Baker McKenzie.

June 2025

The new EU AML framework: **Guide to key changes for financial institutions**

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Introduction

Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF) efforts remain amongst the most important concerns of governments and regulators globally.

In this briefing we look at the most significant reforms to the EU AML framework since its establishment begin to take effect. While a series of reforms have been made to the existing AML regime since it was first established in 1991, long-standing issues of fragmentation, inconsistency and a lack of coordination in implementation and application led the European Commission to conclude in 2019 that only major structural change could remedy the problems identified.

The long anticipated package of legislative changes to the EU AML framework, first proposed in July 2021 and finally published in the Official Journal on 19 June 2024, will overhaul the regime through the establishment of a new central EU supervisory authority for AML and CTF (AMLA), the replacement of national implementation with a directly applicable single rulebook, and changes to strengthen the existing rules.

There are a number of key changes financial institutions will need to bear in mind as they consider the impact of the reforms. The package establishes a single rulebook of harmonized AML rules that are directly applicable across the EU without the need for national implementation, aiming to eliminate much of the existing Member State divergence in application of the rules, and firms may need to prepare for significant changes to their policies and procedures to account for the new requirements.

Noteworthy new requirements marking a significant departure from the current AML regime include:

- The expansion of scope of obliged entities to now include holding companies of obliged entities, which will raise AML compliance up from the operating company level to the holding company level and potentially impose robust obligations on previously out-of-scope entities within groups.
- The new requirement to appoint a "compliance manager" (as distinct from, and additional to, the compliance officer), which may require firms to make governance changes.
- New trigger scenarios and lower transaction thresholds for the application of customer due diligence (CDD) requirements, the expansion of enhanced due diligence (EDD) to certain wealth management services, and a set period of five years (one year for high risk customers) for updates to customer information under ongoing monitoring CDD measures, which may require firms to expand and update their know-your-customer (KYC) processes and systems to account for the additional information requirements.
- Lowering the normal beneficial ownership threshold from "25% plus one" to "25% or more", and empowering the Commission to further lower the beneficial ownership threshold to 15% for categories of corporate entities it identifies as high risk, which may require firms to review the beneficial ownership of certain entities which become subject to the lower threshold.
- Written agreements for reliance arrangements, which may require firms to review and formalize their current reliance relationships, whether third-party or intragroup.
- The new obligation to implement a sanctions compliance program as part of a firm's AML controls framework, as well as minimum requirements relating to group-wide policies, procedures and controls, which may require firms and groups to make systems and controls changes.
- Direct supervision of high-risk financial institutions by AMLA for AML/CTF purposes, which may subject firms to more complex supervisory arrangements.

AMLA is expected to begin operationalizing in the summer of 2025, in preparation for the commencement of its supervisory activities as the rules start to take effect. Firms are advised to begin preparing for any revisions to their compliance processes, as some of the changes to the requirements in the AML framework will begin to apply as early as the summer. This briefing is designed to help firms understand the new framework.

Legislative components

There are three legislative components which make up the reformed EU AML framework:

▶AML Regulation

The AML Regulation establishes a single rulebook of AML rules that are directly applicable across the EU without the need for national implementation.

▶MLD6

The Sixth Money Laundering Directive (MLD6) contains AML rules that require Member State implementation where national flexibility is required. Repeals and replaces the current AML regime set out in MLD4 as amended.

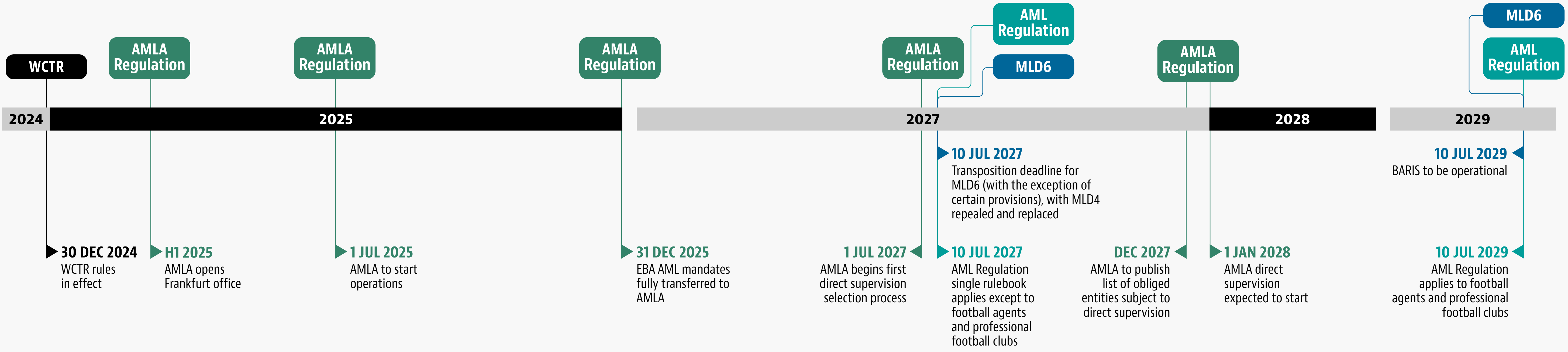
▶AMLA Regulation

The AMLA Regulation establishes AMLA, sets out its tasks and powers, and details the framework for direct supervision of certain high-risk financial institutions.

The final component of the AML reform package, the **Wire and Cryptoasset Transfer Regulation** (WCTR), amended MLD4 to apply the full set of AML requirements to cryptoasset service providers (CASPs) falling within scope of the Markets in Cryptoassets Regulation (MiCAR), and revised and recast the Wire Transfer Regulation (WTR) to extend the regime for fund transfers to the transfer of cryptoassets. The WCTR repealed and replaced the WTR on 30 December 2024, taking effect at the same time as the application of MiCAR to CASPs.

For more on the WCTR and the application of AML rules specifically to CASPs, see our dedicated briefing in the **MiCAR Compliance Toolkit.**

Timeline



Key changes to the AML framework rules

The AML Regulation establishes a harmonized single rulebook for AML requirements across the EU. It is a unified regulatory framework that includes directly applicable rules imposed on obliged entities. For the first time, the same rules and technical standards will apply in a harmonized way across all EU Member States.

While the AML Regulation harmonizes AML rules and requirements through the single rulebook, it should be noted that this is not a maximum harmonization regime. Member States are still permitted to gold-plate the requirements where specific national risks justify the imposition of additional requirements on a risk-based approach, which may result in continued supervisory divergence.

Unlike the AML Regulation, MLD6 gives Member States flexibility in the application of certain requirements and contains provisions that organize the institutional AML/CTF system at the national level, including provisions on the powers and tasks of national supervisors. It will repeal and replace MLD4 and MLD5.

TOPIC	KEY CHANGES
Scope of obliged entities	The new framework expands the scope of obliged entities subject to the AML requirements to include, in addition to current obliged entities specified in MLD4: ▪ New entities categorized as "financial institutions": CASPs, mortgage lenders and consumer credit providers, and mortgage and consumer credit intermediaries, as well as financial holding companies, mixed financial holding companies and financial mixed activity holding companies (a company which is not the subsidiary of another undertaking, the subsidiaries of which include at least one credit institution or financial institution) ▪ Crowdfunding intermediaries (note that these are not categorized as financial institutions) ▪ Crowdfunding service providers (note that these are not categorized as financial institutions) ▪ Non-financial mixed activity holding companies (a company which is not the subsidiary of another undertaking, the subsidiaries of which include at least one obliged entity which is not a credit institution or financial institution) ▪ Investment migration operators (entities or persons offering intermediation services to third-country nationals seeking to obtain residence rights in a Member State in exchange for any kind of investment) ▪ Football-related entities: agents, and professional football clubs (in respect of the club's transactions with investors, sponsors, agents or intermediaries, or transactions for the purpose of a football player's transfer)

“In some instances, the new AML package may relax current Spanish requirements that go beyond the new rules. Subject to final implementation, this could lead to the potential harmonization of the recordkeeping period to 5 years (shortening the current Spanish requirement of 10 years), and more flexibility around the Spanish obligation to have an AML external expert review when those entities already have an internal audit function.

Paula De Biase
Partner | Madrid

“Being an open economy, the Czech Republic will gain the most from the adoption of a single AML rulebook. This should bring cost savings for Czech financial entities operating in multiple EU markets and will certainly encourage Czech fintechs to look abroad and speed up their expansion to other EU countries.

Jan Kolar
Associate | Prague

TOPIC	KEY CHANGES
Policies, procedures and controls	The new framework harmonizes and clarifies the internal policies, procedures and controls that obliged entities must have in place. The AML Regulation sets out a new requirement to appoint a “compliance manager” – as distinct from, and additional to, the compliance officer – who is the member of the management body responsible for ensuring compliance with the AML Regulation and consistency of internal policies, procedures and controls with the requirements of the AML regime, including the allocation of sufficient resourcing. The compliance manager is also tasked with reporting to the management body on AML policies, procedures and controls. These are activities may be familiar as those currently falling within the remit of the compliance officer under the EBA’s related guidelines. The AML Regulation also retains the requirement to appoint a compliance officer, but refines the position further given its distinction from the new compliance manager role. The compliance officer must be appointed by the management body and must have “sufficiently high hierarchical standing” but is no longer required to be a member of the management body. The compliance officer is responsible for the policies, procedures and controls in the day-to-day operation of the obliged entity’s AML/CTF requirements, including in relation to the implementation of targeted financial sanctions, and is the contact point for competent authorities. The compliance officer is also responsible for reporting suspicious transactions to the national Financial Intelligence Unit (FIU). Where appropriate, taking into account the size and nature of the business of the obliged entity, including its risks and complexity, the functions of the compliance manager and the compliance officer may be performed by the same person and/or alongside other functions (including across group entities). These changes expand on the current requirement under MLD4 that obliged entities identify the member of the management board who is responsible for the implementation of the laws, regulations and other provisions necessary to comply with the AML regime. In addition, the AML Regulation sets out the minimum requirements relating to group-wide policies, procedures and controls, and the conditions under which group-wide requirements apply to entities that are part of structures which share common ownership, management or compliance control, including networks or partnerships (both to be set out in RTS to be developed by AMLA). A parent undertaking that is an obliged entity is responsible for performing a group-wide risk assessment and establishing group-wide policies, procedures and controls, and for ensuring that the requirements on internal procedures, risk assessment and staff apply in all branches and subsidiaries of the group (including those in third countries, where the group’s head office is in the EU). Obliged entities within the group must implement those group-wide policies, procedures and controls, taking into account their specificities and the risks to which they are exposed. The compliance manager is tasked with reporting to the management body of the parent undertaking on the implementation of group-wide policies, procedures and controls. For groups whose head office is outside the EU, identifying the parent undertaking responsible for the implementation of group-wide requirements is not so straightforward. In these circumstances, the parent undertaking will be an obliged entity in the EU that is not a subsidiary of another EU obliged entity and that has a sufficient prominence within the group and a sufficient understanding of the operations of the group that are subject to the requirements of the AML Regulation. AMLA is tasked with developing RTS on the criteria for identifying the parent undertaking in this case.

“One of the challenges financial institutions in Belgium will face is the need to update policies and procedures to reflect the new AML rules without risking administrative, criminal or civil liability for being too risk tolerant (through lax practices) or risk averse (through de-risking). It will be key to find the right balance between the two and, where necessary, to enter into dialogue upfront with the regulators about the new rules.

Olivier Van den broeke
Associate | Belgium

TOPIC	KEY CHANGES
Outsourcing	The permissibility of outsourcing AML obligations, such as CDD, is not particularly addressed in MLD4. While the Directive perhaps envisages outsourcing by providing that the provisions on reliance (which allow obliged entities to rely on other obliged entities to meet their CDD requirements) do not apply to outsourcing arrangements, the boundaries of permissible outsourcing are not drawn but instead left to Member States. The AML Regulation expressly confirms that the outsourcing of AML-related tasks is permitted, with the conditions around outsourcing clarified: ▪ Prior notification to national supervisors is required before the outsourcing arrangements commence ▪ Obliged entities must be able to explain to their national supervisors that they understand the rationale behind the activities carried out by the service provider and the approach followed in their implementation, and that the outsourced activities mitigate the specific risks to which the obliged entity is exposed ▪ Outsourcing must not be undertaken in a way which materially impairs the quality of the obliged entity's AML policies and procedures ▪ Certain tasks must not be outsourced, primarily specified activities which relate to approval of policies and decision-making, effectively requiring that the obliged entity retains control of decision-making processes ▪ Certain conditions must be met before outsourcing to service providers in third countries identified by the Commission as high-risk third countries (see Risk-based approach to third countries below)
Cash payment limit and high-value goods	The reform package sets a limit to the acceptance of large cash payments at EUR 10,000, whether that payment is in a single operation or linked operations (though where Member States have set lower limits at national level, they will continue to apply). This means that persons trading in goods will no longer be subject to AML/CTF obligations (on the basis that the cash payments that might have previously brought them in-scope will no longer be permitted), with the exception of persons trading in precious metals, precious stones, other high value goods and cultural goods. High value goods include: ▪ Jewelry, clocks and watches valued over EUR 10,000 ▪ Motor vehicles priced over EUR 250,000 ▪ Aircraft and boats priced over EUR 7,500,000 Persons trading, as a regular or principal professional activity, in high-value goods are obliged entities and subject to registration requirements.
Targeted financial sanctions compliance and implementation	The reform package sets down the new obligation to implement a sanctions compliance program as part of a firm's AML internal policies, procedures and controls. Key requirements include: ▪ The implementation of policies, procedures and controls to mitigate and manage the risks of non-implementation and evasion of targeted financial sanctions ▪ The incorporation of the risks of non-implementation and evasion of targeted financial sanctions into the business-wide risk assessment ▪ Approval of the internal policies by the management body, and approval of the procedures and controls at least at the level of the compliance manager ▪ A requirement that the compliance officer must be responsible for the policies, procedures and controls in the day-to-day operation of the obliged entity's requirements in relation to the implementation of targeted financial sanctions ▪ The requirement to verify whether customers or beneficial owners are subject to targeted financial sanctions ▪ The inclusion of the risks of non-implementation and evasion of targeted financial sanctions in the business-wide risk assessment AMLA will issue guidelines on both the internal policies, procedures and controls and the business-wide risk assessment.

"Dutch financial institutions will very much welcome further harmonization of AML regulation under the reforms. For example, prior to the introduction of the AML legislative package, draft legislation was introduced to limit cash payments to a maximum amount of EUR 3,000. However, in order to align with the limit of EUR 10,000 in the AML legislative package, it is likely that the draft legislation will be amended or repealed.

Tim Alferink
Partner | Amsterdam

TOPIC	KEY CHANGES
CDD changes	Due diligence obligations are now set out in the single rulebook, reducing the risk of divergent national interpretation through direct application. There are also several key changes to the requirements: ▪ **New trigger scenarios.** In addition to the current scenarios triggering the application of CDD measures, CDD will also now be required when there are doubts as to whether the person the obliged entity interacts with is the customer or person authorized to act on behalf of the customer, and when participating in the creation of a legal entity, the setting up of a legal arrangement or, for certain obliged entities, in the transfer of ownership of a legal entity, irrespective of the value of the transaction. ▪ **New transaction thresholds.** A new, lower threshold for transaction-specific CDD of EUR 10,000 will apply. New RTS will also identify higher-risk sectors or transactions where lower thresholds will apply. CDD requirements will also apply to transfers of funds within the meaning of the WCTR with a value of at least EUR 1,000, cash transactions with a value of at least EUR 3,000, and all transactions carried out by CASPs. ▪ **Harmonized identification and verification detail.** The single rulebook sets out detailed, specific provisions on the information to be collected for identification and verification purposes. - For natural persons, identification information required includes (at least): all names and surnames; place and full date of birth; nationalities; usual residential address; and national and tax identification numbers (if applicable) - For legal entities, identification information required includes (at least): legal form and name; office address and (if different) principal place of business; country of creation; legal representatives' names, registration, and LEI and tax numbers (where available); names of persons holding shares or a directorship position in nominee form, including reference to their status as nominee shareholders or directors - Identification information required for beneficial owners includes all names and surnames; place and full date of birth; residential address, country of residence and nationality or nationalities of the beneficial owner, number of identity document (such as passport or national identity document), and, where it exists, unique personal identification number assigned to the person by his or her country of usual residence (and a general description of the source of this number) - If no beneficial owners can be identified, obliged entities must identify and verify all senior managers - Verification should be done through identity documents or electronic identification, with beneficial ownership identification checked against the information held in beneficial ownership registers and report discrepancies ▪ **Frequency of ongoing monitoring.** In addition to the current scenarios triggering the application of ongoing monitoring CDD measures, the single rulebook sets out that updates to customer information must take place at least every five years (and for customers subject to EDD, every year). ▪ **Expanded SDD and EDD measures.** The single rulebook now sets out the specific simplified due diligence (SDD) measures that obliged entities may apply where permitted and expands on specific EDD measures. Specific EDD measures will also apply to credit institutions, financial institutions and trust or company service providers where a higher-risk business relationship involves the handling of assets with a value of at least EUR 5,000,000 through personalized services for a customer holding total assets with a value of at least EUR 50,000,000 (e.g., certain wealth management services). New RTS will set out the information necessary for performing CDD, including SDD and EDD, and the sources of information that can be used to verify identification data. It should be noted that Member States are still permitted to gold-plate the requirements at the national level where specific risks justify the imposition of additional requirements on a risk-based approach. Any additional countermeasures applied need to be notified to the Commission within five days of application; the Commission can extend these measures to the whole of the EU or instruct the Member State to put an end to them if it considers they are not necessary.

> France is a front-runner on AML matters - most financial entities are already in-scope of French AML requirements, and will only need to fine-tune their compliance programs in light of the clarity on practical implementation provided by the new EU AML rules. For French firms, the most significant adjustments will relate to KYC verifications.

Iris Barsan
Counsel | Paris

TOPIC	KEY CHANGES
Reliance	While the single rulebook continues to permit reliance arrangements, it now clarifies the specific conditions that must be satisfied in order to rely on CDD undertaken by another obliged entity. These include that the conditions for the transmission of the information and documents from a third party to an obliged entity be specified in a written agreement (unless part of the same group, in which case an internal procedure will suffice). This marks a change from the position under MLD4 which does not specify whether a written agreement was necessary, leaving the requirements on consent, assurance or written agreements to Member States. AMLA will issue guidelines on reliance.
Beneficial ownership changes	The AML reform package brings beneficial ownership requirements within the single rulebook, establishing a harmonized and consistent approach. The changes include expanded and more specific rules to identify beneficial owners, the information for CDD measures in respect of beneficial owners (see CDD changes above), and more robust reporting requirements. Importantly, there are two key changes in beneficial ownership thresholds: ▪ The normal beneficial ownership threshold is now set at "25% or more of the shares or voting rights or other ownership interest", a change from the current position under MLD4 of "25% plus one share or an ownership interest of more than 25%" ▪ On request from Member States, the Commission is empowered to lower the threshold to 15% for categories of corporate entities it identifies as high risk MLD6 also enhances Member State oversight of beneficial ownership data through, for example, empowering the entities in charge of the beneficial ownership register to carry out checks, including on-site inspections, to verify information on the register.
Risk-based approach to third countries	The single rulebook harmonizes and proportionately applies the risk-based approach to dealings with customers or counterparties in third countries: ▪ **High-risk third countries.** Third countries subject to a "call for action" by the Financial Action Task Force (FATF) – those with significant strategic deficiencies in their national AML/CTF regimes – will be identified by the Commission as high-risk third countries. EDD measures will apply as well as Member State-specific countermeasures. ▪ **Third countries with compliance weaknesses**. Third countries subject to "increased monitoring" by the FATF will be identified by the Commission as third countries with compliance weaknesses. Proportionate EDD measures will apply as specified by the Commission in delegated acts. ▪ **Third countries not identified as subject to calls for actions or increased monitoring by the FATF.** The Commission may also identify third countries which pose a specific and serious threat to the EU financial system but are not listed by the FATF. Depending on the nature of the threat, the Commission may specify in delegated acts that these countries will be subject to either all EDD measures or specific EDD measures. The new single rulebook approach is a departure from the current position under MLD4. The addition of two new categories of risky third countries in addition to the category of high-risk third countries (those with strategic AML/CTF deficiencies) carried over from MLD4, as well as the alignment with FATF black and grey listings, adds more granularity to the identification of and approach to dealing with risky third countries. The AML Regulation also empowers the Commission to mandate the application of specific EDD measures and countermeasures by obliged entities, removing much of the Member State discretion in the approach taken under MLD4.

"One of the most significant effects of the new AML legislative package in Hungary is the introduction of stricter regulatory requirements for beneficial ownership. These new rules are expected to contribute to the transparency of beneficial ownership structures of the Hungarian legal entities who are subject to the AML regulation.

Jozsef Vagi
Partner | Budapest

TOPIC	KEY CHANGES
Suspicious activity reporting	Under the current regime, there is no harmonized template for submitting suspicious activity and transaction reports. This will now change, with AMLA empowered to develop ITS on a common format for these reports. While AMLA will support and coordinate the activities of FIUs, it will not replace national FIUs themselves: suspicious activity and transaction reports will still be submitted directly to national FIUs, who are required to share reports between them where they concern another Member State. AMLA is empowered to set up a joint analysis team with FIUs to carry out operational analyses of cross-border suspicious transactions or activities. If AMLA is part of an information-sharing partnership with other FIUs, it may receive information on suspicions shared as part of that partnership.
Information-sharing partnerships	The single rulebook permits obliged entities to set up new information sharing partnerships "where strictly necessary" to comply with CDD and suspicious activity and transaction reporting requirements. The partnerships must operate in accordance with "fundamental rights and judicial procedural safeguards" (undefined, but possibly a reference to the rights guaranteed by the Charter of Fundamental Rights of the European Union), and comply with a number of restrictive conditions set out in the AML Regulation, including (among others) data protection requirements, limits on information that can be shared, confidentiality and pseudonymization requirements, restrictions on the sharing of information generated through AI without adequate human oversight, and compliance with national law.
Possible intragroup exemption	Recital 11 to the AML Regulation provides that financial activities or other financial services which are provided by members of a group to other members of that group should not be understood to involve "customers" and therefore do not require the application of AML/CTF measures.
Application of requirements to additional sectors	Member States are permitted to apply all or part of the AML Regulation to entities other than obliged entities in other sectors which they identify as exposed to money laundering and terrorist financing risks, with notifications to the Commission required. Member States which have already gold-plated the regime in this way under the current regulatory requirements may continue to apply all or part of the AML Regulation to those sectors identified.
Bank account registers	The new framework expands the information included in bank account registers to include virtual IBANs, securities accounts and cryptoasset accounts in addition to the existing mandated information on payment accounts, bank accounts and safe-deposit boxes. The Commission is mandated to develop and operate the bank account registers interconnection system (BARIS) by 10 July 2029, which will be accessible to Member State FIUs and AMLA.
Sanctions and penalties for non-compliance	MLD6 introduces periodic penalty payments for noncompliance in addition to the existing powers national supervisors have to impose financial penalties and administrative sanctions. The Directive also strengthens existing sanctions, including for example by raising the maximum pecuniary sanctions permitted to be imposed on legal persons to EUR 10,000,000 or 10% of the total annual turnover, whichever is higher.

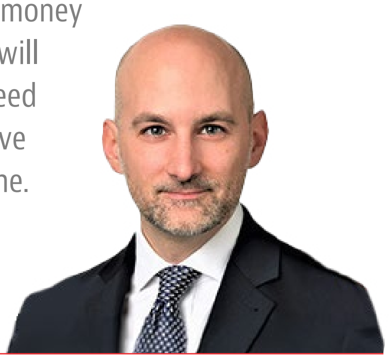
AMLA: the new EU AML regulator

At the heart of the AML reform package is the establishment of the new AML supervisory authority, AMLA, in Frankfurt.

This new authority will not replace national supervisors, who will still be responsible for the vast majority of AML supervision over obliged entities; instead, AMLA will encourage cooperation between national supervisors and consistency across Member States in the application of the AML regulatory framework, ensure high-quality supervision, and contribute to supervisory convergence. AMLA will also directly supervise certain high-risk financial institutions. The European Banking Authority's (EBA) AML/CTF role (which it assumed in January 2020) will be transferred to AMLA.

AMLA is expected to begin most of its activities in mid-2025, reach full staffing by end 2027, and begin direct supervision of certain high-risk financial entities in early 2028 (once the single rulebook is completed and applicable).

“Germany is obviously looking forward to becoming a hub of AML supervisory activities as a result of the new AMLA being situated in Frankfurt, but has homework to do in improving its own AML supervision and prosecution of money laundering crimes. The political parties that will form the new Federal Government have agreed to finish the previous government's legislative project to strengthen the German AML regime.



Conrad Ruppel
Partner | Frankfurt

Supervisory convergence work

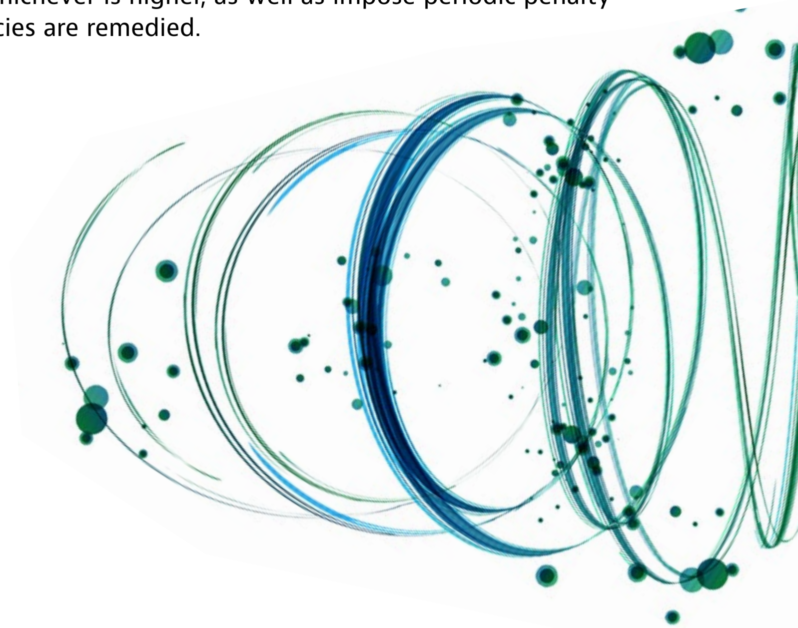
The new regulator is tasked with a number of responsibilities and obligations to promote supervisory convergence, mutual support and cooperation among EU AML supervisors, and to ensure consistent application of the AML framework requirements. AMLA will develop and maintain an AML/CTF supervisory methodology detailing the risk-based approach to supervising obliged entities. Certain aspects of the methodology will be detailed in RTS, guidelines, recommendations and opinions. AMLA is also required to undertake thematic reviews and periodic assessments of national supervisors to ensure high standards are upheld and identify opportunities for improvement, with national supervisors required to make every effort to comply with the follow-up measures, guidelines and recommendations issued. AMLA will also play a coordinating role with Member State FIUs, participating in joint analyses of suspicious transactions and activities, and undertaking peer reviews of FIU activities to exchange best practices. However, while AMLA will support and coordinate the activities of FIUs, it will not replace national FIUs themselves; suspicious activity and transaction reports will still be submitted directly to national FIUs, who are required to share reports between them where they concern another Member State. If AMLA is part of an information-sharing partnership with other FIUs, it may receive information on suspicions shared as part of that partnership.

Direct supervision of high-risk financial institutions

The financial institutions deemed to present the highest levels of risk from a supervisory perspective will be directly supervised by AMLA for AML/CTF purposes. The financial institutions subject to direct supervision will normally be determined by way of selection criteria. Selection will be limited to financial institutions operating in at least six Member States, and will be based on objective, not discretionary, criteria taking into account risk factor categories related to customers, products, services, transactions, delivery channels and geographical areas, and operations in at least six Member States. The first selection process is due to commence by 1 July 2027, with direct supervision expected to start by 1 January 2028. The number of directly supervised financial institutions is limited, at least initially, to 40.

AMLA will also be able to ask the Commission for a decision placing a financial institution under its direct supervision, irrespective of the criteria referred to above. This can happen if there are indications of systematic AML/CTF breaches that are not being efficiently and adequately dealt with by the relevant national supervisor. In exceptional circumstances, a national supervisor may request that AMLA take over the direct supervision of an obliged entity, with the aim of addressing heightened risk or compliance failures at EU level.

AMLA will carry out its direct supervision through supervisory reviews and assessments at individual entity and group-wide level, requests for information, investigations and on-site inspections. In the event of non-compliance AMLA is empowered to apply administrative measures, including for example specific corrective measures, recommendations, public statements, imposing business or operations restrictions, or requiring financial institutions to change their governance structure and alter their management. AMLA may also levy pecuniary sanctions to a maximum of EUR 10,000,000 or 10% of the total annual turnover, whichever is higher, as well as impose periodic penalty payments until deficiencies are remedied.



“Luxembourg is well positioned to adapt to the EU's new AML rules, having long applied a robust risk-based approach that in many respects exceeds existing EU requirements. The harmonized rulebook and the establishment of a central EU supervisory authority with direct oversight of major financial institutions may nonetheless bring adjustments to current practices.

Catherine Martougin
Partner | Luxembourg

Cross-border impact

More consistency in the supervision of cross-border operations should make a welcome change for EU groups. The new framework facilitates the supervision of firms acting cross-border, with supervisory colleges being established to improve cooperation between national supervisors. New RTS will detail the respective duties of home and host state supervisors. More generally, the harmonization of AML requirements should go some way to reducing previously divergent Member State implementation, providing a more stable regulatory footing for firms with cross-border operations.

For third country firms and groups caught by the group-wide requirements, the new regime may have a more onerous impact, particularly where EU AML requirements are more robust than requirements applying to group firms in other jurisdictions. For groups with EU obliged entities, the EU AML requirements will apply to all branches and subsidiaries of the group in the Member States and, for groups whose head office is located in the EU, to all branches and subsidiaries in third countries. Group-wide policies, procedures and controls and group-wide risk assessments will apply. Where the law of a third country prohibits a branch or subsidiary from complying with EU AML requirements, for example because of limitations to the group's ability to access, process or exchange information due to an insufficient level of data protection or banking secrecy law in that third country, obliged entities are required take additional measures (to be specified by AMLA) to ensure that branches and subsidiaries located in that country effectively handle the risks. Although group-wide requirements exist under the current AML regime, the imposition of the new AML framework with directly applicable, robust new rules together with its expansion to include holding companies within scope as obliged entities may require more scrutiny of group arrangements and corresponding gap analysis.

> "The UK is not part of these reforms, which will create meaningful regulatory divergence between the UK and EU. This means that UK firms with EU operations will be applying substantively different standards between the UK and EU operations for the first time. The areas of customer due diligence, and the new sanctions screening obligations for EU firms, are two examples of such divergence, as well as the expanded regulatory perimeter in the EU capturing more entities – such as football agents – in scope of the rules.

Mark Simpson
Partner | London

Next steps

Although AMLA was officially established on 26 June 2024, it will be another few years before it is fully operational. In the meantime, AMLA will start operations, consult on implementing rules, and settle into its office in Frankfurt. The EBA will retain its AML/CTF powers and mandates until December 2025, when AMLA will formally take over.

Given the significance of the reforms, financial institutions will need to ensure they are well-prepared for the changes to come. Preparatory work should include a gap analysis of their existing compliance measures against the new rules, as well as a stock take of resources and capacity with a view to managing a greater volume of rules and impending technical standards. Financial institutions and groups with significant cross-border operations should also review their business operations and risk profiles to determine whether they are at risk of direct supervision by AMLA in 2028 – as noted above, this is most likely to affect the riskiest businesses operating cross-border in the EU. Given the possibility that Member States may choose to gold-plate the requirements, firms should also take a proactive approach to engagement with their national supervisors.

> "Italy has been proactive in its approach to AML regulation through robust rulemaking, often anticipating solutions later adopted at EU level. While financial institutions in Italy have always maintained a strong commitment to AML safeguards, the new rules will require a gap analysis against existing compliance measures, as well as a stock take of resources and capacity for adaptation.

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