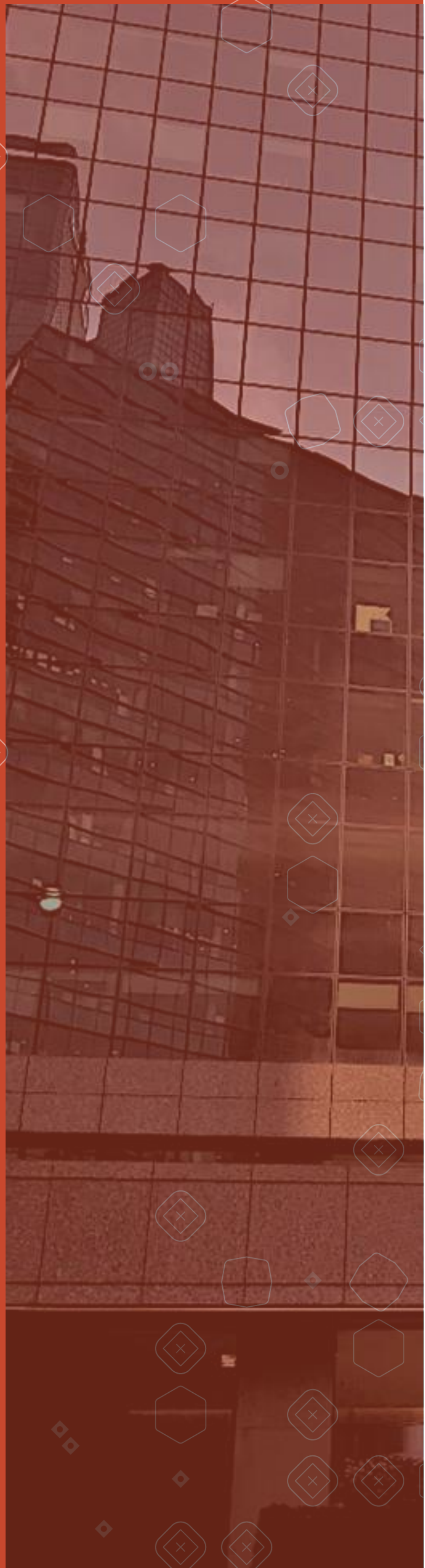
eba European Banking Authority

REPORT

ON THE FUNCTIONING OF ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM COLLEGES IN 2023

EBA/REP/2024/27 DECEMBER 2024



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List of abbreviations

AM	asset managers
AML	anti-money laundering
CDD	customer due diligence
CI	credit institutions
CFT	countering the financing of terrorism
EBA	European Banking Authority
EDD	enhanced due diligence
EMI	Electronic money institutions
EuReCA	European reporting system for material CFT/AML weaknesses
FATF	Financial Action Task Force
FIU	financial intelligence unit
FM	Fund managers
IF	investment firms
LIU	life insurance undertaking
ML	money laundering
NRA	national risk assessment
PEP	politically exposed person
PI	payment institutions
SNRA	supranational risk assessment
SREP	supervisory review and evaluation process
STR	suspicious transactions report
TF	terrorist financing

Executive summary

AML/CFT colleges are permanent structures that bring together different supervisory authorities responsible for the AML/CFT supervision of a cross-border financial institution, which operates in at least three Member States. Their aim is to ensure that supervisors exchange information in a timely manner, and that they cooperate to achieve better and more targeted supervisory outcomes in the fight against financial crime. The EBA is a member of all AML/CFT colleges.

Through 2023, EBA staff actively monitored 9 of those colleges, and carried out a thematic review of 10 other colleges focusing on firms of the banking, payment and e-money sectors with a FinTech oriented business model. EBA staff also collected general data on the functioning of all AML/CFT colleges established at the end of 2023.

The EBA found that competent authorities had taken important steps to implement six key action points that the EBA had issued in 2022[1]. Overall, colleges were well organised and competent authorities were using them to exchange relevant information that could enhance the effectiveness of supervision. The participation of FIUs and prudential supervisors continued to increase, and a small but growing number of colleges agreed on coordinated actions. Section 3 and 4 contain more details on this.

Nevertheless, the EBA identified two areas where the progress made by competent authorities was insufficient, namely:

1. Implementing the risk-based approach to the organisation of colleges (Action Point 4).

   The EBA found that the functioning of colleges (frequency of meetings, form in which the information is exchanged, etc.) was not sufficiently adapted to the risks to which the firms were exposed and to their specificities. This meant that competent authorities could not allocate their resources in a strategic manner. Colleges that were set up in relation to risky firms carrying out significant cross-border activities were not always given the level of priority that they would have deserved, and competent authorities often needed to spend too many resources to attend colleges established in relation to less risky firms carrying out limited cross-border activities. Given the high number of colleges established as of the end of 2023, this may have had a significant impact on competent authorities' ability to use colleges more effectively.

   Sections 4.4 and 5 of this report contain more details on this.

[1] Available on the EBA's website: [Report on the functioning of AML Colleges in 2021](#).

2. Ensuring that discussions on the need for a common approach are meaningful and systematic (Action Point 5)

   One of the main purposes of AML/CFT colleges is to allow competent authorities to identify common ML/TF risks and AML/CFT issues, and to coordinate the actions they take to address those risks and issues. The EBA found that few colleges had meaningful discussions on these aspects. As a result, competent authorities were rarely able to identify whether there were risks and/or issues that should be addressed in a coordinated manner.

   Sections 4.5 and 5 of this report contain more details on this.

Addressing the issues mentioned in the two points above will be key to ensuring that AML/CFT colleges can be used by competent authorities to their full potential. The EBA therefore encourages NCAs to prioritise taking steps to improve the functioning of colleges in these areas. Targeted recommendations are made in section 5 of this report to support competent authorities' efforts to achieve this objective.

Lastly, through its thematic monitoring of colleges, the EBA identified ML/TF risks and issues affecting firms of the banking, payment and e-money sectors with a FinTech-oriented business model, that supervisors are invited to better take into consideration. More specifically:

- Few of these firms were using truly innovative RegTech tools. In the case of one of them, the tool was poorly set up and was generating a high number of irrelevant alerts. This is an example of poor practices when using artificial intelligence for AML/CFT compliance purposes.

- Outsourcing to a RegTech provider was very common. However, lead supervisors had rarely assessed whether adequate safeguards were in place to ensure that the risks stemming from outsourcing were adequately managed.

- Most firms had insufficient AML/CFT compliance staff and/or insufficiently well-trained staff to effectively manage ML/TF risks.

1. Background

1. The legal basis for anti-money laundering and countering the financing of terrorism supervisory colleges ('AML/CFT colleges') is set out in Article 57a(4) of Directive (EU) 2015/849[2] ('AMLD'). Article 57a(4) contains a high-level requirement for 'competent authorities supervising credit and financial institutions to cooperate with each other to the greatest extent possible, regardless of their respective nature or status'. Further details and practical modalities of this cooperation are specified in the joint Guidelines (JC 2019 81) on cooperation and information exchange for the purpose of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions (the 'Guidelines') published by the European Supervisory Authorities (ESAs) in December 2019. AML/CFT colleges, i.e. permanent structures for collaboration and information exchange between competent authorities that are responsible for the AML/CFT supervision of the same financial institution, are central to these Guidelines and should be set up whenever a financial institution operates in three or more EU Member States. Competent authorities had two years, until January 2022, to implement the Guidelines. AML/CFT colleges will remain a key cooperation tool under the new legislative framework, as the AML/CFT colleges framework was enshrined in the new AMLD6. The new framework, which will need to be applied from July 2027 onwards, will be very similar to the current framework, with the new Anti-Money Laundering Authority (AMLA) taking over the EBA's role and functions vis-à-vis AML/CFT colleges.

2. The EBA has been monitoring AML/CFT colleges since their inception in line with its AML/CFT colleges methodology[3]. The EBA has published previous AML/CFT colleges monitoring reports in 2021, 2022 and 2023[4]. Last year's report highlighted the significant progress made by competent authorities in implementing the six key action points set out by the EBA in 2022 to ensure the effective functioning of AML/CFT colleges, namely:

   a. Finalising structural elements of the college;

   b. Enhancing the discussions during the AML/CFT college meetings;

   c. Fostering the ongoing cooperation between members and observers within AML/CFT colleges;

[2] Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

[3] The EBA explained its approach in its factsheet on the EBA's approach to monitoring the functioning of AML/CFT colleges published in December 2021.

[4] The first EBA report (EBA/REP/2020/35) on the functioning of AML/CFT colleges was published in December 2020 and is available here: Report on the functioning of AML/CFT colleges in 2020. The second report (EBA/REP/2022/18) is available here: Report on the functioning of AML/CFT colleges in 2021.

d. Applying the risk-based approach to AML/CFT college meetings;

e. Taking steps to identify areas for a ‘common approach’ or ‘joint actions’;

f. Enhancing supervisory convergence in AML/CFT colleges.

3. This report provides an overview of AML/CFT colleges which were established or continued operating in 2023, and summarises EBA staff’s observations. It also provides an assessment of the progress made by competent authorities in implementing the six key action points mentioned above, good and poor practices observed by EBA staff, and lists the steps that competent authorities are recommended to take to further the effectiveness of AML/CFT colleges going forward.

4. This report draws on information from the EBA’s monitoring of AML/CFT colleges as well as information from other sources including information gathered from the EBA’s central AML/CFT database, EuReCA[5], findings from the EBA’s ML/TF risk assessments and AML/CFT implementation reviews and information from the EBA’s work on colleges of prudential supervisors and resolution colleges[6].

2. Overview of AML/CFT colleges

5. As of 31/12/2023, 264 AML/CFT established colleges were reported to the EBA. Few of these colleges (34 in total) were set up in 2023. This is due to the fact that the vast majority of colleges had been set up during the previous years, and there were relatively few colleges yet to be established. Most existing colleges were set up in relation to a credit institution (about 50% of all colleges). Other colleges were mainly set up in relation to investment firms, collective investment undertakings, and payment institutions (each of these sectors representing roughly 12% of all established colleges). The life insurance and e-money sectors were less represented (about 7% and 3% of all established colleges respectively)[7] (see figure 1 and 2 below).

[5] EuReCA is EBA’s central database for reporting AML/CFT weaknesses. For more information, see the EBA’s EuReCA webpage

[6] See the EBA’s webpage dedicated to prudential colleges.

[7] The underrepresentation of these sectors is mainly due to the fact that there are less firms operating in these sectors overall and these firms have less cross-border establishments.

Figure 1: Total number of colleges established as of 31/12/2023, per country and per sector

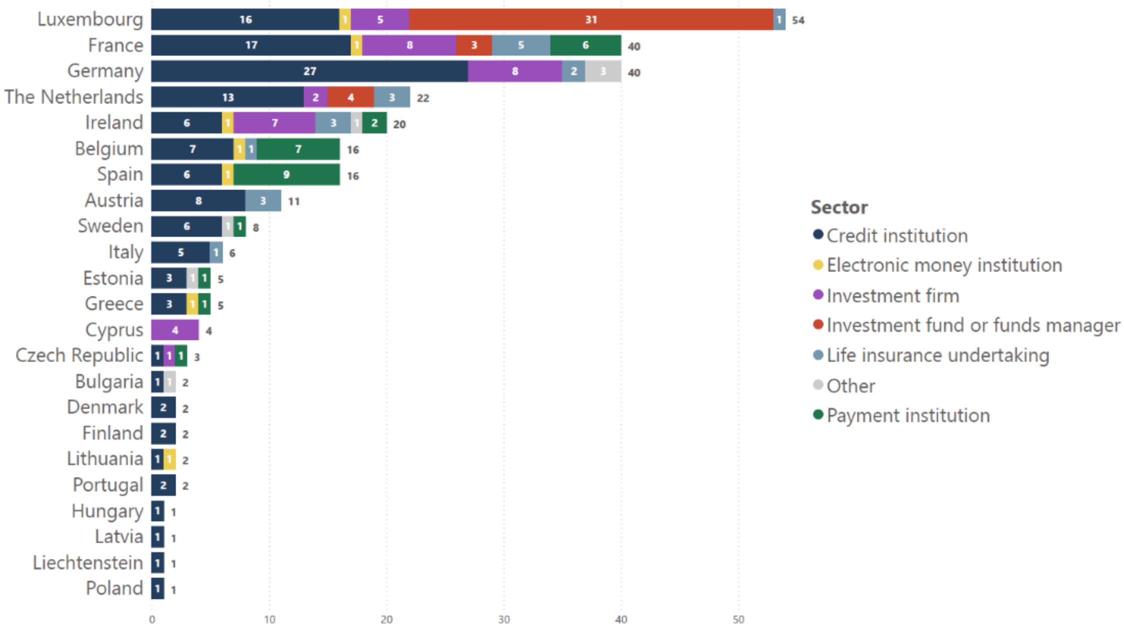
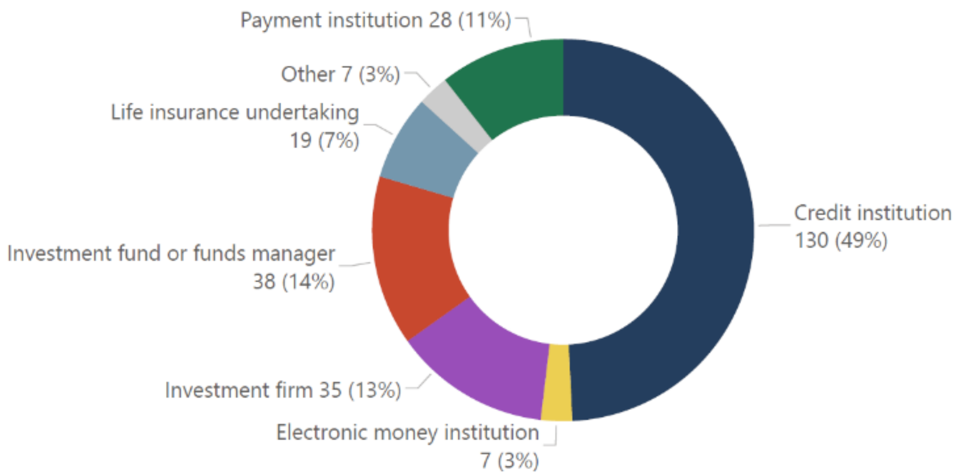


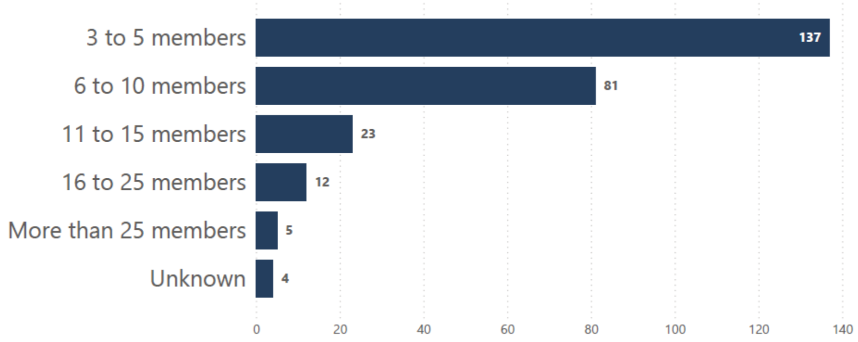
Figure 2: Total number of colleges established as of 31/12/2023, per sector



6. In terms of size, colleges were ranging from 2[8] to 31 members (including the lead supervisors and excluding the EBA). 55% of colleges had between 3 and 5 members. Only 17% of colleges reported to have 10 or more members (see figure 3 below).

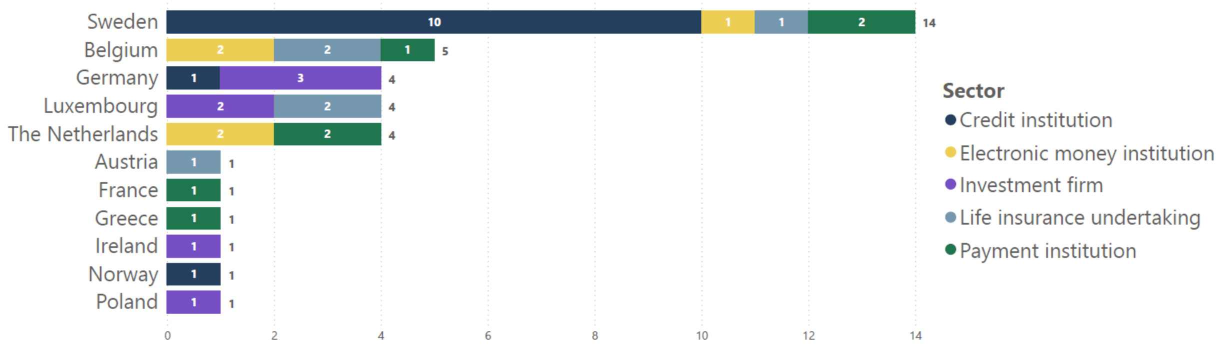
[8] It is worth noting that the Guidelines require the establishment of an AML/CFT college if and only if a firm is established in at least 3 Member States. This means that a college should in principle have at least 3 members (excluding the EBA). However, competent authorities are free to establish colleges even if the minimum conditions are not met. One competent authority used this possibility and maintained a college that had only 2 members as of 31/12/2023.

Figure 3: Number of members in AML/CFT colleges as of 31/12/2023



7. Lastly, competent authorities reported 37 colleges that were yet to be established as of 31/12/2023[9]. These colleges were expected to be set up in 2024 and 2025, which means that the total number of colleges should approximate 300 colleges when the Guidelines are fully implemented by all competent authorities (see figure 4 below).

Figure 4: Total number of AML/CFT colleges to be established as of 31/12/2023 per country and per sector



3. EBA's role in AML/CFT colleges

8. In 2023, EBA staff monitored 264 operating colleges. EBA staff also provided technical assistance and support to lead supervisors and permanent members.

[9] These colleges were not set up either because the conditions to establish the college had been met only recently or because the setting up of these colleges was not a priority for the relevant lead supervisors. The proportion of colleges in each category is not known.

3.1 Monitoring the functioning of AML/CFT colleges

9. The EBA's approach to monitoring AML/CFT colleges is based on three different monitoring activities, namely general monitoring, active monitoring and thematic monitoring.

3.1.1 General monitoring

10. General monitoring of AML/CFT colleges consists of the collection of data from all AML/CFT colleges on an annual basis. The objective of general monitoring is to keep track of trends and general developments within the AML/CFT college framework.

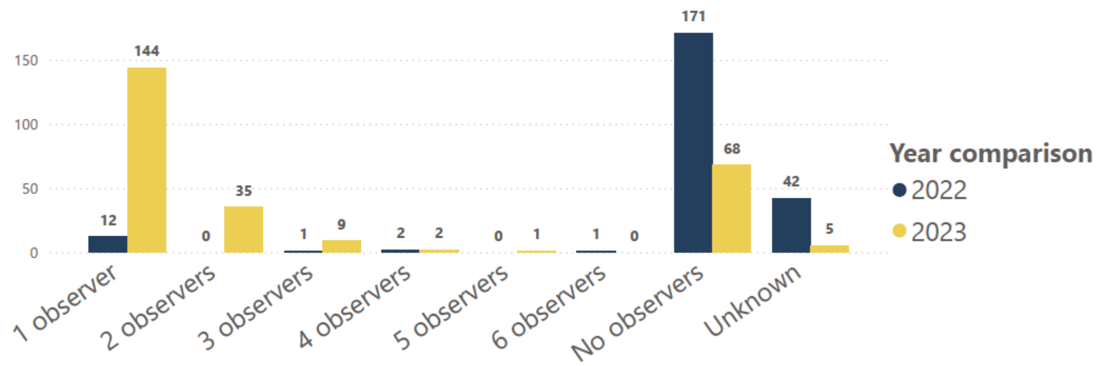
11. In 2023, the data was collected through two main channels:

    a. Notifications sent by competent authorities to the EBA on an ongoing basis (for instance to inform the EBA of the establishment of a new college or to inform the EBA of upcoming meetings).

    b. EBA staff's yearly general monitoring questionnaire, which all competent authorities were requested to complete, and which collects general information on the composition and functioning of all AML/CFT colleges.

12. The level of participation of FIUs slightly increased since 2022 (161 colleges had onboarded the FIU versus 134 in 2022). Similarly, there was a slight increase in the participation of prudential supervisors (prudential supervisors had participated in at least one meeting of 187 colleges in 2023, versus 165 in 2022). Lastly there was a significant increase in the onboarding of third country observers (see figure 5 below).

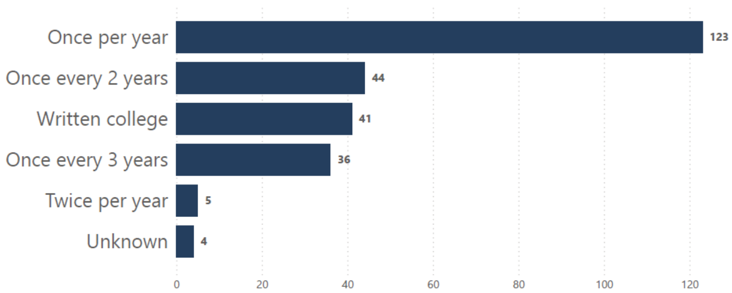
Figure 5: Onboarding of observers (comparison between 2022 and 2023)



13. The most common frequency of meeting agreed between college members once per year (about 45% of colleges). The remaining colleges can be divided into 3 categories that are of roughly equal size, namely: colleges that agreed to meet once every two years (about 17% of colleges), colleges that have agreed to meet once every three years (about 14% of colleges) and colleges that have chosen to exchange information in writing and organise a meeting only on an ad hoc basis in case significant developments occur (about 16% of colleges). Lastly, a

very small number of colleges (about 2% of colleges) chose to meet twice per year (see figure 6 below).

Figure 6: Agreed frequency of meetings per college as of 31/12/2023



14. The firm was invited as 'invited participant' within the meaning of Guideline 11 in about 60% of all colleges (153 colleges in total). The participation of the firm generally entailed a presentation made by the firm on all or part of its AML/CFT compliance framework, followed by a Q&A session during which the members and observers could ask further questions to the firm.

15. Lastly, the data collected show that the number of colleges that discussed the need for common approach or joint actions remained limited (less than 20% of colleges). Only 12 of these colleges had taken concrete joint actions, which include for example joint onsite inspections (4 colleges), agreeing to focus supervision on certain key areas (4 colleges), agreeing to remedy certain weaknesses on a common basis (1 college) and sending a common request to put in place corrective measures to the firm (1 college).

16. Overall, the data collected showed that competent authorities have not yet fully implemented the Guidelines but made significant progress in setting up and operationalising all colleges that need to be established pursuant to the Guidelines. Section 4 and 5 of this report provide further information on this point.

3.1.2 Active monitoring

17. Active monitoring consists of closely following a small number of AML/CFT colleges notably by participating in all the meetings and assessing the improvements made by these colleges. For the 2022-2024 period, EBA staff selected 16 colleges, based on a list of 6 criteria[10].

18. In 2022, EBA staff attended 11 meetings organised by 9 of these colleges (including 2 ad hoc meetings). The other colleges either did not organise a meeting in 2023, or organised a

[10] The criteria comprise three core criteria and three additional criteria. The core criteria include: (1) the sector's exposure to high inherent ML/TF risk; (2) the financial institution's exposure to a high or very high level of ML/TF risk; (3) the width of scope of the institution's cross-border operations. The additional criteria include: (4) the strategical importance of the institution in its Member State or region; (5) the existence of serious weaknesses in the institution's AML/CFT procedures, systems and controls; (6) the existence of concerns in relation to AML/CFT supervision in the institution's Member State. For more information, see EBA's factsheet on the new approach to monitoring AML/CFT colleges referred to in the EBA's factsheet on the EBA's approach to monitoring the functioning of AML/CFT colleges published in December 2021.

meeting but EBA staff was unable to attend. EBA's staff participation entailed attendance at the college meetings and providing updates on key policy developments and identifying potential emerging risks raised in those colleges and intervening where necessary to ensure that these risks were sufficiently addressed. EBA staff also provided detailed information based on submissions to the EuReCA database and raised awareness on competent authorities' obligation to report AML/CFT material weaknesses identified and the subsequent measures taken to address these weaknesses in this database.

19. In cases where EBA staff had concerns relating to the functioning of actively monitored colleges, EBA staff liaised bi-laterally with the lead supervisors of these colleges to discuss the steps the lead supervisors should take to address these concerns. For example, following the publication of negative news in the press on a firm in relation to which a college had been set up, EBA staff asked the lead supervisor what steps it would take to follow up on this. The lead supervisor clarified that the information published in the press were related to events occurring in 2022 that had already been discussed.

20. EBA staff found that, compared to the previous year, the effectiveness of most actively monitored colleges had slightly improved, even though persisting issues were identified. On the positive side, EBA staff noted that:

    a. Most actively monitored AML/CFT colleges were well organised. The meeting agenda was systematically sent sufficiently in advance to allow permanent members to prepare ahead of the meetings.

    b. Most lead supervisors were chairing colleges effectively, were actively leading the discussions and putting questions to the other members, which fostered the exchange of information between members.

    c. Most members and observers were sharing meaningful information. In some colleges, members were discussing more targeted issues, focusing on certain specific risks or topics.

    d. A few colleges identified common concerns. One college issued a joint letter to request that the firm take measures to address a common issue identified by the members.

21. The persisting issues identified by EBA staff are the following:

    a. A few lead supervisors were not sufficiently proactive in leading the discussions and drawing conclusions from the discussions.

    b. In some colleges, there was no discussion in respect of common concerns or the need for a common approach. In the colleges where such a discussion was held, the lead supervisors and members made insufficient efforts to identify potential cross-cutting issues. As a result, no one could make a meaningful contribution to the discussion and no action ensued.

c. In one college, even though a common action was decided, this action proved insufficient in addressing the issue identified. The lead supervisor and members took a lot of time to acknowledge the insufficiency of the action and did not take the necessary steps to assess the need for more intrusive measures.

d. In some colleges, the persons attending on behalf of certain members were not sufficiently well prepared to provide a meaningful description of the risks to which the firm was exposed or the outcome of the supervisory actions that had recently been taken. This hampered the quality of discussions and the benefit members could draw from the college.

22. Overall, active monitoring in 2023 showed that AML/CFT colleges remained an effective supervisory tool to allow many competent authorities to access relevant information that can enhance their supervisory strategy. Nevertheless, competent authorities made limited progress in using colleges to address common issues in a coordinated manner. Section 4 and 5 of the report provide further information on this point.

3.1.3 Thematic monitoring

23. Each year, EBA staff carry out a thematic review of AML/CFT colleges. The objective of this thematic review is to focus on certain sectors, activities or products which may be under-represented in the actively monitored colleges or which may otherwise warrant closer attention, for example, because of emerging ML/TF risks.

24. In 2023, EBA staff decided to focus on firms in the banking, payment and e-money sectors with a FinTech-oriented business model. The choice was made inter alia on the following grounds:

   a. The ML/TF risks arising from the use of new technology were identified as key emerging risk in the successive EBA opinion on ML/TF risks affecting the EU's financial sector of 2019[11].

   b. While the risks associated with FinTech activities may affect all sectors (with the possible exception of the bureau de change sector)[12], the firms on which the theme focuses appear to be particularly exposed to these risks, as the extensive use of new technologies and digital solutions is a key aspect of their business model.

   c. The firms on which the theme focuses tend to carry out extensive cross-border activities. This means that the extent to which competent authorities are able to share meaningful information through colleges may be key to effectively supervise these actors.

[11] See the EBA's opinions on the ML/TF risks affection the EU's financial sector of 2019, 2021 and 2023.

[12] See the aforementioned opinion on ML/TF risks affecting the EU's financial sector of 2023, p. 26.

25. In accordance with the EBA's AML/CFT colleges methodology[13], EBA staff selected 10 colleges established in relation to firms of the banking, payment and e-money sectors with a FinTech-oriented business model. When choosing the sample, EBA staff ensured that the selection covered all Member States in which at least one college had held one or more meetings, including colleges of different sizes and funds with different business models. The firms in scope can be classified into 4 distinct categories, based on the type of activities they carried out, namely:

    a. Firms that are providing retail banking services and products in a digital form – the so-called 'neobanks' – (4 firms);

    b. Firms that are providing corporate banking services with the addition of innovative solutions to help companies and businesses deal with accountancy-related matters (such as invoicing, cash management, etc.) more efficiently (2 firms);

    c. Firms providing innovative payment services allowing customers to get access to easier, cheaper and/or more secure ways of making online or physical payments (3 firms);

    d. Firms providing traditional retail banking services with no FinTech element (the FinTech aspect of the firm turned out to be pure marketing) (1 firm).

26. On 19/12/2023, the lead supervisors of the relevant colleges were requested to complete a dedicated questionnaire. In March 2024, EBA staff interviewed all lead supervisors.

27. The findings relating to the ML/TF risks and AML/CFT issues identified in the selected colleges are as follows:

    a. Only two firms were using truly innovative RegTech tools. These tools did not necessarily enhance the effectiveness of these firms' AML/CFT controls

    All firms in scope were using RegTech tools for the purpose of AML/CFT compliance. These tools were used to perform KYC/CDD checks, identify PEPs and sanctioned persons and monitor transactions on an ongoing basis. Most of these tools could not be considered innovative because they relied on basic technologies that have been widely used in the banking industry for more than a decade (such as standard screening algorithms and monitoring scenarios). By way of exception, two firms had put in place an innovative transaction monitoring tool. In both cases, the functioning of the tool was similar. The tools were trained to recognise suspicious patterns, based on previous STRs, using machine learning technologies. The tools would then scan all transactions on an ongoing basis and generate an alert when identifying a suspicious pattern. Other alerts were also generated based on pre-defined monitoring scenarios.

    In one case, the lead supervisor had identified significant weaknesses in the functioning of the tool. The tool was not properly tested and the firm did not ensure that it was

[13] See the EBA's factsheet on the EBA's approach to monitoring the functioning of AML/CFT colleges published in December 2021.

properly calibrated before implementing it. In addition, the firm did not ensure that the tool remained well calibrated over time, and did not periodically assess the quality of the hits generated by the system. As a result, the tool was generating a high number of irrelevant alerts that staff could not handle, which was severely limiting the firm's ability to identify abnormal transactions.

This example of poor practice shows that the unthinking use of machine learning based transaction monitoring tools may not be conducive to more effective AML/CFT controls.

b. Most firms had outsourced tasks to a RegTech provider. Lead supervisors had rarely assessed the safeguards in place to ensure that ML/TF risks stemming from outsourcing to such providers were adequately dealt with.

   At least 6 firms were relying, entirely or in part, on a RegTech provider to operate the RegTech tools in place. In the case of 2 firms, the lead supervisor did not know whether this was the case. Outsourcing of tasks to a RegTech provider may create the risk that the tool is not operated properly (which may, in turn, negatively impact the effectiveness of the outsourcing firm's AML/CFT defenses), if the outsourcing firm does not have adequate safeguards in place. These safeguards may include:

   - putting in place a comprehensive outsourcing agreement setting out clear requirements for the RegTech provider; and
   - monitoring the RegTech provider's activities to ensure that the tool functions properly and that the RegTech provider complies with the requirements set out in the agreement.

   Only 3 lead supervisors had carried out an assessment of the adequacy of the safeguards put in place by firms to mitigate the risks stemming from outsourcing. Two of them had identified issues. One found that that the agreement between the firm and the provider was not detailed enough, and that the firm was not conducting proper oversight of the provider. The other found that the outsourcing arrangement was not properly documented. This suggests that outsourcing arrangements in relation to RegTech may represent a ML/TF vulnerability and should be a focus of supervision going forward.

c. Human resources allocated to AML/CFT compliance were often insufficient

   In 6 colleges, lead supervisors had identified issues in relation to the dedicated staff allocated to AML/CFT compliance. The number of staff was generally insufficient to handle all the alerts generated by the screening and monitoring tools (5 colleges). In some cases, lead supervisors also reported that staff members were not sufficiently skilled or knowledgeable to properly analyse the alerts generated by the tools (2 colleges). Firms that were growing at a fast rate appeared particularly exposed to both of these issues. Possible root causes that were identified by lead supervisors of thematically monitored colleges include:

- these firms focusing too much on business development and growth, leaving AML/CFT compliance behind;
- these firms being unable to adapt their compliance framework sufficiently quickly to ensure it is adequate with the ML/TF risks to which they were exposed;
- the lack of a sufficiently strong compliance culture.

d. Most neobanks had put in place interconnected anti-fraud and AML/CFT compliance frameworks. This can be seen as a good practice if certain conditions are met.

Most firms in scope appeared to be particularly exposed to the risk of being used by fraudsters. Neobanks and firms providing innovative banking services to businesses seemed to be the most exposed to this risk. This is mainly due to the ease with which customers could open an account and the lack of physical contact between the customer and the firm. This made it easier for fraudsters to use the firms' services with a false identity. Because of the increased vulnerability to fraud, most firms (6 firms) had put in place interconnected anti-fraud and AML/CFT compliance frameworks. In 4 of these firms, the same unit was responsible for both AML/CFT compliance and fraud detection, and the same tool was used to perform AML/CFT transaction monitoring and detect potential fraud cases. In the 2 other firms, there were strong links between the anti-fraud and AML/CFT functions, but it was unclear whether these functions were completely merged.

This form of organisation may be seen as a good practice, but only if certain conditions are met. Because of the firms' vulnerability to fraud, fraud is likely to be a key predicate offense in the ML/TF schemes they may be able to identify. This means that fraud investigations and AML/CFT analyses may often be interconnected. For instance, where a firm identifies a fraud following a fraud investigation, the evidence collected during the investigation will probably be key information to determine whether the firm should suspect ML/TF. By organising their AML/CFT compliance and anti-fraud function in an interconnected way, firms may therefore avoid duplication of efforts and ensure that information flows more easily between staff responsible for detecting frauds and their AML/CFT counterparts. But this is true only if firms ensure that:

- they do not allocate too many of their resources on fraud detection at the detriment of AML/CFT;
- all potential fraud cases are also looked at from an AML/CFT angle, where necessary;
- the firm's organisation allows it to also identify ML/TF suspicions that are unrelated to potential fraud cases.

28. The findings relating to the functioning of colleges are as follows:

a. Some colleges organised the periodic exchange of information in written form. Such organisation appeared justified based on the specificities of the groups

   In two cases, lead supervisors had opted for holding the college in written form, i.e., organise the periodic exchange of information exclusively via written exchanges, and meet only on an ad hoc basis in case significant developments occur. Even though the firms in relation to which these colleges had been set up were assessed by the lead supervisor as exposed to a significant and very significant level of ML/TF risks respectively, the written form appeared justified.

   In both cases, the group was carrying out limited cross-border activities and had organised its AML/CFT compliance framework in a highly centralised manner. As a result of this, supervisors of cross-border establishments had access to limited relevant information to be shared in the college. Consequently, organizing the college in written form appeared to lead to a better allocation of supervisors' resources and was therefore justified.

b. In most colleges, the frequency of meetings was in line with the risk and specificities of the group. One college, however, did not have agreed on a frequency of meetings and did not appear to meet sufficiently often

   In all colleges except one, the agreed frequency of meetings was in line with the risk associated with the firm and the specificity of the colleges in all cases except one. In one college, members had not agreed on a frequency of meetings. In practice, the college organised less than one meeting per year even though the firm was assessed as exposed to a very significant level of risk and serious issues had been identified by several members. This does not appear to be in line with the requirements of the Guidelines.

c. The FIU was participating in most colleges, but prudential supervisors were rarely onboarded. This means that some relevant information on the firm may not have been shared

   The FIU was participating in 7 of the 10 colleges of the sample. In 2 colleges, the participation of the FIU was foreseen in the future, but the FIU had not yet been onboarded.

   Prudential supervisors were onboarded in only 4 colleges. In at least 5 of the 6 colleges in which they did not participate, this might have prevented the members from accessing relevant information that could have been useful for supervisory purposes. All these colleges were indeed set up in relation to firms that heavily relied on IT solutions for AML/CFT compliance purposes. It could therefore have been interesting to hear prudential supervisors' views on the effectiveness of the firm's IT systems as this may have had a significant impact on the effectiveness of these IT solutions. In addition, two of these firms were growing a fast pace. It would therefore have been interesting to hear prudential supervisors' views on the extent to which these firms were able to adapt their internal controls and compliance frameworks.

d. A common approach was discussed where relevant. In one college, the members did not agree on joint actions even though it appeared warranted

   Most colleges had discussed the need for a common approach. In the few colleges that had not, this appeared justified by the lack of information that other members could share. In one college, however, several members had similar concerns relating to governance, the organisation of AML/CFT compliance and the quality of STRs. Even though these concerns suggested the existence of serious common issues, the college did not discuss the need to address these issues in a coordinated manner. This means that these issues may not adequately been dealt with.

29. Overall, the EBA observed good practices among the colleges included in the sample, even though further progress could have been made in certain areas. Like in actively monitored colleges, the discussion of a common approach was identified as one area where there is a need for improvement. Sections 4 and 5 of the report contain further information on this point.

3.2 Supporting the creation and development of AML/CFT colleges

30. In addition to carrying out the monitoring activities mentioned in the previous section, EBA staff continued to provide technical assistance and support to AML/CFT colleges and the lead supervisors of these colleges, especially in the following areas:

    a. finalising the template terms of participation to be used when onboarding third country authorities as observers, and sharing the template with all members;

    b. assisting lead supervisors in implementing the requirements set out in the Guidelines;

    c. sharing information with lead supervisors of colleges on material weaknesses, and the subsequent measures taken, submitted in EuReCA on entities that are part of the college, so that the information could then be communicated to the other members[14].

31. Lastly, some lead supervisors reported to EBA staff that a key challenge to onboarding more third country observers was that few potential third country observers were covered by an EBA's assessment of the equivalence between the confidentiality regime applicable to them and the confidentiality regime set out in the AMLD. In November 2023, the EBA also decided to conduct additional assessments of the equivalence between the confidentiality requirements applicable to third country authorities and the confidentiality requirements set out in the AMLD. These assessments are to be carried out in 2024 and 2025. The EBA will provide more information on the assessments conducted in 2024 in its next report on the functioning of AML/CFT colleges, to be published in 2025.

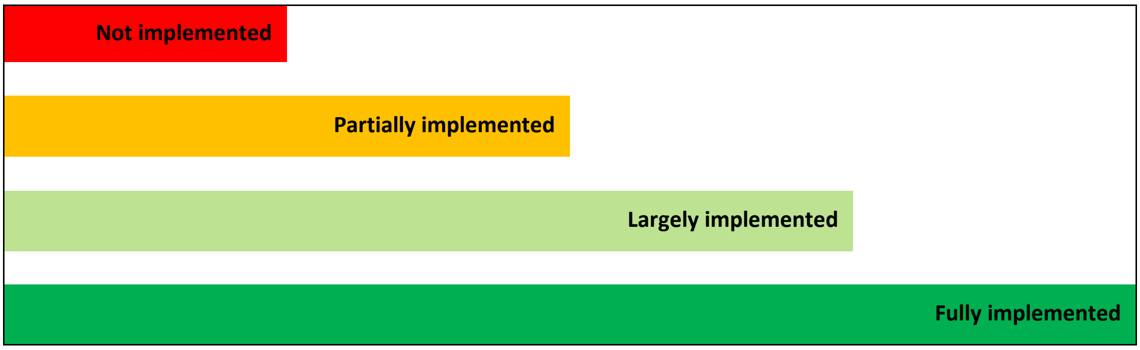
[14] On a monthly basis, EBA staff analyses all submissions received in EuReCA to identify all submissions relating to entities belonging to a group for which a college has been set up. Where such entities are identified, EBA staff shares the submission with the relevant lead supervisors.

4. Progress made in implementing the EBA's key action points for colleges

32. The key objective of AML/CFT colleges is to provide supervisors that are responsible for the supervision of the same cross-border financial institution, with comprehensive and up to date information about the financial institutions' exposure to ML/TF risks so that they can take the necessary actions to address these risks in a timely manner before they crystallise. In its report on the functioning of AML/CFT colleges in 2021, the EBA identified six action points that lead supervisors and colleges should implement to achieve these objectives.

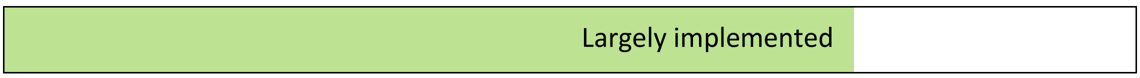
33. The progress made in implementing each action point will be graded based on the following scale:

Grading scale – Progress made in implementing the key action points



34. For each action point, a grade is given. This grade represents the EBA's assessment of the extent to which this action had been implemented by competent authorities as of 31/12/2023. In each case, the rationale behind the EBA's assessment will be explained in the subsequent developments.

4.1 Action point 1 - Finalising structural elements of the college



35. The first action point set out by the EBA was to finalise structural elements of the college to ensure the conditions are met for supervisors to exchange relevant information on the ML/TF

risks to which the financial institutions is exposed in a timely fashion. As part of this, the EBA recommended that competent authorities:

a. Ensure that an AML/CFT colleges is set up for all institutions that meet the criteria set out in the Guidelines.

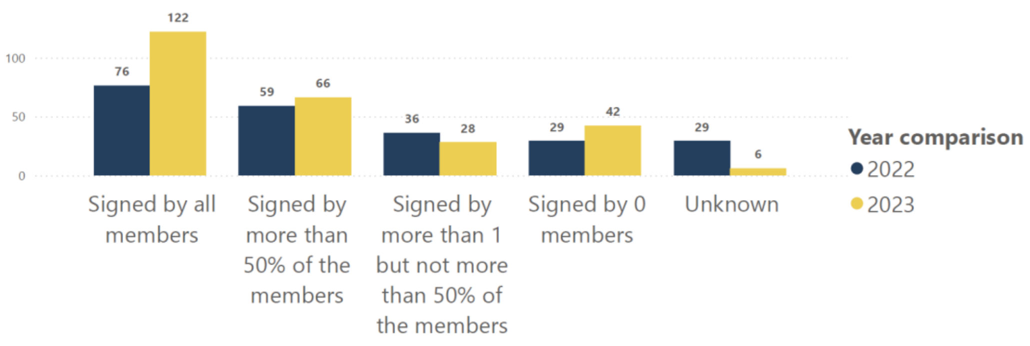
b. Finalise the Cooperation Agreement.

c. Ensure the participation of all permanent members in the AML/CFT college.

d. Take the necessary steps to ensure that all relevant observers are identified and invited to the AML/CFT college in line with the Guidelines.

36. As shown in the presentation of general monitoring activities (see section 3.1.1), competent authorities have made significant progress in implementing this first action point. The vast majority of colleges are now set up and running. Nevertheless, EBA staff observed that, even though lead supervisors made progress in getting the cooperation agreement signed by more members. Most members had signed the cooperation agreements in the vast majority of colleges, even though there were only a few colleges in which all members had (see figure 7 below). This appears to be mainly due to difficulties in getting some members to sign the cooperation agreement. In the general monitoring questionnaire, 5 lead supervisors highlighted that obtaining the signed cooperation agreements from the other members of the colleges they were leading were among the main challenges they were facing.

Figure 7: Signing of the cooperation agreement



37. Few third country observers were participating in AML/CFT colleges (see section 3.1.1). However, this was mainly due to the fact that most third country observers were not covered by an EBA equivalence assessment, as explained in section 3.2. As explained in the same section, the EBA already took steps to tackle this issue.

4.2 Action point 2 - Enhancing the quality of discussions during the AML/CFT college meetings

Largely implemented

37. The second action point was to enhance the quality of discussions in AML/CFT college meetings. Enhancing the quality of discussions is key to ensuring that permanent members of colleges, exchange information which raises the members' understanding of the risks to which the financial institution may be exposed, both at group level and in their Member State, and enhances the effectiveness of AML/CFT supervision in all Member States. To guide lead supervisors and permanent members in implementing this action point, EBA staff had identified a series of good practices, including notably:

    a. Leading the discussions by proactively asking follow-up questions, where necessary, and encouraging other members to contribute to the discussions. EBA staff had also encouraged permanent members to seek clarifications, where necessary, to develop a better understanding of the issues discussed.

    b. Ensuring that sufficient time is allocated for the exchange of views between members and observers.

    c. Setting out, prior to the meeting, the topics on which members and observers should be prepared to provide an update or discuss during the meeting (which should include, as a minimum, the topics mentioned in the Guidelines).

    d. Requesting the information to be presented in a structured way, including through the use of visuals, presentations, excel spreadsheets, tables and other supporting documentation and to ensure that this information is available to all relevant members and observers.

    e. Where the financial institution is invited to attend a college meeting, narrowing the scope of its presentation or contributions to focus on specific ML/TF risks or measures it applies to mitigate these risks.

38. Through its active monitoring of colleges, EBA staff observed that compared to the two previous years, members and observers were sharing more meaningful information (see section 3.1.2). Most actively monitored colleges had implemented most of the good practices mentioned above, with good results. In particular:

    a. Most lead supervisors were actively leading discussions and asking other members questions.

b. Some lead supervisors used a template spreadsheet to collect the information in advance, which ensured that permanent members came prepared to the meeting.

c. Where the financial institution was invited to make a presentation, some lead supervisors requested that such a presentation focus on a specific topic. As a result, the presentation provided more targeted and useful information to competent authorities attending the meeting.

d. Some lead supervisors had, either on their own initiative or at another member's request, included a discussion on a specific topic that was of special interest for several competent authorities attending the meeting. These authorities could therefore discuss more specific issues which they were facing when supervising the financial institution in their Member State.

39. EBA staff observed good practices that were implemented in addition to those mentioned. For example.

a. In one actively monitored college that comprises a lot of members, in each meeting, the lead supervisor invites one member to make an in-depth presentation on a topic that is of particular interest for this member. This ensures that more meaningful information can be shared even though the time allocated to each member during the tour de table is limited, due to the large size of the college.

b. In the general monitoring questionnaire, 6 lead supervisors indicated that they used the provisions of Guideline 5.11 to invite certain stakeholders (other than the firm) as 'invited participants', such as:

- a foreign FIU (3 colleges);
- third country authorities that could not yet be onboarded as observers (2 colleges);
- external auditors (1 college).

One of the colleges that had invited a foreign FIU as 'invited participant' was part of the active monitoring sample. The information shared by such FIU allowed the members to identify that the firm had divergent reporting practices in different Member States.

> The invitation of 'invited participants', particularly foreign FIUs, is a good practice, provided that the safeguards set out in Guidelines 5.11 are in place, in particular:
>
> - Lead supervisors have ensured that the presence of the invited participants will benefit the college or that particular matters discussed on the college may have an impact on the work conducted by the invited participants;
> - The invited participants are invited only to a particular session;
> - The lead supervisor has duly informed the other permanent members of the proposed participation of the invited participants prior to the meeting, and all permanent members have been given reasonable time to raise any concern or objections they may have to the participation of these invited participants.

c. One lead supervisor that was requesting other members to share information on their risk assessment and recent supervisory actions ahead of the meeting prepared a summary of all contributions. This summary was used to provide an overview of all information collected to the other college members, which was particularly useful as the college was large.

d. information with the college but rather present this information based on the template spreadsheet to be completed ahead of the meeting. As a result, the tour de table was more time-efficient with more time for discussions.

40. However, EBA staff also observed certain poor practices, namely:

a. A few lead supervisors of actively monitored colleges did not schedule enough time on the agenda to discuss important topics. As a result, some discussions were a bit rushed, which had an impact on the information that members were able to share.

e. A few lead supervisors of actively monitored colleges did not collect sufficient information ahead of the meeting from the other members to identify key risks and issues identified by the other members and structure the discussions.

f. Lead supervisors of actively monitored colleges rarely scheduled discussions on specific topics identified to be of particular interest for the college. As a result, in some colleges, the discussions were insufficiently focused on the key risks and issues identified by the members.

4.3 Action point 3 - Fostering the ongoing cooperation between members and observers within AML/CFT colleges

Largely implemented

41. AML/CFT colleges are permanent structures that provide an opportunity for supervisors involved in the supervision of cross-border institutions to engage with each other during the college meeting but also on an ongoing basis. Exchanging information on an ongoing basis is especially crucial to ensure that competent authorities are informed of emerging risks to which financial institutions may be exposed or of significant developments relating to these institutions as early as possible. The third action point set out by the EBA was for supervisors to make use of the colleges framework to cooperate and exchange information in a timely manner, particularly in cases where significant developments related to the financial institution have emerged and may have an impact on the entire group or some institutions within the group.

42. In the general monitoring questionnaire, it was reported that 12 colleges had organised at least one ad hoc meeting prior to 31/12/2023 (one of which was actively monitored by EBA staff in 2023). The trigger events for these meetings include:

   a. The identification of significant AML/CFT findings in the course of AML/CFT supervision (5 colleges);

   b. A major incident identified in the firm that had AML/CFT implications (1 college);

   c. The imposition of a fine on the firm by the lead supervisor (1 college).

43. EBA staff welcomes the organisation of these ad hoc meetings. EBA staff did not identify poor practices in relation to the ongoing exchange of information in 2023. However, this may be partly due to the fact that, for most actively monitored colleges, no event that should have triggered the organisation of an ad hoc meeting or exchange of information occurred in 2023.

4.4 Action point 4 - Applying the risk-based approach to AML/CFT college meetings

Partially implemented	

44. The fourth action point was to set the frequency and form of college meetings in such a way that is commensurate to the ML/TF risks to which the institution is exposed and adapted to the characteristics of the firm. The purpose of this action point is to ensure that supervisors' allocation of resources is conducive to a more effective supervision. More concretely, this means that supervisors should focus more of their resources on colleges set up in relations to institutions that are riskier and/or for which there is a greater need for discussions with other supervisors (for example because the firm carries out significant cross-border activities or because significant developments have arisen).

45. The most common reason for choosing a certain frequency of meetings that was reported in the general monitoring questionnaire was the level of ML/TF risks to which the firm was exposed. Some lead supervisors had developed a formalized approach to adjust the frequency of meeting based on this sole criterion (for example: 'high risk: every year, medium risk: every two years, low risk: every three years'). Some competent authorities were also taking into account other factors, such as the activities carried out by the branches, the outcomes of supervisory engagements and the availability of the members.

46. Overall, competent authorities had very divergent approaches to determining the adequate frequency of meetings. For example, out of the 17 colleges that were organised once per year based purely on the lead supervisor's risk rating of the firm, about a third (6 colleges) were set up in relation to a firm rated as exposed to moderately significant risks, a third (5 colleges)

were set up in relation to a firm rated as exposed to significant risks, and the last third (6 colleges) were set up in relation to a firm rated as exposed to very significant risks.

47. From a more general perspective, EBA staff observed that many colleges appeared to be set up in a way that is too resource intensive. As highlighted in section 3.1.1, almost half of all colleges have agreed to meet once per year. This means that supervisors need to allocate significant resources to supervise a high number of colleges and cannot sufficiently focus on the most strategic ones. This appears to be confirmed by the data collected through thematic monitoring and active monitoring. Some of the monitored colleges were meeting very frequently, which led to a lack of attendance by the members.

48. On the positive side, an increasing number of colleges had decided to organise the exchange of information in written format and meet only on an ad hoc basis, in case of significant developments. Two of these colleges were included in the thematic monitoring sample. In both cases, EBA staff could see that this form of organisation was adapted to the characteristics of the group, which was carrying out limited cross-border activities. Because of this, the members had little relevant information at their disposal to be shared with the college. Written exchanges allowed the college to simplify the exchange process, which lead to a more effective allocation of competent authorities' supervisory resources.

4.5 Action point 5 - Taking steps to identify areas for common approaches or joint actions

Partially implemented	

49. AML/CFT colleges provide supervisors with an opportunity to address common issues and risks in a coordinated and consistent manner. The fifth action point was therefore to take steps to identify areas where a common approach or joint action would be warranted.

50. Most actively and thematically monitored colleges held a discussion aimed at identifying common areas of concern. Some of them held a discussion on the need for a common approach or joint actions. One actively monitored college took a joint action (sending a common letter to request that the firm put in place measures to remedy a significant incident with AML/CFT implications). In one thematically monitored college, the lead supervisor agreed with another member to exchange conclusions from forthcoming on-site inspections and planned remediation measures to ensure a consistent approach at group level. In another college, the lead supervisor also agreed to help facilitate the contacts between the group and the supervisors of local branches and requested that the EBA issued an opinion on 'IBAN as a service' at the college's request.

51. However, in most actively and thematically monitored colleges, there was no serious attempt at identifying common areas of concern and/or discuss the need for a common approach or joint actions. More specifically, EBA staff observed that:

    a. Lead supervisors had rarely scheduled a discussion on common concerns and the need for coordinated actions on the agenda, or even clarified that the members should express their views on this topic.

    b. Lead supervisors rarely attempted to summarise the key point raised by the members and to identify cross-cutting issues (whether on the basis of the data collected ahead of the meeting or on the basis of the information shared during the meeting). This meant that the members generally lacked the basis they would have need to have a fruitful exchange on common issues and the need for joint actions.

    c. Most members were not sufficiently proactive in trying to assess the existence of common issues or the need for a common approach. For example, few of them were asking questions to understand the extent to which the risks and issues highlighted by the other members were related to those that they had identified.

    d. In some cases, the persons attending on behalf of certain members did not appear to have sufficient knowledge of the recent supervisory engagements of their competent authority with the firm, to be able to offer a meaningful contribution to the discussion.

52. As a result, where this topic was discussed by actively monitored colleges, the discussions were generally not meaningful. These colleges thus had limited ability to identify cross-cutting risks and issues and/or the possible common approaches that could be of interest for the members.

4.6 Action point 6 - Enhance supervisory convergence in AML/CFT colleges

Not implemented	

53. Action point 6 was to share supervisory experiences when dealing with certain matters as this may inform and enhance the supervisory approach and practices by other members and observers in the college. In last year's report on the functioning of colleges, EBA staff had identified certain areas that may merit the exchange of views between competent authorities and which lead supervisors should therefore consider including on the agenda of college meetings, namely:

    a. the cooperation for the purposes of the risk assessment and supervision, including cooperation with tax authorities, the FIU, prudential supervisors;

    b. the methods applied by supervisors to monitor and assess the effectiveness of transaction monitoring policies and procedures put in place by institutions;

c. the approaches applied by supervisors when assessing the AML/CFT governance arrangements put in place by financial institutions, including their oversight of the outsourced AML/CFT systems and controls;

d. the approaches for assessing the effectiveness of measures taken by financial institutions to remedy breaches and weaknesses identified by supervisors;

e. the approaches for identifying and addressing relevant risk factors for their sectoral and entity-level risk assessments.

54. Like last year, EBA staff nonetheless observed that lead supervisors of actively and thematically monitored colleges did not include any discussion on these topics on the agenda of meetings held in 2023.

5. Further improving the functioning of AML/CFT colleges in the future

55. The EBA's findings show that the first three key action points were largely implemented, which ment that competent authorities could use AML/CFT colleges in an effective manner to exchange relevant and actionable information. However, Action Point 4 (applying the risk-based approach to the organisation of the college) and Action Point 5 (taking steps to identify areas for common approach or joint actions) were only partially implemented and Action Point 6 (enhance supervisory convergence) was not implemented.

56 The EBA considers that making further progress in the implementation of Action Points 4 and 5 is likely to be key to enhancing the effectiveness of the AML/CFT college framework in the near future, for the following reasons:

a. Due to the high number of colleges established as of 31/12/2023, it is key that lead supervisors and members can allocate their resources between these different colleges in a strategic manner. More specifically, lead supervisors and members should be able to focus more on colleges set up in relation to riskier firm carrying out more significant cross-border activities and less focus on less risky firms carrying out limited cross-border activities. Further implementing Action Point 5 is key to ensure that this can be achieved.

b. Identifying common issues and addressing them on a coordinated basis is one of the main objectives of colleges. Further implementing Action Point 6 is key to ensuring that this can be achieved.

The Implementing of Action Point 6, on the other hand, appears less strategic at this stage because AML/CFT colleges have not reached a sufficient level of maturity to be used as an effective tool to foster supervisory convergence. In addition, the implementation of the new AML/CFT legislative framework and the exercise by AMLA of its direct and indirect supervisory powers will be a more effective way to harmonise supervisory practices at this stage.

57. The EBA therefore encourages competent authorities to focus on the implementation of Action Points 4 and 5. For this purpose, in addition to the good practices highlighted in its reports on the functioning of AML/CFT colleges in 2021 and 2022, competent authorities should consider the recommendations set out in sections 5.1 and 5.2 below.

5.1 Making the organisation of AML/CFT colleges more in line with the risks and specificities of the group

58. Lead supervisors should assess the need to adjust the frequency of meetings, not only taking into account their ML/TF risk rating of the firm, but also other criteria allowing to better capture the risk profile of the firm at group level. Such criteria may include for example:

   a. Other members' risk rating of the firm;

   b. The scale of the cross-border activities carried out through the firm's establishment in other Member States or third country jurisdictions;

   c. The extent to which the firm's AML/CFT controls are operated in the head office or third country establishments;

   d. The outcome of recent supervisory actions taken by the other members;

   e. The existence of significant developments or material AML/CFT issues affecting the group.

59. Where the firm's cross-border establishments carry out extremely limited activities, all the firm's AML/CFT controls are operated in the head office of the group, and no significant developments have been identified by any of the members in the past few years, it may be justified for the lead supervisor to organise the periodic exchange of information exclusively in writing and meet only on an ad hoc basis, in the case where significant developments occur.

5.2 Enhancing discussions on common issues and common approach

60. Lead supervisors and members of colleges should make their best efforts to have more meaningful discussions on the need for a common approach or joint actions. To ensure that this is happening in practice, lead supervisors and other members of the college should consider the good practices highlighted below.

61. As far as lead supervisors are concerned, the EBA identified the following good practices:

a. Scheduling a stand-alone discussion on the identification of common issues and the need for a common approach on the agenda.

b. Collecting extensive information ahead of the meeting in a structured way, so as to be able to identify potential key common issues and proposals for a common approach that may be presented in the beginning of discussions on the need for a common approach.

c. Systematically presenting proposed conclusions at the end of discussions between the members (whether they take the form of successive presentations or of a tour de table). When presenting their proposed conclusions, lead supervisors should attempt to summarise the key points raised by the members and outline potential links that may exist between issues raised by different members. Lead supervisors should collect the other members' views on their proposed conclusions to ensure that they agree with them.

d. Proactively leading the discussions on the need for a common approach, by highlighting potential common issues, proposing possible common approaches and asking questions to the members on these potential issues and possible approaches.

e. Carefully consider the different types of possible common approaches that may be suitable for the college before choosing the approach to be proposed to the other members. The different types of common approaches may be classified into two different categories, namely:

   i. Investigative common approaches

   An investigative common approach consists of a common approach or joint action agreed between several members, the purpose of which is to coordinate these members efforts to collect information or assess certain ML/TF risks or AML/CFT issues.

   An investigative common approach may be particularly useful in the following scenarios:

   - Members identified concerns that appear to be linked and need to further investigate to assess the extent to which these concerns may be related.
   - Some members identified issues, and further investigation would be needed from other members to determine whether these issues also affect the firms they supervise.
   - Members have identified common concerns but lack the necessary information to discuss whether or how these concerns should be addressed in a coordinated manner.

- Members agree that collecting more information on certain topics or risks would be useful to make discussions more meaningful and decide to coordinate their efforts at doing so.

Examples of investigative common approaches may include:

- Performing a joint onsite inspection or offsite review involving different members of the college;
- Agreeing on the scope of forthcoming on-site inspections or off-site reviews, and sharing information on the respective findings identified by the different members;
- Agreeing that certain members will include additional supervisory actions on their supervisory plan to assess whether the establishment they supervise is affected by ML/TF risks or AML/CFT issues identified by other members;
- Sharing inspection reports or the result of off-site reviews with the lead supervisor, so that the lead supervisor may perform a benchmark analysis of the findings identified.

ii. Corrective common approaches

A corrective common approach consists of a common approach or joint action agreed between several members to coordinate these members' efforts to impose corrective or enforcement measures on the firm.

A corrective common approach will generally be useful to ensure that common issues are remedied in a consistent manner across different Member States. Examples of possible corrective common approaches may include:

- Agreeing on the level of seriousness of a cross-cutting issue.
- Sharing information on the remediation plan put in place by the firm to correct cross-cutting issues identified to ensure that this plan is consistent at group level.
- Agreeing on the type of corrective measures that are needed to effectively address the issue, based on its seriousness and nature (e.g., order to comply, pecuniary sanction, restrictions on the firm's activities, etc.).
- Aligning enforcement measures imposed by the different members to ensure that certain cross-cutting issues are addressed in a consistent way at group level (e.g., imposing similar restrictions on the firm's

activities, requesting the implementation of similar corrective measures, etc.).

f. Following up on common approaches already agreed between several members. Where a common approach has been decided, lead supervisors should follow-up on the actions taken by the different members involved and report on the progress made to the college. This may be done through stand-alone discussions scheduled in subsequent college meetings. In some cases, however, this may not be sufficient to ensure that the actions are taken in a timely fashion. In these cases, the lead supervisors should consider collecting and sharing information in writing or organising targeted ad hoc meetings.

62. As far as members of colleges other than lead supervisors are concerned, the EBA identified the following good practices:

a. Ensuring that the person attending the meeting on behalf of the members has sufficient knowledge of the key ML/TF risks as well as of the outcome of recent supervisory measures taken in respect of the firm to be able to have a meaningful exchange on common issues and the need for a common approach. As part of this, the persons attending the meeting on behalf of the members should be well prepared and able to answer questions from other members. In the cases where the firm has been recently subject to an onsite inspection, the members should consider inviting a member of the inspection team.

b. Insofar as it possible, ensuring that at least one of the persons attending the college meeting on behalf of the member has sufficient seniority to commit to a decision on the need for a common approach on behalf of the member. Members are especially encouraged to assess whether, based on previous discussions held within the college, the presence of a more senior staff is likely to be required in the meeting.

c. Where the person participating on behalf of the member does not have sufficient seniority to commit to a given common approach on behalf of the member, ensure that the matter is timely escalated to a person with the necessary seniority.

d. Reply swiftly to request to send info prior to the meeting and make their best efforts to provide comprehensive information. Members should keep in mind that the information provided should be sufficiently specific and precise to allow the lead supervisor to identify key cross-cutting risks and issues and possible common approaches that could be implemented to address these risks and issues.

e. Share extensive and clear information during the meeting. Members should especially ensure that the risks and issues highlighted in their presentation or intervention are clearly identified and that all relevant information needed to understand their nature and potential causes are provided to the other participants.

f. Proactively identify similarities between their info and that shared by others and flag it during the meeting.

6. Conclusions

63. Under the new AMLD6, AML/CFT colleges will remain a key cooperation tool. This means that lead supervisors and members should continue to focus on enhancing the functioning of existing colleges to ensure that, by the time the new legislation is implemented (i.e., in July 2027), these colleges are fully functional and meeting their objectives.

64. At this stage, the EBA identified the limited progress made in implementing Action Point 4 (applying the risk-based approach to the organisation of the college) and Action Point 5 (taking steps to identify areas for a common approach or joint actions), as they key issue preventing a more effective use of AML/CFT colleges by competent authorities.

65. To help competent authorities take the necessary steps to better implement these two action points, the EBA made additional recommendations. Some of these recommendations were addressed to lead supervisors, including inter alia:

    a. Consider a wider range of criteria when assessing what the frequency of meetings and organisation of the college should be.

    b. Scheduling a stand-alone discussion on the identification of common issues and the need for a common approach on the agenda.

    c. Collecting extensive information ahead of the meeting in a structured way to be able to identify potential key common issues and possible common approaches.

    d. Systematically presenting proposed conclusions at the end of discussions between the members and collecting the other members' views on these proposed conclusions.

    e. Proactively leading the discussions on the need for a common approach, notably by proposing concrete common approaches that could be agreed between the members.

    f. Consider a wide range of possible common approaches when determining which ones to propose to the other members.

66. Other recommendations were addressed to all members of the college, including inter alia:

    a. Ensuring that the persons attending the meeting on behalf of the members are sufficiently knowledgeable and well-prepared.

    b. To the extent where it is possible, ensure that these persons have sufficient seniority to commit on behalf of their competent authorities.

    c. Share comprehensive information on the risks and issues identified, keeping in mind that such information should be sufficient to allow the lead supervisors to identify potential cross-cutting issues and possible common approaches that could be agreed between the members.

d. Proactively identify similarities between the risks and issues identified by the member and the risks and issues identified by other members.

67. Lastly, from its thematic monitoring of colleges, the EBA identified ML/TF risks and issues affecting firms of the banking, payment and e-money sectors with a FinTech-oriented business model, that supervisors are invited to better take into consideration. More specifically:

a. Few of these firms were using truly innovative RegTech tools. In the case of one of them, the tool was poorly set up and was generating a high number of irrelevant alerts. This is an example of poor practices when using artificial intelligence for AML/CFT compliance purposes.

b. Outsourcing to a RegTech provider was very common. However, lead supervisors had rarely assessed whether adequate safeguards were in place to ensure that the risks stemming from outsourcing were adequately managed.

c. Most firms had insufficient AML/CFT compliance staff and/or insufficiently well-trained staff to effectively manage ML/TF risks.

d. Most firms had organised their AML/CFT and anti-fraud frameworks in an interconnected manner. This may lead to an increase in the effectiveness of AML/CFT controls, as it may help firms to avoid duplication of work and ensure a better flow of information between staff responsible for the detection of fraud and AML/CFT compliance staff. This is however providing that the firm’s allocation of resources does not lead to an excessive focus on fraud at the detriment of AML/CFT.

Tour Europlaza, 20 avenue André Prothin CS 30154
92927 Paris La Défense CEDEX, FRANCE
Tel. +33 1 86 52 70 00

E-mail: info@eba.europa.eu

https://eba.europa.eu