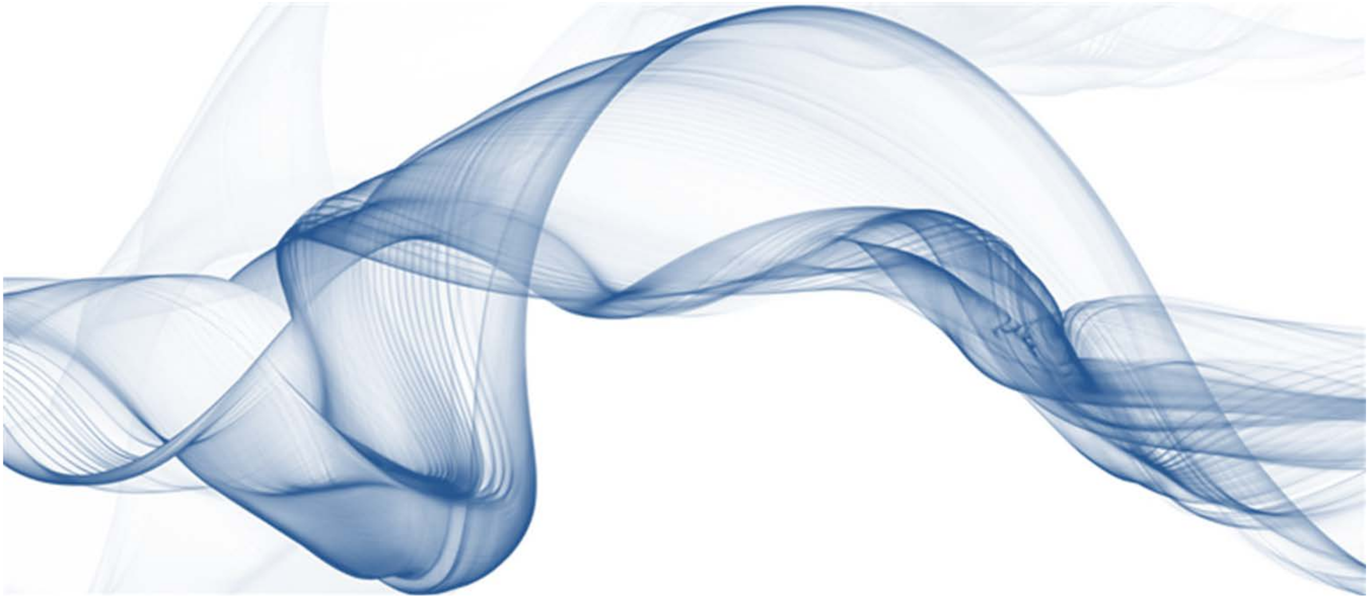
4th AML Directive

Executive Summary



What 4AMLD means for your business

The European Union's (EU) regulations covering money laundering and terrorist financing have been updated for the first time in nearly 10 years. The Fourth Anti-Money Laundering Directive (known as 4AMLD or 4MLD) which came into effect at the end of June 2017 ushered in a number of potentially disruptive changes, not to mention some severe penalties for breaches of the rules. 4AMLD revised various aspects of the regulations.

Scope

Before we address the practical changes, it's important to highlight the types of companies that are now bound by the regulations. The third version (3AMLD) covered financial institutions, accounting and legal professionals, estate agents, casinos and anyone trading in goods involving cash payments of €15,000 or more (either in a single payment or across several transactions). 4AMLD expanded this list to include providers of e-money products and the whole gambling sector while reducing the threshold for cash payments to €10,000.

Customer due diligence

You can no longer automatically apply simple due diligence (SDD) to certain types of customers. You must now assess each firm's level of risk before you decide whether it should be subject to SDD or enhanced due diligence (EDD).

Risk factors are broken down into three categories:

Customer risk

Listed companies and public bodies are considered low risk so SDD is appropriate. Other customers, particularly cash intensive enterprises or where the ownership structure is complex, should be subject to EDD.

Product risk

You can apply SDD to low-risk products, such as financial services that are restricted to certain types of customers, or where measures to combat money laundering are already in place. In contrast, relationships where the end customer isn't physically present and – crucial for FinTech companies – customers employing new or developing technologies and products requiring anonymity are considered high risk and therefore require EDD.

Geographical risk

SDD is suitable for customers in other EU states or countries with effective money laundering regulations. However, you must carry out EDD on customers located in countries suffering from high levels of corruption or crime, that are subject to sanctions, support or host terrorist organizations.

Politically exposed persons (PEPs)

According to 3AMLD, anyone in a prominent public position and their immediate family members or close associates count as a PEP. 4AMLD extended this definition to include senior representatives of political parties, directors, and board members of international organizations. All PEPs- both new and existing customers- should be subject to EDD, including domestic PEPs.

Sanctions

4AMLD formalized the penalties imposed on companies that breach the regulations and standardized them across borders. Serious and repeat offenders may now face public reprimand, cease and desist orders and suspension. The maximum fine for financial institutions is €5 million or 10% of annual turnover, while non- financial institutions can be fined double the amount of the benefit arising from the infringement or at least €1 million.

To avoid these penalties, you need access to a robust Know-Your-Client (KYC) solution. PAA's KYC checks cover companies of all sizes and retrieve authoritative, fully auditable records from commercial registers - as required by 4AMLD.

For more information, email us at

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