

New EU tools to fight money laundering

Two legislative proposals to strengthen the EU's anti-money-laundering (AML) tools are to be voted in second reading during the May I Plenary. The aim is to strengthen the EU AML framework, in line with the recently reshaped international AML standards.

EU efforts in the international context

Non-binding, but universally recognised recommendations of the [Financial Action Task Force](#) (or FATF, an intergovernmental body set up in 1989) stand out as a particularly important set of international AML standards. They are regularly updated in response to the evolution of criminal activities. The most recent [edition](#) of these standards (2012) includes recommendations on countering not only money laundering, but also terrorist financing and – for the first time – the proliferation of weapons of mass destruction.

The EU participates in elaborating the FATF standards and has incorporated them in European law through three successive AML Directives. The last of these, [Directive 2005/60/EC](#), has been in force since 2005. It applies to all financial institutions, as well as an array of other actors including auditors, notaries, real estate agents, and casinos. It has established a preventive system whereby these entities and professionals are under an obligation (known as 'customer due diligence') to check the identity of their customers and report suspicious transactions to financial intelligence units (FIUs). The Directive is complemented by other instruments, including the 2006 [Funds Transfers Regulation](#) which laid down rules for payment service providers on the information on the payer which must accompany all transfers of funds.

European Commission proposals

In 2013, the European Commission adopted proposals to amend both the third AML Directive and the Funds Transfer Regulation, following the fundamental revision by FATF of its recommendations, concluded in February 2012. The idea was to create a strengthened, yet more flexible system through applying a more targeted risk-based approach, which entails the possibility for Member States to use enhanced measures for high-risk sectors or activities, and simplified ones for those perceived as low-risk.

The [proposed directive](#) therefore tightens the rules on customer due diligence and introduces an obligation to take [additional precautions](#) when dealing with all politically exposed persons – not just foreign ones, as currently. It seeks to enhance the clarity and accessibility of information on the beneficial owner(s), i.e. the natural person on whose behalf a transaction is being conducted and/or any natural person who ultimately owns or controls the customer entity. In addition, tax crimes are included in the scope of the proposal. The [proposed regulation](#) follows FATF [recommendation No 16](#) on wire transfers, stating that financial institutions should include accurate information on both the originator and the beneficiary, to remain with the wire transfer throughout the payment chain.

European Parliament

The two proposals were referred to Parliament's Economic and Monetary Affairs, and Justice, Home Affairs and Civil Liberties Committees which – meeting jointly under the then [Rule 51](#) – adopted two reports in February 2014 (rapporteurs: Krišjānis Kariņš (EPP, Latvia) and Judith Sargentini (Greens/EFA, Netherlands) for the [directive](#) and Peter Simon (S&D, Germany) and Timothy Kirkhope (ECR, UK) for the [regulation](#)). After their adoption by the outgoing Parliament at first reading in March 2014, several trilogues took place in the new parliamentary term. A compromise was reached in December 2014 and the Council adopted its position at first reading on 20 April 2015. The agreed text of the fourth AML directive compels Member States to hold central registers of beneficial ownership, accessible to competent authorities, FIUs and 'obliged entities' (such as banks), but also to anyone able to demonstrate a 'legitimate interest'. It also clarifies rules on politically exposed persons and adds several provisions on data protection.