



Council of the
European Union

Brussels, 27 March 2017
(OR. en)

7677/17

EF 61
ECOFIN 233
DELECT 62

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	24 March 2017
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	C(2017) 1951 final
Subject:	COMMISSION DELEGATED REGULATION (EU) .../... of 24.3.2017 amending Delegated Regulation (EU) 2016/1675 supplementing Directive (EU) 2015/849 of the European Parliament and of the Council, as regards deleting Guyana from the table in point I of the Annex and adding Ethiopia to that table

Delegations will find attached document C(2017) 1951 final.

Encl.: C(2017) 1951 final

Brussels, 24.3.2017
C(2017) 1951 final

COMMISSION DELEGATED REGULATION (EU) .../...

of 24.3.2017

**amending Delegated Regulation (EU) 2016/1675 supplementing Directive (EU) 2015/849
of the European Parliament and of the Council, as regards deleting Guyana from the
table in point I of the Annex and adding Ethiopia to that table**

(Text with EEA relevance)

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE DELEGATED ACT

On 20 May 2015, a new framework on anti-money laundering and counter-terrorist financing ("AML/CFT") was adopted. The new rules consist of:

- (a) Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing ("the 4AMLD"), and
- (b) Regulation (EU) 2015/847 on information accompanying transfers of funds ("FTR").

The new rules constitute a modern, coherent framework in the field, and are consistent with international standards and recommendations currently in force, mainly those issued by the Financial Action Task Force (FATF).

According to Article 9(1) of the 4AMLD, third-country jurisdictions which have strategic deficiencies in their AML/CFT regimes that pose significant threats to the financial system of the Union ('high-risk third countries') must be identified in order to protect the proper functioning of the internal market. Article 9(2) of the Directive empowers the Commission to adopt delegated acts in order to identify those high-risk third countries, taking into account strategic deficiencies, and laying down the criteria on which the Commission's assessment is to be based. Based on this identification, obliged entities are called by Article 18(1) of the 4AMLD to apply enhanced customer due diligence measures when establishing business relationships or carrying out transactions with natural persons or legal entities established in the listed countries.

On 14 July 2016, the European Commission adopted the Delegated Regulation (EU) 2016/1675 which identifies for the first time high-risk third countries with strategic deficiencies. The Commission took into account, as appropriate, the most recent FATF Public Statement, FATF documents (Improving Global AML/CFT Compliance: on-going process), FATF reports on International Cooperation Review, and the mutual evaluations reports carried out by FATF and FATF-style regional bodies (FSRBs) in relation to the risks posed by individual third countries in line with Article 9(4). As a result, the Commission identified a number of third countries that have strategic deficiencies in their AML/CFT regimes that pose significant threats to the financial system of the Union and included them in the above-mentioned Delegated Regulation.

This list needs to be reviewed by the Commission where appropriate. As stressed in Recital 28 of the 4AMLD, the Commission should adapt its assessments to the changes made to information sources from international organisations and standard setters, such as those issued by FATF. The Commission therefore aims at updating this list to reflect progress (or lack of progress) made by those high-risk third countries in addressing the strategic deficiencies. Based on this information, the Commission may identify additional high-risk third countries presenting strategic deficiencies, or may move already identified high-risk third countries from one section of the list to another one, or remove them altogether depending on a country's progress (or lack of progress). In this context the Commission considered the outcome of the FATF 28th Plenary meeting and the newly available information sources.

A. Addition

The Commission took into account, as appropriate, the most recent FATF Public Statement, FATF documents (Improving Global AML/CFT Compliance: on-going process), FATF reports on International Cooperation Review, and the mutual evaluations report carried out by FATF and FSRBs in relation to the risks posed by individual third countries in line with Article 9(4). In particular, it considered the outcome of the FATF 28th Plenary meeting and the high-risk countries identified by FATF¹.

Based on these information sources, the Commission considers that Ethiopia meets the criteria set in article 9(2) of the 4AMLD. Hence Ethiopia should be added on the list of high-risk third countries presenting strategic deficiencies in their AML/CFT regime that pose significant threats to the financial system of the Union. Therefore this country should be included in the Delegated Act provided under article 9 of 4AMLD.

Ethiopia provided a written high-level political commitment to address the identified deficiencies and have developed an action plan with FATF, in view of fulfilling the requirements laid down in Directive (EU) 2015/849. The Commission welcomes this commitment and calls on this jurisdiction to complete the implementation of the action plan expeditiously and within the proposed timeframes. The implementation of the action plan will be closely monitored. In order to take into account the level of commitment that has been demonstrated by this high-risk third country, in the context of the FATF, to correct the identified weaknesses, this third country is listed in the corresponding section of the annex to the Delegated Act.

B. Removal

According to this latest available information, it was found that Guyana has made significant progress on AML/CFT matters. On the basis of progress made, with Guyana substantially completing all its action plan items agreed with the FATF, FATF decided to conduct an on-site visit to Guyana in order to confirm that implementation has begun and that there is political commitment to continue to strengthen the AML/CFT regime. FATF on-site visit has concluded that Guyana has a legal and institutional framework in place, which addresses the strategic deficiencies of its AML/CFT regime. Guyana has therefore been removed from the FATF document called "improving global AML/CFT Compliance: ongoing process".

Based on these information sources, the Commission considers that Guyana does not meet anymore the criteria set in article 9(2) of the 4AMLD. Hence Guyana should be removed from the list of high risk third countries presenting strategic deficiencies in their AML/CFT framework.

2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

No public consultations were held by the Commission.

On 21st March 2017, the Expert Group on Money Laundering and Terrorist Financing (EGMLTF) was consulted on the draft delegated act by written procedure.

3. LEGAL ELEMENTS OF THE DELEGATED ACT

This delegated act amends the list of high-risk third countries which has been previously adopted in Delegated Regulation (EU) 2016/1675.

¹ see <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-february-2017.html#ethiopia>

The legal effects of the publication of the list are governed by the basic act, Directive (EU) 2015/849.

As a direct consequence of the establishment of the list, obliged entities in all Member States will be bound to apply enhanced customer due diligence measures (ECDD) according to article 18 of 4AMLD when dealing with natural persons or legal entities established in high-risk third countries. Such obligations therefore also apply with regard to the country added to the Annex - namely Ethiopia.

In addition, obliged entities in Member States will not be bound anymore to apply enhanced customer due diligence measures (ECDD) when dealing with natural persons or legal entities established in Guyana according to article 18 of 4AMLD as far as it refers to the obligations relating to the third countries identified by the Commission as high risk third countries.

This is without prejudice to the application by obliged entities of the provisions of the 4AMLD with regard to customer due diligence and the relevant risk-based measures to be applied.

COMMISSION DELEGATED REGULATION (EU) .../...

of 24.3.2017

amending Delegated Regulation (EU) 2016/1675 supplementing Directive (EU) 2015/849 of the European Parliament and of the Council, as regards deleting Guyana from the table in point I of the Annex and adding Ethiopia to that table

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to 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/EC², and in particular Article 9(2) thereof,

Whereas:

- (1) The Union must ensure an effective protection of the integrity and proper functioning of its financial system and the internal market from money laundering and terrorist financing. Hence Directive (EU) 2015/849 provides that the Commission should identify high-risk third countries which present strategic deficiencies in their regimes on anti-money laundering and countering terrorist financing that pose significant threats to the financial system of the Union.
- (2) . The Commission should review the list of high risk third countries listed in Delegated Regulation (EU) 2016/1675³ at appropriate times in light of the progress made by those high risk third countries in removing the strategic deficiencies in their regime on anti-money laundering and countering terrorist financing ("AML/CFT"). The Commission should take account in its assessments of new information from international organisations and standard setters, such as those issued by the Financial Action Task Force (FATF). In light of this information, the Commission should also identify additional high-risk third countries presenting strategic deficiencies in their AML/CFT regime.

² OJ L 141, 5.6.2015, p. 73.

³ Commission Delegated Regulation (EU) 2016/1675 of 14 July 2016 supplementing Directive (EU) 2015/849 of the European Parliament and of the Council by identifying high-risk third countries with strategic deficiencies (OJ L 254, 20.9.2016, p. 1).

- (3) In line with the criteria set out in Directive (EU) 2015/849, the Commission took into account the most recent available information in particular the most recent FATF Public Statement and FATF document "Improving Global AML/CFT Compliance: ongoing process", and FATF reports of the International Cooperation Review Group in relation to the risks posed by individual third countries in line with Article 9(4) of Directive (EU) 2015/849.
- (4) The FATF considered in those documents that Guyana has implemented the necessary measures to address the strategic deficiencies of its regime on AML/CFT and removed that country from FATF document "Improving Global AML/CFT Compliance: ongoing process".
- (5) On the basis of that information, the Commission's analysis has similarly concluded that Guyana should no longer be considered as a third-country jurisdiction which has strategic deficiencies in its AML/CFT regime that pose significant threats to the financial system of the Union.
- (6) Similarly the FATF identified Ethiopia as having strategic AML/CFT deficiencies that pose a risk to the international financial system, for which it has developed an action plan with the FATF.
- (7) 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 degree of market opening, the Commission hence considers that any AML/CFT threat posed to the international financial system also represents a threat for the Union financial system.
- (8) In accordance with the latest relevant information, the Commission's analysis has concluded that Ethiopia should be considered third-country jurisdiction which has strategic deficiencies in its AML/CFT regime that pose significant threats to the financial system of the Union in accordance with the criteria set out in Article 9 of Directive (EU) 2015/849. However, that country has provided a written high-level political commitment to address the identified deficiencies and has developed an action plan with FATF, which would allow the requirements laid down in Directive (EU) 2015/849 to be met. The Commission will reassess that country's status in the light of the implementation of the above commitment.
- (9) Delegated Regulation (EU) 2016/1675 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

In the Annex to Delegated Regulation (EU) 2016/1675, the table in point I is amended as follows:

(a) the following line is deleted:

"

3	Guyana
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".
"

(b) the following line is inserted:

"

	Ethiopia
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Article 2

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 24.3.2017

*For the Commission
The President
Jean-Claude JUNCKER*