The 4th EU AML Directive: Recommendations to help your business prepare

Following adoption of the new Anti-Money Laundering (AML) Directive by the European Union in June 2015, EU member states must now implement the required changes in their domestic legislation by 26 June 2017.

This tip sheet highlights the key changes and includes practical advice on what your company can do in coming months to prepare for the implementation.

The 4th EU AML Directive

The new Directive replaces the 3rd Directive, which has been in force since October 2005. The 4th Directive incorporates the revision of the Financial Action Task Force's (FATF) recommendations adopted in February 2012.

Financial Institutions and other entities and organisations obliged to prevent money laundering and terrorism financing (ML/TF) will need to adopt a more sophisticated risk-based approach to comply with Customer Due Diligence requirements.

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Three key changes in the 4th EU AML Directive

1. The importance of multi-dimensional risk assessment

A key feature of the new Directive is the holistic risk assessment approach aiming to strengthen cooperation within the 28 EU member states, in particular, between obliged entities and national and European Supervisory authorities.

What can you do to get ready?

Adopt business-wide risk assessments and common reporting standards, applying a holistic view of financial crime and converging processes and tools to detect terrorist financing, tax evasion, fraud, bribery and corruption.

2. The need to employ an enhanced risk-based approach

Businesses must adapt to a factor-based risk assessment for each customer relationship to guide differentiation between simplified and enhanced due diligence.

What can you do to get ready?

Review your current risk assessment processes, consider whether you are making any wholesale exclusions, and ensure that all documents and data on risk profiles associated with business relationships are kept up to date.

3. Detailed and comprehensive definitions of PEPs

In order to comply with relevant enhanced due diligence requirements, it is necessary to identify any direct or indirect association with PEPs—including domestic PEPs and those operating within international organisations.

What can you do to get ready?

Assess and monitor risks associated with the defined PEP categories when verifying customer identity and beneficial ownership.

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A closer look at risk assessment guidelines

Besides the domestic or international PEP status, other high-risk factors include customers from high-risk countries as well as correspondent relationships with third-country institutions. Next to customer identity and beneficial ownership, general risk variables to consider include:

The purpose and nature of an account or a relationship	The level of assets to be deposited by a customer or the size of transactions undertaken	The regularity or duration of the business relationship, as well as customer behaviour

What next steps should businesses take?

By adopting a multi-jurisdictional perception of AML risks, you can help ensure that your company is compliant with evolving national legislation and EU risk guidance. As part of your programme, look for:

- ☑ AML risk assessment reports provided by the EU Commission
- ☑ Risk Factors Guidelines and Risk-Based Supervision Guidelines provided by the European Supervisory Authorities
- ☑ The process of national legislation in implementing the EU Directive and amendments to related bills
- ☑ Amendments to relevant national guidance and future national AML risk assessment reports

We know that's a lot to do, and we're here to help

If you need extra help with tackling increasing AML requirements, contact LexisNexis® Risk Solutions:

Visit lexisnexis.com/risk/intl/en or email emeasales@lexisnexis.com

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