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COMMISSION STAFF WORKING DOCUMENT

Methodology for identifying high risk third countries under Directive (EU) 2015/849

Methodology

***for identifying high risk third countries
under Directive (EU) 2015/849***



This Commission Staff Working Document presents a working procedure for implementing a new methodology for identifying third country jurisdictions which have strategic deficiencies in their Anti-Money Laundering and Countering the financing of terrorism (AML/CFT) regimes that pose significant threats to the financial system of the Union under Directive (EU) 2015/849.

GLOSSARY:

4AMLD	Directive (EU) 2015/849 – the 4 th Anti-Money Laundering Directive
5 AMLD	Directive (EU) 2018/843 – the 5 th Anti-Money Laundering Directive
AML/CFT	Anti-money laundering and counter-terrorist financing
AWF SOC	Europol’s Analysis Work File on Serious and Organised Crime
Basel AML Index	Basel Anti-Money Laundering (AML) Index developed by the Basel Institute on Governance
BO	Beneficial Owner
CDD	Customer Due Diligence
CTC	The European Council’s Counter-terrorist Coordinator
DNFBP	Designated Non-Financial Business or Profession
EDD	Enhanced Due Diligence
EEA	European Economic Area
EEAS	The European External Action Service
EGMLTF	Expert Group on Anti-Money Laundering and Countering Terrorist Financing
ESA	European Supervisory Authority, namely: the European Banking Authority (EBA) the European Securities and Markets Authority (ESMA) the European Insurance and Occupational Pensions Authority (EIOPA)
FATF	Financial Action Task Force
Financial Secrecy Index	The Financial Secrecy Index developed by the Tax Justice Network
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program jointly developed by the IMF and the World Bank
FSRB	Financial Action Task Force-Style Regional Body
ICRG	The FATF’s International Cooperation Review Group
IMF	The International Monetary Fund
MER	Mutual Evaluation Report by the FATF/FSRBs
ML/TF	Money laundering and terrorist financing
OECD	The Organisation for Economic Cooperation and Development

SOCTA	Europol's Serious Organised Crime Threat Assessment
TE-SAT	Europol's EU terrorism situation and trend report
TEU	Treaty on the European Union
TFEU	Treaty on the Functioning of the European Union
TFS	Targeted Financial Sanctions
TI Index	The Corruption Perception Index developed by Transparency International

1. Scope and objectives

According to Article 9 of Directive (EU) 2015/849 (4th Anti-Money Laundering Directive)¹, the Commission shall identify high risk third countries through the adoption of delegated acts. The 4th Anti-Money Laundering Directive – as amended by Directive (EU) 2018/843 (the 5th Anti-Money Laundering Directive)² establishes the scope and the legal requirements to be fulfilled and which are developed in this methodology (see Annex 1 on the Directive's provisions).

In that context, the purpose of this document is to present a methodological approach for identifying third country jurisdictions which have strategic deficiencies in their anti-money laundering and countering financing of terrorism (AML/CFT) regimes ("high-risk third countries"). This identification will contribute to understanding, managing and mitigating the risks associated with money laundering and terrorist financing in the EU, thus protecting the proper functioning of the Union's financial system and of the internal market from money laundering and terrorist financing risks. It will complement and reinforce international efforts in dealing with high-risk countries and put further pressure on them to correct their strategic deficiencies. Finally it will support EU efforts to promote a global approach towards high risk third countries. The methodology also aims at establishing a mechanism based on evidence and facts in line with general Union law.

As outlined in the Action plan for strengthening the fight against terrorist financing³, the Commission is committed to assisting third countries and to exploring the provision of technical assistance to support implementation of EU requirements, Financial Action Task Force (FATF) recommendations and relevant UN Security Council Resolutions – which is relevant especially for low capacity countries.

The objective of the EU list of high-risk third countries is not "name and shame", but to protect the Union internal market through application of enhanced due diligence measures. The list will in addition help to maintain and intensify a dialogue in view of helping to ensure that the jurisdictions concerned remove identified deficiencies. Such engagement could be facilitated also through the Union's instruments for financing external action, including development assistance, where applicable. The objective is not to limit the economic or financial relations with the listed countries; on the contrary, such a list will contribute to increase the confidence of obliged entities dealing with these countries by enabling them to adopt appropriate controls. Listed countries will be encouraged to rapidly remove their

¹ 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 (OJ L 141, 5.6.2015, p. 73).

² Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU (OJ L 156, 19.6.2018). This Directive enters into force as of 11 July 2018

³ COM(2016) 50

identified strategic deficiencies and the Commission is committed to support them where appropriate. The Commission is ready to specifically explore supporting listed countries to assist them in rapidly addressing the identified strategic deficiencies. In such situations, technical assistance will be focused in areas presenting strategic deficiencies in those listed countries. Similarly the nature of the list is not intended to have any undue consequences in third countries with regard to financial inclusion and activities related to non-profit organisations (NPO)⁴.

Scope:

This methodology is applicable to any third country jurisdiction which is not a member of the EU⁵ or does not apply the requirements established in Directive (EU) 2015/849 through the agreement on the European Economic Area countries of 3rd January 1994⁶. This definition of "third country" covers overseas countries and territories listed in Annex II to the Treaty of the Functioning of the EU which have their own legal system and jurisprudence which is separate from the legal order in force in a Member State - as well as third countries having concluded Monetary Agreements with the EU⁷.

This methodology does not apply to an assessment of the AML/CFT regime of EU Member States⁸ It does also not apply for assessing the AML/CFT regime of countries which apply the requirements set up in Directive (EU) 2015/849 through the agreement on the European Economic Area countries of 3rd January 1994. Alternative procedures are used to ensure that the interpretation and application of the Union law ensuring the integrity and proper functioning of the internal market is observed, both for Member States of the EU and the European Economic Area⁹.

⁴ Measures adopted by countries to protect the NPO sector from terrorist abuse should not disrupt or discourage legitimate charitable activities. Rather, such measures should promote transparency and engender greater confidence in the sector, across the donor community and with the general public, that charitable funds and services reach intended legitimate beneficiaries.

⁵ The European Union (EU) is composed of 28 Member States: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and United Kingdom

⁶See <http://www.efta.int/media/documents/legal-texts/eea/the-eea-agreement/Main%20Text%20of%20the%20Agreement/EEAagreement.pdf>. This agreement concerns Iceland, Liechtenstein and Norway

⁷ Andorra, Monaco, San Marino and Vatican

⁸ including overseas territories insofar as they are governed by exactly the same rules as those in force in a Member State, either automatically or through systematic extension of applicable AML/CFT standards.

⁹ As a consequence, an EU Member States which would be considered by the FATF as presenting strategic deficiencies cannot be included in the EU list of high-risk countries. In the event that an EU Member State presents such deficiencies, the Commission acting as Guardian of the Treaties will use the specific procedures provided directly by the Treaties (such as infringements). The same approach applies by analogy to EEA countries.

Through this methodology, only third countries having strategic deficiencies in their national AML/CFT regimes and posing significant threats to the financial system of the Union will be identified. Such identification does not exempt in any way obliged entities from the obligation to fulfil their customer due diligence requirements when conducting business relationships or carrying out occasional transactions with third countries other than those which are identified as being "high risk third countries" under Article 9 of 4th Anti-Money Laundering Directive.

2. Roles and Responsibilities

2.1. Role of the Commission and its services

Following the mandate given by Article 9 of the 4th Anti-Money Laundering Directive, the Commission is empowered to adopt delegated acts in accordance with Article 64 of that Directive. The general requirements for the preparation and adoption of delegated acts apply to this process¹⁰. Hence, the Commission services are responsible for the definition of the methodology, the preparatory analysis and the adoption of the delegated act. The Commission has ultimate responsibility over the process under the terms of the empowerment given by the legislator.

2.2. Role of the Expert Group on Anti-Money Laundering and Countering Terrorist Financing (EGMLTF)

The Expert Group on Anti-Money Laundering and Countering Terrorist Financing (EGMLTF)¹¹ advises the Commission on Anti-Money Laundering and Terrorist Financing issues, which includes the task of assisting the Commission services in the preparation of delegated acts.

The Commission services will involve EGMLTF in the preparatory work carried out under this methodology. Rules will ensure full transparency with Member States by involving the EGMLTF throughout the process of identifying high-risk third countries. In particular, the EGMLTF will be consulted and, where appropriate requested to provide input in relation to 1) establishing, implementing and reviewing the methodology for the identification of high-risk third countries (including providing feedback on Commission services ' analyses), and 2)

¹⁰ Interinstitutional Agreement between the European Parliament, the Council and the European Commission on Better Law-Making (OJ L 123 of 12/05/2016)

SEC(2011) 855 Delegated acts – Guidelines on delegated acts for the services of the Commission

SEC(2010) 1568 Implementing Guidelines for the revised Framework Agreement on Relations between the European Parliament and the European Commission

COM(2009) 673 Communication from the Commission to the European Parliament and the Council on the implementation of Article 290 of the Treaty on the Functioning of the European Union

¹¹ EGMLTF is a Commission's expert group (code: E02914) composed of Member representatives of high administrative level responsible for anti-money laundering in national administrations of the EU Member States and EEA. More information is accessible on: <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=2914>

adopting the delegated regulations identifying high-risk third countries. When EGMLTF discusses this matter, EEAS will be invited to attend the meeting.

Beyond the formal consultation of the EGMLTF, EGMLTF members may provide contributions to the Commission services on an ad-hoc basis in the context of the assessment of a specific third country, where their resources and expertise allow. In this regard, Member States may share their experience on financial/commercial/economic flows as well as international cooperation with third countries related to criminal and/or money laundering and terrorism financing (ML/TF) activities.

2.3. Role of the European Parliament and Council

The European Parliament and Council empower the Commission to adopt delegated acts and to revoke this empowerment. As foreseen under the Common Understanding on Delegated Acts¹², the Commission will keep the European Parliament and the Council informed of the preparation of a delegated act, including the progress concerning the preparatory stages covered by this methodology.

The designated contact points in the European Parliament and Council will receive copies of any document sent to the EGMLTF. The European Parliament or Council may ask for feedback from the Commission and a further exchange of views on the preparation of delegated acts and on the progress in implementing this methodology.

3. Methodological approach

The methodological approach has been defined in the roadmap towards a new methodology for identifying "high-risk third countries" (see Annex 2). The roadmap provides for two main avenues leading to a country's identification as a "high-risk third country": (1) countries publicly listed by the FATF and (2) countries assessed as posing significant threats to the Union's financial system as a result of strategic deficiencies in their AML/CFT regimes based on external sources of information.

3.1. Listing by the Financial Action Task Force (FATF)

Considering the high level of integration of the international financial system, the close connection of market operators, the high volume of cross border transactions to or from the Union, as well as the high degree of market opening, the Commission considers that any AML/CFT threat posed to the international financial system also represents a threat to the Union financial system.

¹² https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.123.01.0001.01.ENG

In this context, any third country representing a risk to the international financial system, as identified by the FATF, is presumed to represent a risk to the EU internal market. This concerns any country publicly identified in the FATF documents "Public Statement" and the "Improving Global AML/CFT Compliance: On-going Process"¹³. It should be stressed that both the Commission and 15 Member States are members of FATF¹⁴ and are actively involved in the assessment by FATF of countries presenting strategic deficiencies – having access to relevant information sources. Hence, this approach reinforces international efforts in dealing with high-risk countries and puts further pressure on countries to correct their strategic deficiencies. It also supports EU efforts to promote a global approach towards high-risk countries. In line with the provisions of the Treaty on the European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU), the Commission shall aim to foster coordination with EU Member States in FATF in order to ensure coherence of external representation of EU policies in this regard.

Listings by the FATF follow a due process based on clear criteria¹⁵. The basis for the review process is information on threats, vulnerabilities, or particular risks arising from a country. This information may be derived from mutual evaluation reports, from FATF members, or from the fact that the country is not participating in the work of any of the FATF-Style Regional Bodies (FSRB) and consequently not committing to implementing the FATF standards.

During the review process, the FATF determines the most serious AML/CFT weaknesses ('strategic AML/CFT deficiencies') for each country and develops an action plan with the country to address these deficiencies. The FATF also requests a high-level political commitment that the country will implement the legal, regulatory, and operational reforms required by the action plan. Each jurisdiction under review has the opportunity to participate in a face-to-face meeting to discuss the findings with the competent review group in the International Cooperation Review Group (ICRG). On the basis of the results of its reviews, the FATF publishes two statements at each Plenary meeting which reflect the seriousness of the risks posed by the country – and the level of political commitment to address them. Similarly, the removal from the FATF statements follows a due process to ensure that a country has substantially addressed all the components of this action plan and that implementation is underway.

Overall, this process shows that the FATF lists constitute a baseline since the criteria, their weighing and the specific thresholds for being listed focus on countries presenting very material and profound strategic deficiencies.

In order to conduct its autonomous assessment, the Commission services will analyse available information from the FATF and, where appropriate, other sources of information

¹³ See [http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc\(fatf_releasedate\)](http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc(fatf_releasedate))

¹⁴ The other EU Member States are represented through Moneyval in FATF.

¹⁵ See [http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/more/more-on-high-risk-and-non-cooperative-jurisdictions.html?hf=10&b=0&s=desc\(fatf_releasedate\)](http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/more/more-on-high-risk-and-non-cooperative-jurisdictions.html?hf=10&b=0&s=desc(fatf_releasedate))

(including consultation of EGMLTF) before concluding that a country listed by FATF shall be added to the EU list on high risk third countries. If the Commission services' analysis confirms the assessment of the FATF, it will be concluded that there are justified grounds to consider that the FATF listed countries are "high-risk third countries" for the purpose of article 9 of 4th Anti-Money Laundering Directive.

With respect to candidate countries, the Commission, in its assessment, may consider mitigating measures included in the accession negotiations that address the identified strategic deficiencies.

3.2. Listing following a Commission analysis on the basis of various information sources

The Roadmap (see Annex 2) describes the milestones in developing and implementing a methodology to identify jurisdictions having AML/CFT strategic deficiencies that pose significant threats to the financial system of the EU. Whilst this methodology builds on the listing process followed by FATF, it considers that the FATF findings should be drawn upon together with other sources of information to further inform the Commission services' analysis of third countries' AML/CFT regime.

The Commission services will follow a staged approach in carrying out this analysis.

- **At a first stage**, the Commission services will carry out a pre-assessment to determine the countries to be assessed, in addition to those already listed by the FATF, and identify the level of priority for the assessment of those countries ("scoping"). This step will allow the Commission to focus its efforts where these are most needed.
- **At a second stage**, the Commission services will start to assess the relevant third countries AML/CFT regime, starting with countries of the highest priority. For those priority countries, the Commission services will present the results of its assessment by the end of 2018.
- **At a third stage**, the Commission services will carry out their assessment for the remaining countries gradually and over time as soon as new information sources become available (i.e. from 2019 onwards as per the target dates set out in the roadmap in Annex 2)¹⁶. In addition, the Commission services will also follow up on countries already listed and re-assess countries once new information becomes available.

¹⁶ The Commission services will make their best efforts to complete this work by the dates indicated in the roadmap

The assessment criteria will be based on the criteria listed in Article 9 of the 4th Anti-Money Laundering Directive which provides for a non-exhaustive list of criteria to be considered. The Commission shall identify high-risk third countries, taking into account strategic deficiencies, in particular those listed in the 4th Anti-Money Laundering Directive in relation to:

- (a) the legal and institutional AML/CFT framework of the third country, in particular:
 - (i) the criminalisation of money laundering and terrorist financing;
 - (ii) measures relating to customer due diligence;
 - (iii) requirements relating to record-keeping;
 - (iv) requirements to report suspicious transactions;
 - (v) the availability of accurate and timely information of the beneficial ownership of legal persons and arrangements to competent authorities;
- (b) the powers and procedures of the third country's competent authorities for the purposes of combating money laundering and terrorist financing including appropriately dissuasive, proportionate and effective sanctions, as well as the third country's practice in cooperation and exchange of information with Member States' competent authorities;
- (c) the effectiveness of the AML/CFT system in addressing money laundering or terrorist financing risks of the third country.”

4. Process description

This description applies to section 3.2. only.

4.1. Step 1 - Scoping phase

This step aims at identifying potential countries that should be included in the analysis scope out of the world's jurisdictions, on the basis of evidence pointing to the fact that, if they have strategic AML/CFT deficiencies, they may be considered to be jurisdictions with a systemic impact on the integrity of the EU financial system. This phase will result in a list of third countries that are relevant to the financial system of the Union in line with the risk-based approach.

The scoping will cover the following countries:

→ Countries identified by Europol as having a systemic impact on the integrity of the EU financial system, or identified by EEAS¹⁷. The input from Europol and the EEAS would help identifying those third-countries which present a significant level of threat from a money laundering and terrorist financing perspective (e.g. exposure to Money laundering/Terrorist financing, exposure to predicate offences, volume of money flows). This input will be based on the findings coming, among other, from the Serious Organised Crime Threat Assessment (SOCTA)¹⁸ methodology which includes outcomes of detailed analysis of information gathered as part of the largest data collection on serious and organised crime. It will also include the elements stemming from the Analysis Work File on Serious and Organised Crime (AWF SOC) which provides a thorough and extensive analysis of the criminal threats facing the European Union. Other sources of information will come from the EU terrorism situation and trend report (TE-SAT) methodology with information supplied by EU Member States, some third-countries and partner organisation of Eurojust, as well as information gained from open sources. It includes in particular qualitative and quantitative data on terrorist offences in the EU, data on arrests of people suspected of involvement on those offences, provided or confirmed by Member States. When available, it includes information on offences in which EU interests were affected outside the EU.

→ Countries identified on the basis of economic relevance considering inter alia international offshore financial centres, economies having close ties with the EU and countries representing major financial centres (e.g. considering the underlying data used for the Scoreboard¹⁹ of indicators prepared by the Commission in the context of the EU listing exercise for tax purposes).

The scoping will remain an ongoing exercise. At any time, the Commission may extend the scope to cover an additional third country as a result of the submission of new information presenting this third country as relevant for the analysis (e.g. update from EEAS/Europol).

4.2. Step 2 - Definition of priorities

The objective of this step is to determine the level of priority for the assessment of the countries identified in the scoping phase.

¹⁷ When referring to EEAS in this document, "EEAS" should be understood as a whole including EEAS HQ, Intcen, PSDC Missions/operations and EU Delegations.

¹⁸ (Council Document 12159/12, Serious and Organised Crime Threat Assessment (SOCTA). Methodology (04/07/2012), accessible at <http://data.consilium.europa.eu/doc/document/ST-12159-2012-INIT/en/pdf>)

¹⁹ https://ec.europa.eu/taxation_customs/sites/taxation/files/2016-09-15_scoreboard-indicators.pdf

The Commission services will consider as "high priority" (priority 1) the countries which:

- are identified by Europol/EEAS as being exposed to money laundering or terrorist financing threats considering ML/TF risk factors²⁰,
- are listed in the EU list of non-cooperative jurisdictions for tax purposes adopted by the Council of the EU. For this purpose, jurisdictions listed in "Annex II" which fail to meet their commitments, will be subject to an accelerated review by 2019.
- are still listed in Regulation (UE) 2016/1675 while they have been de-listed by the FATF between 14 July 2016 and 15 November 2018,
- have been subject to Mutual evaluation processes against the FATF recommendations issued in 2012 carried out by FATF / a Financial Style Regional Body (FSRB) – where the evaluation report is finalised by June 2018 and the country has been identified by Europol as having a systemic impact on the integrity of the EU financial system.

Third countries in the scope which fulfil these criteria will be assessed in 2018 ("Priority 1"). Other third countries identified in the scoping but which do not fulfil the abovementioned conditions will be considered as "Priority 2" countries (to be assessed at a later stage).

4.3. Engagement with third countries

The Commission will take appropriate steps to inform third countries which are subject to a review (including those considered as "priority 1") building on existing dialogues between the Union and the third countries concerned, where appropriate. In addition, the Commission and the EEAS – in a coordinated manner - will engage with third countries in cases where the assessment concludes that their AML/CFT regime presents strategic deficiencies prior to the adoption of the delegated acts. This should make third countries aware of a possible EU listing. The Commission and EEAS (via the EU Delegations as appropriate), should ensure that concerned third countries would be fully and timely updated on the adoption of the delegated acts. Third countries addressing the identified deficiencies will be a key element of the EU-Third Country contacts in this regard including, where applicable, political/security dialogue and other suitable periodic meeting between the EU and the third country concerned. This is without prejudice to the "emergency procedure" as laid down under point 4.4. (see p. 19).

²⁰ For this, Europol/EEAS should consider in particular

- (a) countries identified by credible sources as having significant levels of corruption or other criminal activity;
- (b) countries subject to sanctions, embargos or similar measures issued by, for example, the Union or the United Nations;
- (c) countries providing funding or support for terrorist activities, or that have designated terrorist organisations operating within their country.

4.4. Step 3 - Assessment phase

- **Country profile**

For each assessed country, the Commission services will prepare a country profile describing threats and risks. This country profile will give an overview of political, social and economic information, as well as threat assessment based on law enforcement information (e.g. the level of predicate offences, terrorism threat, the threat of money laundering/terrorist financing, the relevance of the country as country of origin/transit/destination of money laundering / terrorist financing). It will be based on information received from Commission services²¹, EEAS, Europol (based on information received for the scoping phase [step 1]) and publicly available information including relevant international rating (e.g. Basel AML Index, TI Corruption Perceptions Index, Financial Secrecy Index, and FATF public Mutual evaluation reports).

- **Criteria to be considered for the assessment**

The criteria set in Article 9 of Directive (EU) 2015/849 (as described under point 3.2) are the basis for the assessment. The AML/CFT regime of a third country will be assessed by the Commission services according to eight building blocks.

The effectiveness of the AML/CFT regime of the third-country in addressing money laundering and terrorist financing risks will be assessed **for each of these 8 building blocks**. The assessment will take into account the level of exposure to criminal activity or terrorist threat as identified by Europol/EEAS.

The 8 building blocks that will be assessed are the following:

1. Criminalisation of money laundering and terrorist financing:

Countries should criminalise money laundering and terrorist financing on the basis of the relevant international instruments (e.g. Vienna Convention²², Palermo Convention²³, Terrorist Financing Conventions²⁴). Countries should apply the crime of money laundering to all serious offences with a view to include the widest range of predicate offences.

²¹ For instance the third country risk assessment framework tables

²² United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, adopted in December 1988 in Vienna

²³ United Nations Convention against Transnational Organized Crime (UNTOC)

²⁴ e.g. International Convention for the Suppression of the Financing of Terrorism (Adopted by the General Assembly of the United Nations in resolution 54/109 of 9 December 1999); where relevant, Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS No.198)

Countries should ensure effective investigation, prosecution, conviction and confiscation relating to money laundering or terrorist financing crimes.

2. Measures relating to customer due diligence, record-keeping and reporting of suspicious transactions by financial institutions:

Financial institutions should be prohibited from keeping anonymous accounts or accounts in fictitious names. Financial institutions shall be required to apply customer due diligence measures when establishing a business relationship or when carrying out financial transactions. These measures should include the identification of the customer and the beneficial owner (in particular in case of legal persons and legal arrangements). Financial institutions should also be required to conduct ongoing monitoring of the business relationship and scrutiny of transactions undertaken throughout the course of that relationship. Financial institutions should be required to maintain all necessary records on transactions. If a financial institution suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required by law to report promptly its suspicions to the Financial Intelligence Unit (FIU) as part of the preventative measures.

3. Measures relating to customer due diligence, record-keeping and reporting of suspicious transactions by Designated Non-Financial Business and Professions (DNFBPs):

When they are in charge of the management of bank, savings or securities accounts on behalf of and for their clients, DNFBPs should be prohibited from keeping anonymous accounts or accounts in fictitious names. DNFBPs should be required to undertake customer due diligence requirements in conducting their business relationship or carrying out financial transactions. These measures should include the identification of the customer and the beneficial owner (in particular in case of legal persons and legal arrangements). DNFBPs should also be required to conduct ongoing monitoring of the business relationship and scrutiny of transactions undertaken throughout the course of that relationship. DNFBPs should be required to maintain all necessary records on transactions. If a DNFBP suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required by law to report promptly its suspicions to the Financial Intelligence Unit (FIU) as part of the preventative measures.

4. Powers and procedures of the third country's competent authorities for the purposes of combating money laundering and terrorist financing:

Competent authorities should have adequate powers, capacity and responsibilities for the purposes of combating money laundering and terrorist financing. It includes powers of competent authorities in regulating and supervising financial institutions, in regulating and supervising DNFBPs, in carrying out operational and law enforcement tasks (including financial intelligence units, law enforcement and investigative authorities and authorities in charge of identification, tracing and confiscation of assets). In particular, countries

should ensure that an effective supervision of the above-mentioned obligations towards financial institutions and DNFBPs is in place.

5. Existence of dissuasive, proportionate and effective sanctions:

Countries should ensure that there is a range of effective, proportionate and dissuasive sanctions, whether criminal, civil or administrative, available to deal with natural or legal persons that fail to comply with AML/CFT requirements.

6. Third country's practice in cooperation and exchange of information with Member States' competent authorities:

Countries should ensure that their competent authorities can rapidly and constructively provide the widest range of international cooperation in relation to money laundering, associated predicate offences and terrorist financing.

7. Availability of accurate and timely information of the beneficial ownership of legal persons and arrangements to competent authorities:

Countries should ensure that information on beneficial owners of legal persons and legal arrangements are available, up to date and accurate. This information on beneficial ownership should be accessible to competent authorities which should be able to exchange this information with their international counterparts.

8. Implementation of targeted financial sanctions (TFS) related to terrorism and terrorist financing:

Countries should implement targeted financial sanctions regimes to comply with their obligations under United Nations Security Council resolutions relating to the prevention and suppression of terrorism and terrorist financing (i.e. UNSCR 1267(1299) and its successor resolutions and UNSCR 1373(2001)).

- **Level of deficiency and threshold for being considered as having strategic deficiencies**

Each building block will be subject to analysis in order to assess whether the control framework is adequate to address the money laundering and terrorist financing risks. The level of adequacy will be assessed taking into account the risk profile of the country. This risk profile takes into account political, social and economic information, as well as threat assessment based on law enforcement information (e.g. the level of predicate offences, the terrorist threat, the threat of money laundering/terrorist financing, the relevance of the country as country of origin/transit/destination of money laundering/terrorist financing). The analysis of the adequacy of the control framework will consider both technical compliance with the expected requirements as well as the effectiveness in applying those requirements.

Following this analysis, the "level of deficiency" for each building block will be assessed according to the following scale of deficiency:

- 1) Low significance level of deficiency: there is a robust control framework in place meeting the requirements which is commensurate to address the identified threat
- 2) Moderately significant level of deficiency: there are moderate deficiencies in the control framework to address the identified threat
- 3) Significant level of deficiency: there are significant deficiencies in the control framework to address the identified threat
- 4) Very significant level of deficiency: there are very significant deficiencies in the control framework to address the identified threat

The assessment for each building block will consider both the conformity of adopted legislation and its effective implementation in practice to assess whether it is appropriate considering the level of threat.

On the basis of this analysis, the Commission services will make an overall assessment of the level of deficiency of the third country concerned.

Level of deficiency	Description
low	The country presents a robust overall AML/CFT control framework or minor deficiencies.
medium	The country presents moderately to significant deficiencies in its AML/CFT regime
high	The country presents major deficiencies in its AML/CFT regime

A country which presents major deficiencies (high level of deficiencies) will be considered as having "strategic deficiencies" as defined under Article 9 of the 4th Anti-Money Laundering Directive – leading to its inclusion on the EU list of high risk third countries.

For countries presenting, overall, moderate to significant deficiencies (medium level of deficiencies), the Commission services will consider the country's risk profile to conclude whether these deficiencies are strategic. If that is the case, this will lead to the inclusion of that country on the EU list of high-risk third countries.

- **Availability of Information sources**

The Commission services will consider reliable information sources (e.g. FATF, FSRB, Egmont Group Support and Compliance Process, open source, complaints, Europol/EEAS, etc.) in making this assessment.

The Commission services will consider in particular information obtained from mutual evaluation process, follow-up reports and other reliable sources information as provided for in article 9(4) of 4AMLD (i.e. desk-based review of existing analysis). Hence, the assessment will use the most recent available information – **ideally evaluations** against the FATF Recommendations as adopted in 2012 ("new evaluation round") carried out by international organisations and standard setters with competence in this field.

When there is no Mutual Evaluation Report (MER) or equivalent report or where the third country does not participate in a FSRB, the third-country will be presumed as having strategic deficiencies, due to serious uncertainty regarding the compliance with AML/CFT standards. In effect, non-participation in FATF or in an FSRB indicates a lack of political commitment to comply with the AML/CFT international standards. In addition, this third country would therefore also not be subject to a mutual evaluation and a detailed follow-up process that could trigger appropriate escalation mechanisms. The lack of a mutual evaluation process creates a situation where there is no public information on the AML/CFT regime available, potentially enabling the country concerned to escape assessment efforts by the EU – therefore enabling those countries not to be on a par with countries accepting such evaluation process. In such a case, and based on this presumption, the Commission services will request Europol's view on whether the country represents a money laundering and terrorist financing risk from a law enforcement perspective before proceeding with the listing. Subject to a review of available information and available body of evidence, the Commission may decide to include the specific third country on the list.

In case where the third country has been subject to the 3rd round²⁵ of mutual evaluation process only, the same approach as the one followed for those which have been already subject to 4th round of MER process will be applied. However, it should be noted that assessing a country based on a 3rd round MER has some limitations: those reports are based on the old FATF standards which set lower requirements; they do not assess the effectiveness of the AML/CFT regimes; they may be outdated. As an alternative, the Commission will request Europol to assess whether the country still represents a high level of ML/TF threat leading to uncertainty on its compliance with AML/CFT standards.

²⁵ The 3rd mutual evaluation process refers to the evaluation carried out by FATF and FATF Style Regional Bodies based on the methodology for assessing compliance with the FATF recommendations adopted in 2003 ("old FATF standards"). Those FATF standards were subsequently revised and upgraded through the adoption of the revised FATF Standards in 2012 ("revised FATF standards"). These new standards are subject to a new evaluation cycle based on a new – 4th round evaluation cycle

Europol, when consulted by the Commission services in relation to a specific country, will be requested to pay particular attention to the terrorist financing risk emanating from those jurisdictions. It should consider in particular geographical risk factors described in the FATF report on terrorist financing risk indicators (Annex 3).

- **Emergency situations**

In order to cope with unexpected situations concerning a third country not currently found in the scoping or list of priorities, an "emergency procedure" should be in place.

In case of exceptional circumstances raising serious concerns, the Commission services may trigger a specific mechanism consisting of assessing the immediately available information. It will then re-prioritise its work in order to carry out a full assessment as soon as possible. Pending the full assessment under the general procedure, the Commission services will, as a matter of urgency, assess the AML/CFT regime of the third country raising serious concerns based on an evaluation of the exceptional circumstances that have initiated the emergency procedure (i.e. "prima facie analysis"). The strategic deficiencies would be assessed on a preliminary basis by finding a body of evidence/range of indices ("*faisceau d'indices*") that relate to one or several building blocks. A body of evidence would be sufficient to list a third country in this situation.

This emergency procedure would aim at ensuring that obliged entities apply enhanced customer due diligence measures in urgent situations.

- **Adoption of Delegated act**

The Commission will follow the standard procedure for adoption of delegated acts listing high risk third countries, including consultation of the EGMLTF during the assessment phase. Following this assessment, the Commission services will prepare the adoption of a new EU Delegated Regulation on high-risk third countries (based on this methodology), pursuant to the specific provisions of Article 9 of the 4th Anti-Money Laundering Directive and the time limits set out therein.

- **Priority 2 third countries**

Priority 2 third countries will be subject to an assessment by the Commission when relevant information sources become available. Since mutual evaluation reports against the FATF recommendations issued in 2012 will become available for all countries by 2023, all countries will be reviewed (see target dates set out in the roadmap in Annex 2). This assessment will be done gradually. The "emergency" procedure remains available, as required, throughout this

stage. The Commission will follow the same procedure as above for adoption of delegated acts.

4.5. Step 4: Assessment – Review of Priority 1 third countries

The objective of this step is to ensure an update of assessment for Priority 1 countries²⁶ reviewed in step 3. The Commission services needs to maintain an ongoing monitoring of those Priority 1 countries already assessed (but not listed), especially in case of countries where only 3rd round MER information (i.e. based on the old FATF standards) was available. This step will also allow the Commission services to take into account possible deterioration of the AML/CFT regime which may no longer be covered by FATF/FSRB reports.

The Commission services will update its assessment for Priority 1 countries:

- as soon as a 4th round MER becomes available for countries reviewed based on 3rd round MER information;
- when new relevant information sources become available (e.g. new legislation having a negative impact on AML/CFT regime²⁷, new reports from credible sources).

The Commission will apply similar criteria as for step 3 and will follow the same procedure as above for delegated acts to be adopted within 1 month of identification of the strategic deficiencies.

4.6. Step 5: Assessment– Follow up of countries listed under step 3

The objective of this step is to ensure follow-up of high-risk third countries' progress in improving their AML/CFT regime and possible removal from the EU list.

The Commission services will decide on removal from the list after it receives and reviews information:

- from third countries that adopted relevant legislation which addresses strategic deficiencies;
- from other reliable sources of information (e.g. FATF, including FSRB, IMF, OECD, ...) indicating that strategic deficiencies were removed.

²⁶ This update concerns "priority 1 countries" reviewed under step 3 which were not listed. For the listed countries, step 5 applies ("follow up of listed countries").

²⁷ FATF ICRG procedure: where the jurisdiction has lowered its level of commitment to the implementation of the FATF standards, has seriously weakened its legal and regulatory framework, or has substantially backtracked on technical compliance or effectiveness after having been reviewed.

- **Exit criteria**

In order to be removed from the EU list, the assessment will focus on all of the 3 following requirements:

1) First, the legislation of the country should be considered by the Commission services as compliant at least with the following criteria which are considered to be "EU fundamental criteria":

- the requirements on **criminalising money laundering and terrorist financing** (see criteria 1 under section 4.4),
- applying **customer due diligence requirements, record keeping and reporting of suspicious transactions in the financial and non-financial sector** (see criteria 2 and 3 under section 4.4),
- **transparency of beneficial ownership for legal persons and legal arrangements** (see criteria 7 under section 4.4),
- and **international cooperation** (see criteria 6 under section 4.4).

2) To the extent that the first set of exit requirements is fulfilled, the Commission services will assess the **effectiveness** of the country's regime in ensuring **the transparency of beneficial ownership (BO) information of legal persons and legal arrangements**. Particular consideration will be given on the availability of BO information, access to BO information by competent authorities and exchange of BO information in the context of international cooperation.

3) To the extent that the first two exit requirements are fulfilled, the Commission services will assess whether the country's efforts are adequate to demonstrate progress towards **increasing effectiveness with regard to each building block considered as presenting significant or very significant deficiencies** (i.e. tangible and positive impact).

Once the assessment concludes that those requirements are met, , the Commission services will prepare the adoption of a new EU Delegated Regulation on high-risk third countries pursuant to the specific provisions of Article 9 of the 4th Anti-Money Laundering Directive.

- **Consequence of country delisting by FATF**

In the event that the FATF delists a country from the Public Statement or from the Compliance document, the following situations could occur:

Situation A – country not covered in the EU scoping

A country may originally be listed by FATF but not included in the initial scoping by the Commission services (as described in point 4.1. Step 1 - Scoping phase). In this situation, the Commission services will review available information from the FATF and if confirmed, the country will be de-listed from the EU list through adoption of a delegated act. Since the country is not considered by the FATF as presenting strategic deficiencies that pose a risk to the international financial system anymore, there is no longer any basis to consider that this country presents a risk to the EU financial system. In this situation, countries meeting this rule would be rapidly delisted from the EU list following the procedure described above (i.e. by delegated act).

Situation B – country included in the EU scoping

A country may be listed by FATF and included in the initial scoping by the Commission services (as described in point 4.1. Step 1 - Scoping phase).

The country will be retained on the EU list until it has not been established that this country meets the EU criteria for removal. Since the country was initially identified as presenting strategic deficiencies on its AML/CFT regime that pose a risk to the international financial system, the Commission services will check whether the country has corrected the deficiencies in order to ensure that it no longer poses a risk to the EU financial system. In order to ensure equal treatment between third countries in a similar situation (i.e. part of the EU scoping), any country presenting strategic deficiencies should be able to demonstrate that it fulfils the EU criteria before being de-listed. In this situation, countries meeting this rule would be reviewed as part of the standard follow-up process.

5. Timing and planning of the adoption of delegated acts

5.1. Overall planning

The Commission services will carry out the assessment of selected countries according to the level of priority:

- Priority 1 countries: to be assessed by end of 2018
- Priority 2 countries: to be assessed progressively once new information becomes available from 2018 onwards. It is expected that all countries will have completed their mutual evaluation process against the 2012 FATF recommendations over the period 2014-2025 at the very latest. All priority 2 countries in the scope will be assessed as soon as possible (see target dates set out in the roadmap presented in Annex 2).

5.2. Timing for adoption of delegated acts

5.2.1. Delegated act based on the FATF listing:

Third countries publicly identified by FATF will be added to the EU list further to assessment by the Commission pursuant to the provisions of Article 9 of 4AMLD, within 1 month after the identification of the strategic deficiencies. This should be understood as meaning 1 month after the publication by FATF of a third country on the Public Statement or Compliance Document.

5.2.2. Delegated act based on the EU own assessment:

The Commission will add third countries identified as presenting strategic deficiencies to the EU list of high risk third countries within 1 month after the Commission services have finalised their analysis that the countries present strategic deficiencies taking into consideration the discussions with the EGMLTF.

Similarly for removal, the Commission will remove from the EU list countries no longer presenting a risk for the Union respectively within 1 month after the Commission services have finalised their analysis that the countries does not present strategic deficiencies taking into account the discussions with the EGMLTF.

Commission services will endeavour to use the cut-off date of each FATF Plenary meeting in order to finalise their analysis for all countries where available information (e.g. final MERs based on FATF recommendations issued in February 2012) has been issued sufficiently in advance of a FATF meeting²⁸.

²⁸ For instance if a FSRB finalises a 4th round MER for country X on 15 January 2017 the Commission will analyse this information in order to conclude its assessment by end of the FATF plenary meeting of February (24 February). As a consequence, the EU delegated regulation adding country X to the EU list would be adopted by 24 March 2017 if it presents strategic deficiencies.

5.3. Frequency of updating the list

The Commission will adopt regularly delegated acts. Each update will cover both listing/delisting based on FATF listing and on the EU own assessment. In case the "emergency" procedure is applied, the adoption of a delegated act can take place expeditiously and as necessary.

6. Information sources

- Input from Europol/EEAS

Commission services will request information to Europol in order to identify countries which are relevant from a money laundering/terrorist financing perspective. Similarly the Commission intends to consult at different stages Europol and the EEAS²⁹. Working procedures will be established with Europol/EEAS to ensure the timely provision of quality information. The Commission services will also seek the views of Europol / Member State law enforcement authorities on the level of criminal activity and terrorist threat in the course of the assessment (step 3). Such threat assessment will contribute to the country profiles and the analysis of strategic deficiencies.

- Other Information sources

Among the available and reliable sources of information, the Commission services will pay particular attention to the work undertaken by the FATF, and its regional bodies (FATF standards and evaluation reports), G20 (in particular G20 High level principles on transparency of beneficial ownership information), the IMF (IMF Financial Sector Assessment Program), the OECD, Interpol/CTC (UNSCR 1373 counter terrorism committee), as well as any other open source information. It will take into account geographical risk factors as defined in Annex III of the 4th Anti-Money Laundering Directive. These geographical risk factors include:

- (a) countries identified by credible sources, such as mutual evaluations, detailed assessment reports or published follow-up reports, as not having effective AML/CFT systems;
- (b) countries identified by credible sources as having significant levels of corruption or other criminal activity;
- (c) countries subject to sanctions, embargos or similar measures issued by, for example, the Union or the United Nations;

²⁹ the requested inputs from EEAS will be provided in fully compliance with the EUCI's (classified information) rules and procedures.

(d) countries providing funding or support for terrorist activities, or that have designated terrorist organisations operating within their country.

- Particular case of information sources coming from FSRBs

The Commission services should ensure that they have timely access to relevant information to carry out the assessment – and even more to ensure follow-up once it has listed third countries. To that end, the Commission services need to review on time follow-up reports and ad-hoc analysis from FATF-Style Regional Bodies (FSRB). For the time being, this is only guaranteed for countries in Central and Eastern Europe through Moneyval where the Commission is an observer. The Commission is currently undertaking the necessary steps in view of becoming an observer in all FSRBs – to receive access to FSRB-secure website with relevant information. Hence it is assumed that the Commission services will be in a position to receive timely information from FSRBs and other relevant international organisations.

- Ad-hoc cooperation with EU FIU Platform and European Supervisory Authorities

The Commission services may receive feedback from experts of the FIU Platform and of the European Supervisory Authorities (ESAs) on an ad-hoc basis, depending on the third country concerned or on the criterion to assess. This cooperation should remain flexible and demand-driven. It should not result in a systematic consultation process.

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Annex 1

***Relevant provisions of Directive (EU)
2015/849***

(as amended by Directive (EU) 2018/843)

Recitals

(28) In order to protect the proper functioning of the Union financial system and of the internal market from money laundering and terrorist financing, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union (TFEU) should be delegated to the Commission in order to identify third-country jurisdictions which have strategic deficiencies in their national AML/CFT regimes ('high-risk third countries'). The changing nature of money laundering and terrorist financing threats, facilitated by a constant evolution of technology and of the means at the disposal of criminals, requires that quick and continuous adaptations of the legal framework as regards high-risk third countries be made in order to address efficiently existing risks and prevent new ones from arising. The Commission should take into account information from international organisations and standard setters in the field of AML/CFT, such as FATF public statements, mutual evaluation or detailed assessment reports or published follow-up reports, and adapt its assessments to the changes therein, where appropriate

(...)

Article 9

Third-country policy

1. Third-country jurisdictions which have strategic deficiencies in their national AML/CFT regimes that pose significant threats to the financial system of the Union ('high-risk third countries') shall be identified in order to protect the proper functioning of the internal market.

2. The Commission is empowered to adopt delegated acts in accordance with Article 64 in order to identify high-risk third countries, taking into account strategic deficiencies in particular in the following areas:

(a) the legal and institutional AML/CFT framework of the third country, in particular:

(i) the criminalisation of money laundering and terrorist financing;

(ii) measures relating to customer due diligence;

(iii) requirements relating to record-keeping;

(iv) requirements to report suspicious transactions;

(v) the availability of accurate and timely information of the beneficial ownership of legal persons and arrangements to competent authorities;

(b) the powers and procedures of the third country's competent authorities for the purposes of combating money laundering and terrorist financing including appropriately effective, proportionate and dissuasive sanctions, as well as the third country's practice in cooperation and exchange of information with Member States' competent authorities;

(c) the effectiveness of the third country's AML/CFT system in addressing money laundering or terrorist financing risks

3. The delegated acts referred to paragraph 2 shall be adopted within one month after the identification of the strategic deficiencies referred to in that paragraph.

4. The Commission, when drawing up the delegated acts referred to in paragraph 2, shall take into account relevant evaluations, assessments or reports drawn up by international organisations and standard setters with competence in the field of preventing money laundering and combating terrorist financing.

(...)

Article 64

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.

2. The power to adopt delegated acts referred to in Article 9 shall be conferred on the Commission for an indeterminate period of time from 25 June 2015.

3. The power to adopt delegated acts referred to in Article 9 may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect on the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

4. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.

5. A delegated act adopted pursuant to Article 9 shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of one month of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by one month at the initiative of the European Parliament or of the Council.

(...)

ANNEX III

The following is a non-exhaustive list of factors and types of evidence of potentially higher risk referred to in Article 18(3):

(1) Customer risk factors:

(a) the business relationship is conducted in unusual circumstances;

(b) customers that are resident in geographical areas of higher risk as set out in point (3);

(c) legal persons or arrangements that are personal asset-holding vehicles;

(d) companies that have nominee shareholders or shares in bearer form;

(e) businesses that are cash-intensive;

(f) the ownership structure of the company appears unusual or excessively complex given the nature of the company's business;

(g) customer is a third country national who applies for residence rights or citizenship in the Member State in exchange of capital transfers, purchase of property or government bonds, or investment in corporate entities in that Member State;

(2) Product, service, transaction or delivery channel risk factors:

(a) private banking;

(b) products or transactions that might favour anonymity;

(c) non-face-to-face business relationships or transactions, without certain safeguards, such as electronic identification means, relevant trust services as defined in Regulation (EU) No 910/2014 or any other secure, remote or electronic, identification process regulated, recognised, approved or accepted by the relevant national authorities;

(d) payment received from unknown or unassociated third parties;

(e) new products and new business practices, including new delivery mechanism, and the use of new or developing technologies for both new and pre-existing products;

(f) transactions related to oil, arms, precious metals, tobacco products, cultural artefacts and other items of archaeological, historical, cultural and religious importance, or of rare scientific value, as well as ivory and protected species.

(3) Geographical risk factors:

(a) without prejudice to Article 9, countries identified by credible sources, such as mutual evaluations, detailed assessment reports or published follow-up reports, as not having effective AML/CFT systems;

(b) countries identified by credible sources as having significant levels of corruption or other criminal activity;

(c) countries subject to sanctions, embargos or similar measures issued by, for example, the Union or the United Nations;

(d) countries providing funding or support for terrorist activities, or that have designated terrorist organisations operating within their country.

Annex 2

Roadmap towards a new methodology

Towards a new methodology for the EU assessment of High Risk Third Countries under Directive (UE) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing

Tentative timing	Milestones
2017	<p>➤ <u>Stage 1:</u></p> <p>- Preparation of a new methodology: designing phase</p> <p>Development of a detailed methodology for the assessment by the Commission of high-risk third countries.</p> <p>The methodology would include:</p> <ul style="list-style-type: none"> - criteria to identify which are the relevant third countries to be assessed (Stage 2) as well as criteria to determine the level of priority for their assessment (e.g. countries subject to FATF evaluations, countries listed in the EU list of non-cooperative tax jurisdictions, exposure level to criminal activity or terrorist threat, etc.). - criteria for carrying out the assessment of the selected countries from an AML/CFT point of view (Stages 3 and 4). These would take into account as a baseline the listing process done by FATF, the listing criteria of Article 9 of Directive (UE) 2015/849 (included as amended by 5AMLD) and other relevant criteria. Beneficial ownership transparency could be one of the criteria. - criteria to define the follow up process for monitoring progress shown by high-risk countries in improving their AML/CFT regime and for removing them from the EU list if conditions are satisfied (Stage 4) <p>The Commission would continue to take into account the FATF list, in line with Article 9(4) of the Directive. An own assessment by the Commission would therefore complement FATF work.</p> <p>- International engagement</p> <p>Stepping up the Commission's engagement in FATF in order to exert stronger influence on its work, for example as regards transparency of beneficial ownership, and to work to improve FATF's governance in order to strengthen its accountability, legitimacy and effectiveness.</p> <p>Working on improving the co-ordination of positions of EU Member States in FATF in order to ensure stronger EU influence.</p> <p>- Engagement with the European Parliament and Member States</p> <p>Consultation of the European Parliament and the Member States on a new assessment process, including on possible involvement of Member States expertise.</p>

	<p>- Continued adoption of Delegated Acts</p> <p>Pending completion of the assessment under the new methodology, the Commission will continue adopting Delegated Acts updating Regulation (UE) 1675/2016 in order to ensure EU rules apply to third countries internationally identified as being of high risk.</p>
2018	<p>➤ <u>Stage 2:</u></p> <p>- Initial scoping/selection phase</p> <p>Commission pre-assessment of all third countries based on economic and socio-political criteria and other relevant risk indicators to be defined under Stage 1. This aims at identifying which are the relevant third countries which should be assessed under Stage 3/4.</p> <p>The Commission would then identify level of priority for assessing selected countries:</p> <ul style="list-style-type: none"> - Priority 1 countries: to be assessed by end of 2018 - Priority 2 countries: to be assessed progressively by 2025 <p>2- Work described under stage 1 points 2-4 will continue. The Commission will continue its work on International engagement, and. adoption of Delegated Acts during this stage</p>
2018	<p>Final list of:</p> <ul style="list-style-type: none"> - Priority 1 third countries to be assessed under Stage 3 - Priority 2 third countries to be assessed under Stage 4
2018	<p>➤ <u>Stage 3:</u></p> <p>- Assessment phase -Priority 1 third countries</p> <p>Commission assessment of selected countries which have been identified as Priority 1 countries. The assessment would be carried out based on the listing criteria and using the information sources which have been identified in Stage 1 and appropriate contacts with the relevant third countries.</p>
2018	<p>Consultations of Member States experts on the draft Delegated Act.</p>
By end of 2018	<p>Adoption of new EU Delegated Act on high-risk third countries (based on the <u>new methodology</u>)</p>
From 2019 to 2025	<p>➤ <u>Stage 4:</u></p> <p>- Assessment phase – Priority 2 third countries</p> <p>Gradual assessment of remaining countries (i.e. Priority 2 countries as identified in Stage 2) by the Commission when relevant information sources become available.</p> <p>- Follow-up of countries listed following stage 3</p> <p>Follow-up of high-risk third countries' progress in improving their</p>

	AML/CFT regime and possible removal from the EU list.
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Annex 3

FATF report on TF risk indicators

High-risk jurisdictions/regions

25. Geographic risks associated with source, destination and transit countries should always be taken into consideration when assessing TF risks. This includes risks associated with the originator of a transaction and beneficiary of funds that may be linked to a high-risk jurisdiction or region. Geographic risk may also be applicable to an individual's nationality, residence or place of business. This report does not seek to identify a list of jurisdictions as high-risk for terrorism financing. Competent authorities may determine their own list of high-risk countries and regions (including domestic areas within their own jurisdiction) based on these factors.

26. The terms "high-risk jurisdiction/region" are not easily defined or explained because they can apply to a number of situations and include risks associated with various types of crime (e.g., drug trafficking, money laundering, corruption), or other risks related to the political or economic situation. From a terrorist financing perspective, these terms can include those jurisdictions/regions in which terrorist activities occur (including, but not limited to attacks and planning attacks) or in which terrorist organizations reside, recruit or draw logistical support for the perpetration of terrorist acts. Below are some additional examples which could signify a high-risk jurisdiction/region.

- A conflict zone is a synonymous term for those high-risk jurisdictions/regions that are unstable, at war, where armed hostility is present or where terrorist organizations are active.
- Provinces/regions with known links to terrorist organizations or share border with territories controlled by terrorist organisations.
- Countries where funds and other assets are generated (e.g., originator of the funds transfer) for terrorism acts or terrorist organizations irrespective of where those acts take place or organizations reside.
- Jurisdictions/regions which are transit points or have had money flows to/from known foreign-terrorist fighters (FTFs) (...).
- Jurisdictions with strategic AML/CFT deficiencies, weak institutional frameworks, those that are non-compliant with the FATF Standards (including those publicly identified by the FATF) or are generally non-cooperative on CFT matters.