Leibniz Institute for Financial Research SAFE
Sustainable Architecture for Finance in Europe

SAFE Finance Blog

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The SAFE Regulatory Radar in June

New anti-money laundering rules in the EU, regulation to make banks more resilient, and new obligations for large companies concerning human rights and environmental protection

At the end of each month, the SAFE Regulatory Radar highlights a selection of important news and developments on financial regulation at the national and EU level.

AML/CFT: Harmonized anti-money laundering rules across the EU

The Council of the European Union adopted a package of new anti-money laundering (AML) and countering the financing of terrorism (CFT) rules that will harmonize anti-money laundering rules across the EU for the first time. It was published in the Official Journal of the European Union on 19 June 2024 and contains two regulations and one directive (AMLD). The Regulation establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLAR) sets up the new European Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA). AMLA will be based in Frankfurt and will become operational in mid-2025, with full operationality expected in 2027. The authority was officially founded on 26 June 2024.

The Regulation on preventing the use of the financial system for money laundering or terrorist financing (AMLR) harmonizes all rules for the private sector to aim to close loopholes for fraudsters.

The Directive aims to improve the organization of national anti-money laundering systems. Member states are obligated to obtain, standardize, and publish data on AML and CFT measures It extends AML rules to new obliged entities, strengthens due diligence requirements, regulates beneficial ownership, and sets a limit on cash payments. It also sets out clear rules for cooperation between financial intelligence units (FIUs), the national bodies that collect information on suspicious or unusual financial activity, and supervisors.

AMLA will have both direct and indirect supervisory powers over high-risk obligated entities in the financial sector. It will also support for the non-financial sector, coordinating and supporting the Financial Intelligence Units (FIU). In case of serious, systematic, or repeated breaches of directly applicable requirements, AMLA will impose financial sanctions on the selected obliged entities.

This is the final step of the adoption procedure. The AMLR will apply three years after it enters into force. Member states will have two years to implement some parts of the AMLD and three years for others. AMLA is expected to issue Regulatory Technical Standards on certain aspects of AMLR and AMLD, starting in 2025.

CRR and CRD: New EU rules to make banks more resilient to economic shocks

The Council of the European Union adopted new rules on 30 May to make banks operating in the EU more resilient. The rules amend the Capital Requirements Regulation and the Capital Requirements Directive (CRR and CRD) to strengthen supervision, reinforce risk management, and enhance the sustainability of the banking sector.

The CRR and CRD translate the international Basel standards into EU law. The Basel III standards were agreed by the Basel Committee on Banking Supervision (BCBS) in response to the global financial crisis of 2007/08.

The new EU rules on the Basel III reforms aim to make banks operating in the EU more resilient to possible economic shocks. A key feature of the reforms is to introduce an "output floor" to limit the risk of excessive reductions in banks' capital requirements and to make these requirements more comparable. It will also harmonize minimum requirements for the authorization of branches of third-country banks and the supervision of their activities in the EU beyond the implementation of the Basel III standards. In addition, the rules set a transitional prudential regime for crypto assets and introduce amendments to enhance banks' management of environmental, social, and governance (ESG) risks.

This is the last step of the adoption procedure. The amended CRR and CRD will enter into force 20 days after their publication in the EU's Official Journal. Member states will have 18 months to transpose the Directive into national law. The regulation will apply from 1 January 2025.

CSDDD: New obligations for large companies regarding complying with human rights and environmental impact

The Council of the European Union formally adopted the Corporate Sustainability Due Diligence Directive (CSDDD) which was consequently published in the Official Journal of the European Union on 13 June 2024.

The aim is to make large companies take responsibility in the process towards a greener and more social economy. The Directive will apply to companies with more than 1,000 employees and a turnover of more than 450 million euros, covering a broad range of business activities. Companies covered by the legislation will be required to adopt and implement a risk-based system to monitor, prevent or remedy human rights or environmental damages identified by the Directive. The new legislation also requires these companies to ensure that human rights and environmental obligations are respected along their chain of activities. If a violation of these obligations is identified, companies will have to take appropriate measures to address the adverse impacts arising from their own operations, those of their subsidiaries, and those of their business partners in their chain of activities. Companies can be held liable for the damage caused and must provide full compensation. Companies covered by the Directive will also have to adopt and put into effect a climate transition plan in line with the Paris Agreement on climate change.

The legislation was adopted after the Council approved the European Parliament's position. After being signed by the President of the European Parliament and the President of the Council, the Directive will be published in the EU's Official Journal and will enter into force on the twentieth day following its publication. Member states will have two years to implement the regulations and administrative procedures to comply with this legal text. Depending on the size of the company, the directive will apply after a certain period of three to five years.

Public consultations

- **European Banking Authority (EBA)/European Securities and Markets Authority (ESMA)**: Call for Comments on the review of the investment firms prudential framework. The deadline is 3 September 2024.
- **ESMA**: Consultation on commodity derivatives under MiFiD. The deadline is 23 August 2024.
- **ESMA**: Consultation on Consolidated Tape Providers and their selection under MiFIR. The deadline is 28 August 2024.
- **ESMA:** Consultation on three new technical standards under MiFIR. The deadline is 28 August 2024.
- **ESMA:** Call for Evidence on assets eligible for UCITS. The deadline is 7 August 2024.
- **EBA**: Consultation on the new framework for the operational risk loss as part of the implementation of the EU Banking Package. The deadline is 6 September 2024.
- **EBA**: Consultation on draft guidelines on acquisition, development and construction exposures to residential property under the standardized approach of credit risk. The deadline is 19 August 2024.
- **EBA**: Consultation on draft technical standards on equivalent mechanism for unfinished property under the standardised approach of credit risk. The deadline is 13 August 2024.
- **European Commission (EC)**: Consultation on Draft Delegated Regulation specifying over-the-counter derivatives under MiFIR. The deadline is 10 July 2024.
- **EC**: Targeted consultation on the use of artificial intelligence in finance. The deadline is 13 September 2024.
- **European Central Bank**: Public consultation on the Guide on outsourcing cloud services to cloud service providers. The deadline is 15 July 2024.

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