish Financial Supervisory
Authority (Finanstilsynet)

How can the AMLA take us to the next level?

The fight against ML and TF has been significantly strengthened in recent years. In Denmark, following two wake-up calls (the 2017 FATF MER and the Danske Bank Estonia case), lawmakers, supervisors, obliged entities, and law enforcement authorities have all devoted considerable extra resources to this important effort. At the DFSA, we have increased inspections manifold, developed and refined supervisory techniques, risk assessments and guidance to obliged entities.

The recent settlement in the Danske Bank Estonia case, with combined fines of more than 2bn USD, furthermore indicates that we have gotten incentives right in the sector, at least for now.

This should not lead us to rest on our laurels, however. It is difficult to measure the efficiency of current efforts. Although the number of suspicious activity reports have more than quadrupled over the last eight years, it seems obvious that we need to take the fight to the next level to succeed. The current debate and negotiations on the future AML regulatory framework in the EU is a window of opportunity to do just that.

We have a momentous job in establishing the supervisory set-up and getting it right, including setting up the AMLA. The creation of the AMLA will raise a number of co-ordination challenges. AML/CFT supervision occurs within the context of national legal regimes and in close co-operation with national authorities, mainly the FIU, the police, other relevant authorities (e.g. tax authorities) and the courts, as well as in coordination with prudential supervisors.

This requires a strong understanding of domestic legal practices and government infrastructure (e.g. the domestic tax system, the domestic ID system etc.) and daily co-operation with domestic law enforcement and other relevant domestic entities. This will not be the core competence of the AMLA, and we need to ensure an effective cooperation between these authorities and the AMLA.

We think the AMLA should focus its attention where it has the greatest potential to add value: on the key value chain (obliged entities – FIU – law enforcement) rather than only on the indirect route through strengthened supervision.

**To truly add value, the
AMLA should push the
use of technology to
combat financial crime.**

We need to harness the power of technology to succeed here and not focus on doing “more of the same” by applying blood, sweat and tears – and more paper work. Increased use of technology is even a win-win-win. It is more effective, it is more efficient and it is in some areas less intrusive for customers – and all three aspects are important. In 2021, we published a report setting out seven initiatives^[1] where technology could help increase either effectiveness or efficiency (or both) – but subsequent discussions with interested parties have shown that there are likely many more avenues for improvement.

Underlying this are very difficult trade-offs – the fight against financial crime, which we all believe is crucial for society, on the one hand – and unassailable basic rights of privacy and, in the final instance, human rights on the other. These are difficult questions – but we need to pose them. Luckily, there are answers too.

In close cooperation with Germany and The Netherlands, Denmark

has pushed for increased room for cooperation and data sharing in the future European AML rules. Current rules restrict obliged entities to arrange their preventive efforts in silos. The consequence is that we cannot follow money trails when criminals launder their proceeds through networks of accounts across financial institutions. At the same time, obliged entities are highly restricted in their ability to share insights on suspicious customers and transactions with each other. Costs of compliance, risk of negative supervisory actions and negative public backlash can push financial institutions to derisk instead of taking a true risk-based approach. The rules incentivise a “better safe than sorry” approach.

Our proposal aims for a framework which creates room for new and innovative approaches without specifying the recipe, based on the possibility for national discretion to develop initiatives on data sharing and cooperation, with all due safeguards. We are happy to see that the Council agreed on a way forward.

Thus, we believe that in order to add value, the AMLA should focus on driving increased efficiency and effectiveness through pushing this important agenda forward at a European level. There is a need for an authority with muscles to do this – and with the ability to answer difficult pan-European questions on the trade-offs involved.

However, huge shifts towards the future and technological openness in Europe cannot stand alone. The possibilities of technology should be an integral part of the FATF standards, which we should upgrade to actively encourage and even require increased use of technology and, in a wider sense, more co-operation and information sharing. But this is a debate for another day.

[1] https://www.dfsa.dk/News/Press-releases/2021/Consultation_project_aml_tek



ANDREAS SCHIRK

Head of Division -
Austrian Financial Market
Authority

Structural challenges for AML/CFT in the EU and key measures to address them

The EU is facing three main structural challenges when it comes to AML/CFT. They concern regulation, supervision and coordination including exchange of information.

First, in terms of regulation the lack of clarity and limited nature of some of the rules adopted at EU level, combined with different approaches in gold-plating, have resulted in diverging implementation of the EU legal framework across Member States (MS) and across obliged entities (OE). While in some cases national specificities might justify divergences, very often entities that share comparable risks across the EU do however not follow comparable approaches to tackle them because of divergent AML/CFT rules. Such inconsistent transposition and application of the EU AML/CFT framework creates blind spots and provides opportunities for regulatory arbitrage thereby undermining the combat against ML/TF across borders, as the recent AML scandals have shown.

Second, AML/CFT supervision within the EU is currently MS-based; its quality and effectiveness are uneven, due to significant variations in resources and practices across MS. The methods to identify risks and to apply the risk-based approach to supervision diverge among the more than 60 authorities covering the financial sector – not speaking of the many more authorities covering the non-financial sector. While some risks remain national in nature, others may impact the entire Union financial system. Fragmentation of supervision leads to information and supervisory gaps that in turn may lead to failure. AML/CFT supervision is as strong as the weakest link.

Third, there is still insufficient coordination and exchange of information. All recent major ML cases reported in the EU had a cross-border dimension. The detection of these financial movements is however left to the single OE and their national authorities and to cooperation among them. While this reflects their autonomy and protects data secrecy, this also leads to situations where relevant data are not shared and joint analyses are not performed for lack of common tools or resources or – more generally speaking – a common structure to underpin cooperation, coordination and innovation in the combat against ML/TF.

The EU's AML package aims at addressing those very weaknesses and supervisory gaps. The creation of a single EU rulebook for AML/CFT will reduce current loopholes and contribute to levelling the playing field. It should also provide clear rules on data sharing that allow for sufficient room for innovation and cooperation while imposing adequate safeguards.

Whether AMLA will deliver on its objectives will depend on how it is implemented in practice.

The establishment of AMLA will tackle the issue of institutional fragmentation of AML/CFT supervision and poor coordination at the EU level concerning actions to prevent ML/TF. Whether AMLA will deliver on its objectives will depend on how it is implemented in practice, in particular in terms of governance structures, framework for cooperation and investment in human resources and technology.

Starting with governance, AMLA will seek to ensure independent decision-

making and operational independence, which are essential to avoid regulatory capture and promote fair and strong supervision. AMLA will institutionally link all supervisory authorities in the EU and establish binding cooperation mechanisms to prevent a *deja-vu* of past failures resulting from supervisory gaps and loose collaboration.

To succeed with its tasks AMLA will need strong leadership and sufficient highly qualified staff. To develop the required qualifications quickly while forming a common supervisory culture, mobility between national authorities and AMLA will be crucial. Rotation in both ways – from the national to the supra-national level and vice-versa – should be (come) the role model for career progress. Also, AMLA could become the hub for joint training initiatives.

AMLA could also make a significant difference in terms of AML/CFT supervision in the EU when it comes to data management and supervisory technology. One of its tasks is to develop an EU platform for data gathering and access to relevant information. A common platform is expected to ease exchange of information and provide a basis for data-driven AML/CFT supervision including with analytical tools, which could be used by both AMLA and national supervisors for risk-based supervision. This in turn should facilitate the convergence of supervisory practices.

AMLA will have the tools to identify best practices and foster supervisory convergence. Using them in an inclusive yet determined manner will strengthen supervision and contribute to ever more mutual understanding and trust among supervisors. The SSM and SRM have shown how important broad inclusion of other authorities is when setting up a new supervisory model.

Early buy-in of national supervisors will be key for building up the necessary capacities and setting the scene for effective and sustainable cooperation – AMLA should seek to learn from the experience including lessons learned of the ESAs and the SSM in this regard.



PAOLO COSTANZO

Manager, Financial Intelligence
Unit (UIF) - Banca d'Italia

AMLA: perspectives for an effective action and support to FIUs

The European AML/CFT framework is complex: it is multi-disciplinary and multi-agencies and applies across a wide range of obliged entities. The AML Package brings about important innovations that will strengthen the system: notably, a significantly higher level of harmonization through an AML rulebook and AMLA as an entirely new supranational agency. Still, a significant variance will remain across and within Member States in the nature of competent authorities, their powers, the distribution of competences. This variance is higher in the non-financial sector, less regulated and less known. Competent authorities, especially FIUs, will remain regulated in a directive, with ample room for national implementation that, while ensuring flexibility, may be less conducive for convergence.

It is a challenging context for AMLA to work in effectively and produce tangible results on common approaches and risk detection and mitigation. Expectations should be set correctly to avoid overreliance and complacency at national level; moreover, AMLA will have to “test” its governance processes, contain possible weaknesses, maximize the effects of its operational toolkit.

AMLA’s General Board comes in multiple configurations. Firstly, it is split in a supervisory and an “FIU” composition; secondly, the former branches out in multiple settings, depending on sectors involved and national competences. Owing to divergent national solutions, different authorities may seat in the same configurations of the Board.

Different from its supervisory role, AMLA as the FIUs’ Mechanism will play a coordination and facilitation role, more than taking binding decisions. National FIUs’ remain in charge of reciprocal cooperation and information sharing, similar to the status quo, and the system will thus retain essentially its multilateral nature. This shows particularly in the crucial area of joint analyses: AMLA would manage a process where FIUs decide on whether to launch or participate in joint exercises and on whether, and on what extent, information can be shared. Incentives may not be there to effectively tackle significant cross-border financial criminality, as the experience shows.

The defence of national prerogatives has weighed heavily in Council’s negotiations. While the matter may be further discussed with the European Parliament in the upcoming trilogues, it is important to reflect on key factors that can be leveraged to support AMLA’s effective action for FIUs to step up their capabilities and converge toward common methods and activities.

**Right expectations,
realistic objectives,
communication on
results are key for
AMLA’s credible role.**

The expectations on AMLA’s role and capacity to deliver should be set correctly. In the FIUs’ domain especially major responsibilities remain at national level; AMLA is certainly not a panacea for the ML/TF exposure troubling the EU; the new system will not be failure-proof mostly due to national inadequacies and discrepancies. AMLA should not become a scapegoat in case things go wrong (again) somewhere in the EU because of overreliance and complacency.

AMLA should deploy all its powers and functions, as limited as they may be, to foster a cooperative framework where

FIUs have an interest and incentives in investing and participating. This common and cohesive playground should be underpinned by clear objectives, priorities and commitments.

AMLA will also have to rapidly set out and make available to FIUs working tools and methods that offer simple and convenient options for engaging in analyses and cooperation: flexible templates for information reporting and sharing, straightforward procedures to engage in joint analyses, guidance on analytical methods.

AMLA should develop IT tools and procedures for FIUs’ operations and information sharing, building trust based on confidentiality and security, together with cost-effectiveness and convergence.

Effective communication is another key factor: to reconcile expectations with results; to keep the FIUs engaged. Objectives should be set out ex ante; what has been achieved and what hasn’t, and why, should be transparently explained; difficulties and obstacles encountered should be identified, together with their causes and possible remedies; what AMLA can and cannot do, and the role of national authorities should also be clearly communicated, highlighting the level of commitment by the latter.

To sum up, AMLA’s tasks will be challenging; for an effective role as the FIUs’ “Mechanism” it is important to: set the expectations right, avoiding overreliance by national authorities; define clear objectives and priorities with realistic deliverables; provide for flexible guidance on FIUs’ working methods; promote cost-effective IT tools; communicate transparently the results achieved, the obstacles encountered, what cannot be done.



DR. CHRISTOPHER P. BUTTIGIEG

Chief Officer Supervision –
Malta Financial Services
Authority (MFSA)

Reflections on effective AMLCFT supervision: a prudential regulator's perspective

The effectiveness of supervision with anti-money laundering and counter terrorism financing (AMLCFT) compliance is a topic that continues to be high on the political agenda. While efforts toward EU harmonisation in AML have been many, cross-border AML issues continue to come to light, and the powers of the proposed EU AML Authority (AMLA) remains the subject of debate at the level of the EU institutions. It is opportune to reflect on the elements that make an AML supervisory framework effective. This article focuses on the importance of cooperation between the prudential and AML supervisors for effective supervision.

An AML supervisory framework must have a clear legislative basis with well-structured laws and guidelines. It must be informed by comprehensive risk assessment and a sound understanding of the threats and vulnerabilities faced by the financial sector. This must

be complemented by a supervisory regime that responds to identified risks, guides obliged persons towards compliance, and has the necessary tools to take remedial action and impose proportionate and dissuasive sanctioning measures.

Inter-authority and public-private information sharing arrangements, domestic and international supervisory cooperation, supported by a sophisticated technological infrastructure, have become fundamental for effective supervision. Supervisory cooperation is key to address the inherent weaknesses of a fragmented institutional architecture, where information gaps may result in supervisory failure. In an interconnected financial system, any supervisory mechanism, is only as effective as the level of cooperation that supports it, even more so from a cross-border perspective.

For jurisdictions operating with an institutional architecture, with different authorities with distinct AMLCFT, prudential and investigative remits, building cooperative relationships and conduits of information exchange are paramount for enabling effective supervision of financial entities and financial crime prevention. In the absence of these efforts financial supervision is likely to fail with authorities scrambling to act on incomplete information.

More is yet to be done at European level through the implementation of the new AML package to continue to develop supervisory cooperation.

Extensive cooperation between AML and prudential supervisors is essential. Indeed, experience suggests that effective financial supervision that identifies, understands, and mitigates the risks to the stability and integrity of the financial system cannot be achieved through a siloed approach. Effective prudential supervision requires access to AML supervisory information as deficiencies in an obliged entity's AML compliance framework may be a symptom of general failures in the governance and internal controls of the said entity.

Similarly, AML supervision requires access to prudential supervisory information, such as concerns related to the integrity of individuals or aggressive business models, that

presents a holistic outlook on obliged persons. This supervisory cooperation serves to further enhance authorities' risk assessments and understanding through a complete information set.

While important, Regulators' cooperation should not simply revolve around the practical part of exchanging information, but also through the sharing of expertise, in this case between specialists focused on AML and those focused on regulatory compliance, to guarantee that information shared is information understood. It would be frivolous for regulators to flood each other with supervisory information haphazardly simply to show that it is diffused. Regulators must consider the quality of the information they are exchanging and how such information is considered within their operations, translating into more informed and effective tangible results.

At national level, the process for cooperation between prudential supervision and AML supervision in jurisdictions like Malta has been strengthened through enhanced cooperation and constant communication between the MFSA, which is responsible for prudential supervision, and the FIAU, Malta's AML supervisor. This has made both AML and financial supervision in Malta more effective.

At EU level, a lot has been achieved in the field of cooperation through the EBA's AML mandate which enabled it to foster and deepen cooperation between prudential and AML supervisors. However, more is yet to be done at European level through the implementation of the new AML package to continue to develop supervisory cooperation.



MARKUS RONNER

Group Chief Compliance and
Governance Officer - UBS

Europe in unison can deliver a world-class AML framework

The EU has an opportunity to deliver a holistic and comprehensive reform of its anti-money laundering (AML) and combating the financing of terrorism (CFT) framework through the legislative package being considered by the European Parliament and EU member states. The aspiration should be to create a cutting-edge framework that is both effective and efficient, with consistent supervision across the European Union.

In implementing these reforms, the EU should streamline the AML-CFT framework by reviewing existing rules and harmonising their implementation as far as possible. EU legislators should limit national exemptions and avoid leaving room for parallel interpretation at EU member state level.

The primary focus needs to shift from simply maintaining technical compliance to a more outcomes-oriented approach. The Wolfsberg Group statement on demonstrating effectiveness provides a good benchmark: we need to establish clear priorities in terms of the money laundering and terrorist financing risks to which firms are exposed. Regulators should enable firms to operate a more

risk-focused financial crime programme that takes into account the inherent risks of their own business model and services. For example, a payments provider faces a different set of risks to a wealth manager.

The new framework also needs to recognise that one of the key tools to fight financial crime is fostering public-private partnerships. Formalised cross-sectoral cooperation has an established track record in delivering more effective regulatory outcomes and prompt insight into emerging risks. Such partnerships should be at the centre of the set-up of the new EU-wide AML authority, AMLA, buttressed by extensive data-sharing arrangements.

Where at all possible, we must avoid additional layers of complexity, such as divergent or duplicative requirements from supervisors or in national rules. AMLA, the centrepiece of this integrated AML supervisory system, must have a clearly delineated supervisory scope, especially the boundary with prudential supervisors. Proactive alignment between supervisors will be key, to avoid conflicting communication or overlapping requirements. The set of criteria used to determine which entities will be supervised directly by AMLA should be transparent and easy to implement, so that the selection process operates smoothly. Equally important will be to ensure that firms that are not directly supervised by AMLA follow the same rule-set.

The aspiration should be to create a cutting-edge framework that is both effective and efficient.

In this regard, AMLA will have the opportunity to build a less fragmented, clearer and more consistent framework through its forthcoming mandate to draft regulatory technical standards and interpretative guidance. Legislators should also use the current reforms to ensure rigorous alignment with international FATF standards, in tandem with appropriate enforcement capabilities within AMLA.

New technologies could also play a key role in making the AML-CFT framework more effective. They will be crucial in supporting institutionalised solutions, for example to enable negative news-sharing across the industry. Likewise, innovative industry collaboration could help to build a

more future-oriented framework through artificial intelligence-based solutions, for example to detect atypical behaviours. Increased use of shared utilities by banks and other parts of the financial system, including the shadow banking sector, could increase the effectiveness of money laundering prevention efforts, helping to safeguard the EU financial system. Subject to data protection requirements, such tools could potentially be extended across jurisdictions beyond the EU.

Legislators thus now have the chance to design a world-class framework that truly embeds more effective, risk-based and harmonised AML/CTF measures across the EU. Consistent enforcement, ensured via streamlined supervision, alongside encouragement of innovative solutions to reduce operational complexity, will be crucial in achieving this goal.



SYLVIE MATHERAT

Global Senior Advisor -
Mazars

Fighting AML risks: what should be expected of the new setup?

It is relatively easy to draw a list of expectations for the new framework; it should cover everything we did not managed to have in the recent years, in a nutshell: harmonization, consistency, information sharing and efficiency.

It should foster in particular:

- more harmonization of rules,
- more harmonization in terms of rules implementation,
- more clarity in terms of what is expected from banks,
- more information and data sharing,
- more efficiency in terms of means used and outcomes,
- more cooperation between banks and authorities.

All this seems reasonable, still there is a lot to do to get there and the proposed new authority AMLA has an essential role to play. AMLA will be tasked first to implement a coordinated approach of what should be common rules out of the new EU regulation, it will then hopefully simplify data sharing and finally lead by example in terms of outcomes required as it will have direct supervisory powers although the number of banks under

its direct supervision is not yet decided. Importantly, clarity about the level of scrutiny and coverage of AML risks is needed.

More harmonization and consistency in rules implementation

There is first a strong need for more harmonization. One critical characteristic is that AML rules are still based on national laws. This should be modified in order to fight efficiently money laundering that do not stop at borders.

In this respect the fact that new rules will come out of a regulation and not a directive is in itself an improvement. By being directly implementable in national jurisdictions, the new rules should be, by definition, harmonized across all EU countries. Then it is important to make sure that the implementation of rules will be also harmonized and that the different FIUs practices will be consistent across EU. AMLA has an important role to play there through its direct supervisory powers. In that respect the ECB recommendation that AMLA should have, at least, a bank directly supervised in each country is very important as it should deliver common supervisory practice in all EU countries.

To be efficient, AMLA should clearly state expectations in terms of coverage of AML risks.

Appropriate information sharing

There are two elements there: the first one is that the new authority should have access to the data it needs and then that this data should be of good quality. As recently mentioned in an ECB blog, AMLA needs to have access to all the information already existing in the different national AML/CFT authorities, it should also have access to the regular accounting and prudential data bases of the other EU authorities in order to gain sufficient knowledge of the situation of banks it will have to directly supervise.

Moreover, going forward it should enrich its own data base and the ECB proposal that it should create a new central hub to which all national authorities could have access is welcomed. It is a precondition for the new system to be efficient and all roadblocks linked to data protection

need to be lifted for this very specific purpose.

More efficiency / which coverage of AML risks should be expected?

There is a lot of expectations there from public authorities, but also from banks. The public perception of the supervisory oversight of AML /CFT issues is quite negative as each scandals highlights loopholes in the supervisory framework hence the necessity for more harmonization and consistency as mentioned above. On the banks side there are a lot of frustration as well about the lack of cost efficiency of controls put in place in the last years.

Most banks have spent a huge amount of money to reinforce their internal controls without managing to fulfill nor the regulatory expectations nor those of the public at large. How can it be improved? First information sharing of some public data across banks (like clients ID for example) should be possible, then tools improvement like more use of Artificial Intelligence (AI) should also help to reduce cost while providing more efficient controls. But, more importantly, clarity about what is expected from banks and enhancement of the dialogue between banks and authorities is also needed. Unlike traditional credit risks where a margin of error is tolerated, there is an expectation that 100% of AML risks should be covered. This focus on exhaustive controls is not only expensive but also not efficient as all risks are treated the same way whereas FIUs are overwhelmed by huge number of suspicious activity report that they cannot prioritize. It also triggers stringent banks reactions towards certain activities like correspondent banking for example or banking coverage in certain countries or certain activities.

Common and public understanding of the required outcomes need further discussions in order to accept that banks focus on the most important issues.

AMLA should also clearly explain what is expected in terms of coverage of AML risks. Only this will increase the efficiency of the current system.



BRYANT GOFSTEIN

Deputy Chief Compliance Officer and Global Head of Financial Crimes Compliance - Western Union

Equipping Europe to deliver on global AML challenges

The last few years have made it abundantly clear that global problems know no borders. Financial Services Stability, pandemics or even supply chain problems do not stop at national borders. Increasingly, we are coming to realize that our common challenges demand joint solutions and approaches.

In what is an increasingly volatile world, where transnational dangers seem to ever increase, the response to ML/TF are immediate priorities of paramount importance for the stability of our economies and our societies at large. This is not an easy task for an interconnected world that is crisscrossed by a myriad of networks, that connect but also disintermediated by countries, regions, and economic sectors.

ML/TF are one of these global phenomena that are transnational and trans-sectoral by nature and demand thoughtful coordinated solutions. The EU is taking a leading role in developing a transnational AML/CFT response. This is not an easy task for what is essentially a federation of 27 States with, quite often, different domestic

and foreign agendas, priorities, and capabilities. But it is essential, and it will also provide more clarity to financial services providers that operate in the EU's single market, benefiting companies and consumers alike.

Recognizing this, the European Commission ambitious Package to reinforce the European AML/CFT Framework. This push for further harmonization can, we believe, serve as a cornerstone for a more resilient framework. For financial services providers, operating within the EU Single Market, this evolution to a Regulation means that crucial functions, such as the templates for the reporting of suspicious activities, will be harmonized across Member States. The consolidation of supervisory activities through the AMLA can also increase efficiencies for providers operating in multiple Member States. For example, presently, obliged entities can be subject to multiple independent inspections in individual Member States. With AMLA, this scenario will be improved for obliged entities under direct supervision which will now be expected to be subject to one coordinated inspection action by AMLA and consolidated feedback that is aligned with all regulatory expectations.

ML/TF challenges demand joint solutions and approaches.

Apart from the new regulatory framework, another important point is developing a risk-based approach in the EU. While requirements for harmonization at EU-level through the Regulation is important, there is also a need to let obliged entities have enough flexibility to innovate and adapt to evolving ML/TF risks. To that effect, at Western Union we believe that a risk-based approach when it comes to ML/TF prevention and detection is key. This is something that the EU framework should embrace, enabling companies to develop and implement appropriate risk mitigation techniques.

There are additional areas where the AML Regulations can close some of the existing gaps.

The first one is information and intelligence sharing which is one of the main tools to address ML/TF risks; AMLA's centralized position enables it to act as a facilitator. Western Union also believes that AMLA's work in this

area can be supported by developing a European one-stop-shop platform to further facilitate information flows between relevant bodies and entities, as well as enable information sharing on a need-to-know basis.

Associated with information sharing, there is of course a need to ensure adequate data protection. Data sharing practices need to be built on the principles of necessity, proportionality and protection of fundamental rights. AMLA, alongside the European Data Protection Board, are in a good position to support the interplay between data privacy and data sharing requirements for AML/CTF-purposes.

Finally, AMLA can also play a significant role in ensuring closer collaboration between all relevant parties. Western Union sees particular great benefits in enhancing public-private partnerships (PPPs). For a well-functioning system, it is important to ensure that the feedback from this assessment reaches back obliged entities and their respective regulators.

The below referred challenges are by no means exclusive to the EU. At Western Union we believe that the above principles are also key to addressing global ML/TF challenges. The FATF has been playing a fundamental role in both these areas and has been contributing to a culture of collaboration amongst different jurisdictions with the sharing of best practices and reinforcing the importance of cooperation.

The way forward is increased international consistency and harmonization, which still remain a challenge, globally, in spite of several initiatives and efforts. We are pleased the EU has recognized this need and is tackling today's ML/TF challenges in consistent, robust way.