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AMLA's ADDITIONAL BUDGET NEEDS PURSUANT TO POLITICAL AGREEMENT ENLARGING THE TASKS OF THE AUTHORITY

Explanatory note, EC non-paper, 30.01.2024

1. Introduction

The note presents the impact on the EU budget of the text of the AMLA Regulation agreed on 12 December 2023 and sets out the justifications for the increased need for resources, in particular staff, in comparison with the initial Commission proposal. It also takes into account the delayed start of the direct supervision tasks and fee collection, originally planned for 2026 but now set to start in 2028.

The note therefore explains in detail the overall increase from 250 FTEs (as per the initial Commission proposal) to 432 FTEs for AMLA to implement its mandate at cruising speed. These are to be filled in over 4 years.

As of 2028, approximately 69% of AMLA's budget will be funded by fees and 31% funded by the Union. This funding ratio is defined by the number of staff that will be needed to supervise the financial sector obliged entities on the one hand and on the other, the number of staff needed for policy work and FIU coordination support, including the respective shares of general management and administration posts attributable to the fee-funded and Union-funded tasks.

When devising the plan detailed below, we analysed in depth the tasks entrusted to AMLA and used as benchmarks the staff allocation models of other existing authorities (i.e., the European Supervisory Authorities, Single Supervisory System (SSM), some national supervisors).

It is to be noted that the timeline of the original legislative proposal and hence the initial costs and funding estimates were based on 2022 as Regulation's expected adoption year. Because the legislative process took 2.5 years, the establishment of AMLA is now set to 2024. The year 2023 has therefore been removed from the estimates.

Furthermore, the so-called Single Rule Book which comprises the AML Regulation, the recast of the transfer of funds Regulation, and the transposed AML Directive require AMLA and Commission to respectively prepare and adopt a number of Level 2 measures which have to be in place for AMLA to start its supervision. The completion of these tasks, as foreseen in the agreed text, would take three years from the adoption of the AML package. After that AMLA would have six to 12 months to select the obliged entities subject to direct supervision, leading to the beginning of 2028 when direct and indirect supervision of obliged entities (and respectively the fee collection) could actually start.

2. Tasks per type of funding

In accordance with Article 64 of the agreed text of the Regulation, the Authority's revenue shall include both the fees paid by the selected and non-selected obliged entities and a

contribution from the Union entered in the general budget of the European Union. In summary, the tasks funded from these two sources are as follows: *Fee funded tasks*:

- 1) *Direct supervision* of certain obliged entities (OEs) in the financial sector (can only commence on 1 January 2028, upon completion of the OEs selection process);
- 2) *Indirect supervision* of entities not retained for direct supervision in the financial sector (can only commence on 1 January 2028, upon completion of the OEs selection process);

Union funded tasks:

- 1) *Regulatory and policy development tasks* (drafting of Level 2 and 3 measures).
- 2) *Indirect oversight of the non-financial sector* – supervisory convergence work, similar to the one the ESAs do with the national supervisors.
- 3) *Coordination and support of the national Financial Intelligence Units (FIUs)*.

3. Expected timeline for the implementation of tasks according to the agreed Regulation

- July 2024 - AMLA is legally established (20 days after OJ publication);
- July 2024 - mid-2025 – substantial recruitment of staff, drafting of level 2 measures.
- Mid-2025 - beginning 2026 - deployment of most tasks (except for the direct supervision in the financial sector and some tasks related to the non-financial sector);
- January 2027 – 31 December 2027 - selection of Obligated Entities;
- 1 January 2028 - AMLA is fully operational (direct and indirect supervision of obliged entities in the financial sector starts).

4. Changes introduced by the political agreement and their impact on staffing

4.1. The shift in timelines

The expected date of publication of the AML package (AML Directive, Regulation and AMLA Regulation) is now July 2024. Therefore, the current expected date for the full application of this package is July 2027 (3 years after publication), and consequently the expected date of the start of direct supervision which would enable fee collection is January 2028 (3,5 years after publication).

Previously, in the context of the ESAs Review, certain AML related tasks had been allocated to the European Banking Authority (EBA). As the provisions on most tasks and powers of AMLA would be applicable only one year after publication of the Regulation, the EBA will continue working on regulatory and policy tasks, and host the AML database until at least mid-2025. We therefore suggest that EBA keeps its eight staff posts (allocated by the ESAs Review¹) for 2025 and the respective funding needed to cover its costs, including the database maintenance costs for 9 months so that these tasks can be moved to AMLA towards the end of 2025.

¹ Afterwards, the allocation for staffing of the EBA (Establishment Plan posts and allocations for contract agents will be reduced as the AML tasks allocated to the EBA in the context of the ESAs Review will be undertaken by AMLA)

4.2. The changes of required staffing per task vs original staff allocation per task underlying the Commission legislative proposal

a) Direct supervision – fee funded

Original estimate: 100 FTEs in the so-called Joint Supervisory Teams
Updated estimate: 200 FTEs

AMLA's direct supervision model² foresees the operation of Joint Supervisory Teams (JSTs), where day-to-day supervision is carried out jointly by staff of the National Competent Authorities and AMLA staff, including the 'JST coordinator'.

The criteria for the selection of obliged entities in the original Commission proposal were calibrated in a way to capture around 12-20 large financial groups. The assumption was that these groups would be similar to the largest Single Supervisory Mechanism (SSM) significant (i.e., directly supervised) banks, and therefore the size of the JST would also be similar. However, we conservatively took into account all SSM JSTs (i.e., not only the largest ones³). They consist on average of 11 FTEs, i.e., 4.5 FTEs (40%) ECB staff and 6.5 FTEs (60%) NCAs staff. Against this background, we arrived at 100 FTEs (i.e., 4.5 FTEs*20 obliged entities) needed for the JSTs at AMLA (excluding management, support functions and sanctioning unit which are discussed below).

However, the political agreement broadened the scope of supervision, with a wider base of obliged entities to be assessed for potential selection for direct supervision by AMLA and with a significantly larger number potentially captured, capped at 40 entities in the first selection round. **Therefore, we had to double the number of estimated JST staff, from 100 to 200 FTEs.**

Planned phasing-in of staffing for direct supervision: 50 FTEs in 2026, 150 additional in 2027

The co-legislator's agreement on the amendments of the Commission's proposed Regulation means that direct supervision will start in January 2028, following the completion of the selection process which will take up to 12 months in accordance with the agreed text of the Regulation.

For that timeline to be achieved, 50 FTEs will need to be hired during 2026 to start preparing the selection process so that it can be undertaken on time in 2027. Then, during 2027, AMLA will need to recruit the rest of the supervisors to have the fully staffed supervisory teams trained and ready, and the supervisory procedures prepared by the start of 2028. It is important to note that this timing (and hence the need to recruit the staff early enough in advance) is critical not only for the achievement of the policy goal but also for ensuring the appropriate financing of the Authority; if the direct supervision starts late the fee collection would be late and the Authority would face a funding gap.

² Based on the SSM model

³ The 16 biggest JSTs (out of 111) include on average 10.5 FTE at the centre/ECB.

b) Indirect supervision of the financial sector – fee funded

Original estimate: 22 FTEs Updated estimate: 27 FTEs

The co-legislators have agreed on two additional tasks indirect supervisory tasks for AMLA: binding mediation (Article 30b), and actions in case of systematic failure of supervision (Article 30c). Since these convergence tasks are similar to those currently exercised by the ESAs, we have assumed similar additional staffing needs (~2/3FTEs per task).

Staff growth assumptions: 5 FTEs in 2025, additional 16 FTEs in 2026, additional 6 FTEs in 2027.

AMLA will not start carrying out these tasks until the end of 2025-beginning of 2026, due to the focus on single rulebook at the beginning. Majority of originally envisaged and additional tasks in this area will start in 2026 and will only reach stable state in 2028. However, sufficiently in advance of the start of the tasks the staff need to be recruited and on-boarded so that procedure and systems can be put in place and all staff trained to a common standard.

c) Pecuniary sanctions in direct supervision – fee funded

Original estimate: 5 FTEs Updated estimate: 8 FTEs

Similarly to the SSM and ESMA Regulations, a dedicated sanctioning unit distinct from supervisory teams is envisaged for the purposes of establishing breaches of law by supervised entities and their sanctioning (imposition of administrative pecuniary sanctions and periodic penalty payments). As the number of supervised entities increases from 12-20 to 40 this unit will require additional 3 FTEs. The additional staffing needs are not linear, assumptions are based on proportionate extrapolation from current SSM staffing needs.

Staff growth assumptions: all 8 FTEs to be hired in 2027, a year prior to the start of direct supervision (2028).

d) FIU-related tasks – Union funded

Original estimate: 15 FTEs Updated estimate: 58 FTEs (including 27 SNE posts)
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AMLA's tasks in the area of coordination and support of FIUs are the second most important category of tasks next to direct supervision. The original Commission proposal designed them in a way that would minimise the resource requirements at the level of AMLA and maximise the leverage of local FIU resources. It was proposed that AMLA would organise and coordinate Joint Analyses but would not develop any policy around them and would not be able to initiate them. In addition, FIUs had an option, but not an obligation, to send one staff member to AMLA, on cost-free basis. Likewise, the General Board in FIU composition would have not had any support structure and there were no convergence tasks related to FIUs. The co-legislators have amended the text and expanded existing FIU related tasks and added new ones:

- AMLA would get a new role in policy design related to joint analyses;
- AMLA would get a power to initiate and conduct Joint Analyses on its own with support of FIUs;
- AMLA would have a new convergence task to conduct peer reviews among FIUs;
- AMLA would get a permanent support structure called FIU standing Committee which would require dedicated secretariat staff;
- FIUs will have an obligation to send at least one staff member (“FIU delegates”) but AMLA would have to contribute by means of allowances (hence new 27 SNE posts).

Staff growth assumptions: 5 FTEs +27 SNE posts in 2025, additional 17 FTEs in 2026, last additional 9 FTEs in 2027

As the obligation to send an FIU delegate would start applying as of mid-2025, 27 SNE posts have to be available in 2025, In addition, AMLA would require at least 5 posts for non-seconded staff for the FIU-related work so that the team is appropriately balanced and that there will be a sustainability of knowledge and expertise in AMLA. As of 2026, AMLA is expected to scale up FIU-related tasks apart from peer reviews, hence the largest staff growth. In 2027, the last 7 FTEs would be recruited to reflect the commencement of peer reviews and cruising speed for all other FIU-related tasks.

e) Regulatory and policy development (drafting of Level 2 and 3 measures) – Union funded

<p>Original estimate: 25 FTEs Updated estimate: 25 FTEs (unchanged)</p>
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While the number of Level 2 and 3 measures which AMLA would need to develop did grow in the finally agreed texts of the AML Directive and Regulation, we are expecting that in years 2024 and the first-half of 2025, EBA would be able to commence the technical work on these instruments and thereby assist, AMLA in the key initial task of completion of the Single rulebook. That would allow us to keep the overall staff numbers unchanged.

Staff growth assumptions: 8 FTEs in 2024, additional 17 FTEs in 2025 (remaining flat thereafter)

The majority of Level 2 measures would need to be developed in years 2026 and 2027. We assume that the work will turn to development of Level 3 instruments in the steady state as of 2028 after completion of the single rulebook, judging from the experience of the ESAs.

f) Oversight of the non-financial sector – Union funded

<p>Original estimate: 6 FTEs Updated estimate: 14 FTEs</p>

The co-legislators have added new tasks in this area and modified existing ones: institutionalised non-binding mediation, added facilitation of the work of non-financial colleges and transformed the task of investigation of breaches of Union law into process for issuing warnings (which is a more flexible instrument that could be used more frequently).

Staff growth assumptions: 3 FTEs in 2025, additional 3 FTEs in 2026 and final 8 FTEs in 2027 (since the colleges-related work and application of the database to the non-financial sector is delayed to 2027).

g) Other policy work (coordination with other Union bodies, third countries and whistle-blowing tasks) – Union funded

Original estimate: 7 FTEs Updated estimate: 10 FTEs
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The increase in staff needs is primarily due to the additional task of handling whistle-blower reports from the entire universe of obliged entities, but also due to specific cooperation and coordination arrangements and MoUs explicitly required to be concluded with certain Union bodies.

Staff growth assumptions: 4 FTEs in 2025 (when the tasks will become applicable) **and additional 10 FTEs in 2026** (when they are expected to reach steady state).

h) Senior and middle management – split between fee and Union funded

Original estimate: 50 FTEs Updated estimate: 60 FTEs

This category contains the Chair, the other 5 Executive Board members (all public office holders like in the Single Resolution Board), the Executive Director, the Directors, the HoUs including the managers of the Joint Supervisory Teams.

The increase in the required managerial staffing is driven by the overall increase in staffing and in the tasks to be implemented by AMLA. Nonetheless, despite the extent of the increase in the overall staffing and the additional tasks, so that the staffing requirement for managerial staff does not increase proportionately, it is assumed (and will be required) that AMLA reap economies of scale.

Phasing-in assumptions: only 1 post in 2024 for the Interim Executive Director, 14 FTEs in 2025 which would include the Chair and other Executive Board members, other middle management posts, and the Fundamental Right Officer⁴, 5 FTEs in 2026 to create new units and Directorates for most of the tasks and 40 FTEs in 2027 for all the direct supervision units and directorate.

i) Administration (finance, HR, IT, legal and governance) - i.e., overheads to split pro rata between fees and Union funded tasks

Original estimate: 20 FTEs Updated estimate: 30 FTEs

⁴ A function that did not exist in our initial proposal, which was added by the European Parliament with reference to what existed at Europol.

The increase is driven by the increase in overall staff numbers, attributed to the most significant increase in direct supervision, as well as more marginal increases in other tasks. Again, AMLA will be required to reap economies of scale.

Phasing-in assumptions: 7 FTEs, predominantly HR staff, will be recruited in 2024, additional 11 FTEs, all administrative profiles, in 2025, and the last 12 FTEs in 2026 to prepare for the large recruitment in 2027, and to phase out the support by the Commission’s AMLA Task Force which is only envisaged for the first 2 years.

5. Budget implications

The increased number of posts and their foreseen progressive recruitment over four years would require, as mentioned above, additional funding. The precise budget needs of AMLA will be known once the decision on the seat has been taken by the Council and the European Parliament, as the Authority’s location would determine the applicable salary correction coefficient⁵. Our estimate is that for the start-up period 2024-2027, depending on its location, AMLA will need between EUR 108 million and EUR 146 million in total to fund its activities.

The table below presents three budget simulations based on the highest correction coefficient (i.e., Dublin), the lowest (i.e. Riga) and the 100 ‘neutral’ coefficient (applicable to Brussels), and compares these to the funding currently available for AMLA according to the financial programming.

Table 1. AMLA updated budget needs compared to current financial programming

EUR Million

<i>EU Budget contribution to AMLA 2024-2027</i>	2024	2025	2026	2027	2024-2027
Current financial programming	5.1	16.4	34.9	14.1	70.5
Transfer back to EBA programming		-0.4			
Total funding already included in the financial programming	5.1	16.0	34.9	14.1	70.1
<i>AMLA budget (with 100 correction coefficient)</i>	1.4	13.9	37.9	63.8	117.0
Difference to the margin of Heading 1	-3.7	-2.1	3.0	49.7	46.9
<i>AMLA budget (with 88 correction coefficient)</i>	1.3	13	35.3	58.6	108.2
Difference to the margin of Heading 1	-3.8	-3.0	0.4	44.5	38.1
<i>AMLA budget (with 139,6 correction coefficient)</i>	1.9	17.0	46.2	80.9	146.0
Difference to the margin of Heading 1	-3.2	1.0	11.3	66.8	75.9

⁵ Dublin 139,6; Paris 119,5; Vienna 112; Rome 97,3; Frankfurt 103,4; Madrid 94,7; Vilnius 93,4; Riga 88.

Table 2. AMLA 2028 budget - location scenarios

EUR Million

AMLA budget 2028	<i>Location with 100 correction coefficient</i>	<i>Location with 88 correction coefficient</i>	<i>Location with 139.6 correction coefficient</i>
Total budget, of which:	89.7	82.7	112.8
- Fees	63.2	58.3	79.4
- Union contribution	26.5	24.4	33.4

Table 3. Number of Temporary Agent post, allocations for contractual agents and seconded national experts

FTEs

Staff	2024		2025		2026		2027		2028	
	<i>LFS</i>	<i>Updated staffing needs</i>	<i>LFS</i>	<i>Updated staffing needs</i>	<i>LFS</i>	<i>Updated staffing needs</i>	<i>LFS</i>	<i>Updated staffing needs</i>	<i>LFS</i>	<i>Updated staffing needs</i>
Temporary agents (AD Grades)	58	10	155	58	180	138	180	297	180	297
Temporary agents (AST Grades)	7	2	30	8	30	15	30	26	30	26
Contract staff	30	2	30	29	30	30	30	32	30	32
Seconded National Experts	5	5	5	25	10	50	10	77	10	77
TOTAL:	100	19	225	120	250	233	250	432	250	432⁶

⁶ Of which 69% (i.e., 297 posts) will be fee funded and 31% (i.e., 135) Union funded.