



Anti-money laundering: Q & A on the EU list of high-risk third countries

Strasbourg, 13 February 2019

.

[See IP/19/781](#)

Why does the Commission present a new list of high-risk third countries?

As defined under the Fourth and Fifth Anti-Money Laundering Directives, the EU has to establish a list of high-risk third countries, to make sure the EU financial system is equipped to prevent money laundering and terrorist financing risks coming from third countries. Therefore the aim is to protect the integrity of the EU financial system from financial flows involving countries with strategic deficiencies in their anti-money laundering and countering terrorist financing regimes.

The Commission issued the first such list in 2016 and updated it subsequently in the last years. Since the adoption of the [Fifth](#) Anti-Money Laundering Directive, the criteria against which a third country is assessed have been substantially extended, and required an adaptation of the listing process. This is the first list adopted using the new criteria and methodology.

Which countries does the Commission propose to list on the new EU list of high-risk third countries?

The Commission's new list includes 12 countries listed by the Financial Action Task Force, as well as an additional 11 jurisdictions. Some of the countries listed today are already on the current EU list, which includes 16 countries. The Commission proposes also today to de-list a number of countries previously included on the EU-list: Bosnia-Herzegovina, Guyana, Lao PDR, Uganda and Vanuatu.

12 countries also listed by the Financial Action Task Force:

- (1) The Bahamas,
- (2) Botswana,
- (3) Democratic People's Republic of Korea,
- (4) Ethiopia,
- (5) Ghana,
- (6) Iran,
- (7) Pakistan,
- (8) Sri Lanka,
- (9) Syria,
- (10) Trinidad and Tobago,
- (11) Tunisia,
- (12) Yemen.

11 additional jurisdictions identified by the Commission:

- (1) Afghanistan,
- (2) American Samoa,
- (3) Guam,
- (4) Iraq,
- (5) Libya,
- (6) Nigeria,
- (7) Panama,
- (8) Puerto Rico,

- (9) Samoa,
- (10) Saudi Arabia,
- (11) US Virgin Islands.

What are the criteria used to establish the list?

As regards the criteria to assess countries in the listing phase, these were initially set by the 4th Anti-Money Laundering Directive. The criteria were strengthened by the [Fifth Anti-Money Laundering Directive](#) and now include:

- the strategic deficiencies of those countries, in particular in relation to the legal and institutional anti-money laundering and counter-terrorist financing framework such as
 - o criminalisation of money laundering and terrorist financing,
 - o customer due diligence and record keeping requirements,
 - o reporting of suspicious transactions,
 - o the availability and exchange of information on beneficial ownership of legal persons and legal arrangements,
 - o the powers and procedures of competent authorities,
 - o their practice in international cooperation,
 - o the existence of dissuasive, proportionate and effective sanctions.

The Commission has to check how effectively the anti-money laundering and counter-terrorist financing safeguards are implemented in practice.

What are the consequences of the listing for financial institutions?

Under to the [Fourth Anti-Money Laundering Directive](#), banks and other financial institutions have to apply extra checks ("enhanced customer due diligence requirements") for transactions involving high-risk third countries identified on the list.

Customer due diligence corresponds to a series of checks and measures that a bank or an obliged entity has to use in case they have suspicions of high risk of money laundering or terrorist financing. Enhanced due diligence measures include extra checks and monitoring of those transactions by banks and obliged entities in order to prevent, detect and disrupt suspicious transactions.

The [Fifth Anti-Money Laundering Directive](#) clarifies the type of enhanced vigilance to be applied, which includes obtaining additional information on the customer and on the beneficial owner or obtaining the approval of senior management for establishing a business relationship.

The listing does not entail any type of sanctions, restrictions on trade relations or impediment to development aid; but requires banks and obliged entities to apply enhanced vigilance measures on transactions involving these countries.

Does the Commission cooperate with the Financial Action Task Force?

The Commission is a member of the Financial Action Task Force and supports its work in ensuring global compliance with international standards – in particular by identifying and working with countries having strategic deficiencies in their anti-money laundering/counter terrorist financing regime in order to reduce risks of money laundering worldwide. Therefore the Commission considers countries identified by the Financial Action Task Force as having strategic deficiencies, as a starting point for its assessment on high risk third countries. The Commission increased its engagement in the work done by the Financial Action Task Force and will continue to do so as part of its commitment to foster international co-operation in this field. The Commission considers as a starting point that any third country presenting a risk for the international financial system, as identified by the Financial Action Task Force, also represents a risk for the EU internal market.

In addition, the Commission has its own autonomous measures to protect the integrity of the EU financial system. This approach will complement the efforts of the Financial Action Task Force by addressing risks that are specific for the EU. The Financial Action Task Force listing process depends on the timing of the evaluation cycle (planned over several years), observation periods and priority setting. The purpose, process and priority-setting for the EU list of high risk third countries are different than that of Financial Action Task Force. Limiting the application of enhanced vigilance to transactions involving countries listed by the Financial Action Task Force would fall short in ensuring sufficient safeguards for the EU financial system.

How does the list of high-risk third countries differ from the common EU tax list of uncooperative tax jurisdictions?

The high-risk third country list aims to address risks to the EU's financial system caused by third countries with deficiencies in their anti-money laundering and counter-terrorist financing regimes. On the basis of this list, banks must apply higher due diligence controls to financial flows to the high risk third countries.

On the other hand, the common [EU list of uncooperative tax jurisdictions](#) addresses the external risks to Member States' tax bases, posed by third countries that do not adhere to international tax good governance standards. The two lists may overlap on some of the countries they feature, but they have different objectives, criteria and different compilation processes. . While the EU list of uncooperative tax jurisdictions is a Council-led process, the EU list of high-risk third countries is established by the Commission based on EU anti-money laundering rules. The two lists complement each other in ensuring a double protection for the Single Market from external risks.

METHODOLOGY

Why a new methodology to identify high-risk third countries?

The Fourth Anti-Money Laundering Directive sets the criteria for identifying high-risk third countries. These requirements have been strengthened by the [Fifth Anti-Money Laundering Directive](#); the criteria included the availability and access to beneficial ownership information, existence of effective, proportionate and dissuasive sanctions in case of breaches of anti-money laundering and counter terrorist financing obligations, as well as third countries' practice in cooperation and exchange of information with Member States' competent authorities. In June 2018, [the Commission released a new methodology for identifying high-risk third countries](#) setting out an objective, fair and transparent process. This methodology provides for the main milestones, the assessment criteria and follow-up process.

This initiative is part of the broader Commission's efforts in order to reinforce enforcement of anti-money laundering/counter terrorism financing measures and support global efforts in addressing money laundering and terrorist financing risks.

Why did the Commission decide to list these 23 jurisdictions?

In parallel to the procedure of the [Financial Action Task Force](#), the Commission developed its own methodology to identify high-risk countries. It relies on wider criteria set by EU anti-money laundering legislation, the Commission's own expertise and other information sources such as Europol, information from the European External Action Service or the EU list of [non-cooperative tax jurisdictions](#).

The Commission's methodology defines two steps:

- *The scoping phase*: the Commission carried out a pre-assessment to determine the scope of countries to be assessed and identify the level of priority of those countries. Countries with a very low integration with the EU financial system and not exposed to money laundering or terrorist financing threats were excluded. This pre-assessment is based on objective criteria using information sources, such as Europol. At this step, the Commission identified [132 jurisdictions](#). The [results](#) of this phase were published on 15 November 2018.
- *The listing phase*: amongst these 132, the Commission identified [54 countries as "priority 1"](#). In addition to being countries listed by the Financial Action Task Force, these countries met at least one of the following criteria:
 - o Countries exposed to a high level of threat identified by Europol / European External Action Service;
 - o Countries on the EU list of non-cooperative tax jurisdictions;
 - o Countries de-listed by the Financial Action Task Force since July 2016 (but still listed on the former EU list);
 - o Countries identified by Europol and by the Financial Action Task Force during their mutual evaluation processes.
- *The assessment phase*: the Commission assessed these 54 countries and ultimately identified 23 jurisdictions with strategic deficiencies in their anti-money laundering and counter-terrorist financing regimes according to the following criteria from the methodology:
 - o Insufficient criminal sanctions in place in case of money laundering or terrorist financing;
 - o Insufficient application of customer due diligence requirements by financial institutions or non-financial;
 - o intermediaries;
 - o Low level of reporting of suspicious transactions by intermediaries;

- o Insufficient powers of competent authorities and low levels of sanctions in case of breaches;
- o Insufficient international cooperation with Member States;
- o Lack of transparency on the real owners of companies and trusts («the beneficial owners»);
- o Insufficient implementation of targeted financial sanctions based on United Nations resolutions.

The remaining countries are considered as "priority 2" countries and the Commission will carry out its assessment gradually until 2025.

How does the high-risk third country list differ from the Financial Action Task Force's list?

The Commission's approach follows the one already existing at global level by [Financial Action Task Force](#), the main standard-setting body in this field. The Commission considers countries identified by the Financial Action Task Force as having strategic deficiencies, as a starting point for its assessment on high risk third countries. The Commission joins global efforts for dealing with countries having strategic deficiencies and hence posing a risk to the international financial system.

The Commission complements this work by reviewing additional countries and managing in a timely manner risks that are specific for the EU, based on its own priorities setting and assessment criteria. Compared to the lists of the [Financial Action Task Force](#), the Commission has developed a methodology with additional assessment criteria, based on the Fourth and Fifth Anti-Money Laundering directives. The EU requirements are therefore different compared to the Financial Action Task Force listing criteria.

How many countries will be assessed by the Commission?

The countries not listed today will be monitored and re-assessed when new information becomes available. In parallel, the Commission will assess 'priority 2' countries until 2025.

NEXT STEPS

When will the EU list based on the new methodology be available?

The first EU list based on the new methodology has been published on 13 February 2019. It includes countries identified as "priority 1". Further assessments will be carried out over time to cover all relevant countries (Priority 2 countries). The autonomous EU list is an ongoing effort, taking due account of new information sources / updated information becoming available.

How often will the Commission update this list?

The Commission will continue monitoring countries already reviewed, monitor progress made by listed countries in removing their strategic deficiencies, and assess additional countries when new information sources become available.

Updating the list will happen regularly, with the aim of further identifying third countries as being of high-risk and reflecting progress made by listed countries.

How can a country be taken off the list?

In order to delist a country, the following requirements must be met:

- complying with EU anti-money laundering criteria, such as criminalising money laundering and terrorism financing; customer due diligence requirements, record keeping and suspicious transactions reporting in the financial and in the non-financial sector; transparency of beneficial ownership; international cooperation;
- Ensuring in practice that information on beneficial owners of companies and trusts is available. This is particularly relevant since opaque structures are regularly involved in money laundering, terrorist financing and tax evasion. Further efforts are needed since too many countries are lagging behind with respect to transparency on beneficial ownership;
- Showing positive and tangible progress in improving effectiveness in all areas where significant deficiencies were identified.

How does the Commission support third countries to improve anti-money laundering and countering terrorist financing ongoing efforts?

The Commission will continue its engagement with the countries identified as having strategic deficiencies in the present Delegated Regulation and will further engage especially on the delisting criteria. This list enables the countries concerned to better identify the areas for improvement in order to pave the way for a possible delisting once strategic deficiencies are addressed.

The Commission informed third countries in advance of its intention to include them on the list and provided them with the results of its analysis. A number of these countries provided additional information and clarification, which was taken into account in the Commission's final assessment.

As outlined in the [Action plan on Terrorist Financing](#), the Commission is committed to assist third countries and to provide technical assistance to promote implementation of Financial Action Task Force's recommendations and relevant UN Security Council Resolutions. Finally the Commission will monitor developments and update its list accordingly.

The Commission is also rolling out a [programme](#) of 16 million EUR under the Instrument contributing to Stability and Peace on anti-money laundering and counter-terrorist financing to support countries in the Middle East and North Africa region (MENA) and South/South East Asia to monitor, disrupt and deny the financing of terrorism and money-laundering.

Another [programme](#) of 6 million EUR is being rolled out in the Horn of Africa to raise awareness of the need, and strengthen capacity of the financial sector and criminal justice actors, for effective anti-money laundering and counter terrorist financing actions nationally and regionally.

As regards Balkans, the Commission is supporting countries in the region to implement strategic priority measures for the fight against money laundering and financing of terrorist activities and reinforce the prevention of money laundering system through [Instrument of Pre-Accession Assistance](#) (IPA) funds.

MEMO/19/782

Press contacts:

[Christian WIGAND](#) (+32 2 296 22 53)

[Melanie VOIN](#) (+ 32 2 295 86 59)

General public inquiries: [Europe Direct](#) by phone [00 800 67 89 10 11](#) or by [email](#)