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Mr Petr JEŽEK
European Parliament
Rue Wiertz
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1047 Brussels - BELGIUM

02 July 2018

Subject: Public hearing organised by the Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance (TAX3) on "Combatting money-laundering in the EU banking system"

Dear Mr Ježek,

Thank you very much for your letter, reference D307852.

I found the hearing at the European Parliament to be of great interest and tremendously useful. The questions were well informed and to the points that the EBA is also focused on.

You asked me for the names of the three competent authorities that, at the time of my appearance before the European Parliament's Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance, had told us that they had taken no action following the publication of the Panama Papers allegations. At the time, I mentioned we were in the process of asking competent authorities to provide us with further information on the reasons underpinning any apparent inaction.

To that end, with my apologies, the follow up has taken some time as the EBA staff have sought further clarity from relevant authorities. I understand that in the meantime EBA staff have conveyed to your staff that my response would be delayed whilst we looked into this further.

I recall that in April 2018 we informed you that supervisory action is underway in a number of Member States. In particular:

- most supervisors took action and assessed the risk that banks in their jurisdiction could be abused for ML or tax evasion purposes, with nearly 70% reviewing the adequacy of banks' systems and controls and one third of supervisors taking steps to set out regulatory expectations in guidance;

- supervisory cooperation increased significantly, with more than half of all supervisors now indicating that they cooperated with authorities from other EU/EEA Member States and/or third countries in the Panama Papers context;
- nearly half of all supervisors changed their approach following the Panama and Paradise Paper allegations, for example by changing the scope of supervisory reviews to include new risks or issuing updated supervisory guidance on AML and tax evasion.

I am pleased to tell you that we have now heard back from all competent authorities, with more detailed explanations. I can confirm that all competent authorities have reported to us that they have taken some action following the Panama Papers revelation, including those authorities that had told us initially that they had taken no action. Rather than taking no action at all, these competent authorities clarified that their assessment of the risks highlighted in the Panama Papers context had not suggested that stand-alone supervisory action was warranted in their case. Rather they saw it as part of their continued efforts to strengthen AML supervision in general.

In addition, and further to the information above, I can inform you that, following their assessments of the suitability of their approaches to AML supervision, a majority of supervisors reported that they identified some shortcomings in assessing banks systems and controls, which required mitigation. The types of changes that we have seen enacted include: extending the scope of the supervisory review to include tax issues; enhanced monitoring of external events and reportage of such; strengthened resources and methodological reviews. I also note that in a number of cases, specific sanctions were imposed, or supervisors were considering additional action.

To that end, as I mentioned at the hearing, we have some satisfaction that competent authorities are heeding our advice to consider how the risks highlighted in the Panama Papers context affect their sector, and to take regulatory action where necessary.

That does not mean that no further action is needed. In the panama papers context specifically we will need to work with competent authorities to encourage a more holistic view of AML/CFT risks. Notably, a narrow focus on a bank's AML controls only when assessing a bank's internal controls framework could make it harder to assess whether a bank was complicit in facilitating tax evasion in the wider context of financial crime.

More generally, I also outlined in my introductory statement to the European Parliament areas where we see room for improvement in AML supervision. These included: the need for country specific implementation reviews and feedback; stronger standards on enhanced information sharing; and, eventually, more consistency in application of AML rules across the EU.

The EBA has already added further detail to our internal governance guidelines and our joint EBA/ESMA/EIOPA Risk Factors and Risk Based Supervision Guidelines. We have also begun own-initiative work, with ESMA and EIOPA, on joint guidelines to structure the cooperation of, and information exchange between, AML/CFT supervisors. Finally, we are in the process of launching our own reviews of competent authorities' approaches to AML/CFT supervision.

I look forward to discussing these and other measures to improve the interaction between AML and prudential supervision with the Commission's new Joint Working Group on AML and prudential supervision.

I would also be happy to discuss these points with you in due course.

Yours sincerely



Piers Haben