EU Committee Advances Plan to Name Corporate Owners, Toughen PEP Controls

February 20, 2014 By Brian Orsak and Colby Adams

A European Parliamentary committee Thursday approved far-reaching changes to the EU's rules combating money laundering and terrorist financing, including an amendment that would require nations to publicize corporate owners.

The 45-to-1 vote by the Economic and Monetary Affairs Committee clears the way for the passage by lawmakers, leaving an expected final adoption of the EU's Fourth Anti-Money Laundering Directive in the hands of the Council of the European Union. The 28-member bloc last adopted an anti-money laundering (AML) directive in 2005.

Thursday's draft proposal would broaden the definition of money laundering to include the intentional conversion or transfer of property for the purpose hiding illicit funds or avoiding confiscation. The European Commission would additionally be required to share a list of domestic politically exposed persons (PEPs) with financial institutions and other covered entities as well.

EU member-states would also publish registers naming the beneficial owners and directors of companies, foundations and trusts and make the data available to individuals who identify themselves through online registration. While the registers would identify the owner of a trust, for example, they would not detail what is in it.

The proposal is still subject to "quite a lot of horse trading" before its final implementation, according to Robert Palmer, the money laundering campaign leader for Global Witness, a U.K.-based group that advocates for greater financial transparency.

But "what we've got today is a really strong parliamentary mandate," he said.

The registers would give banks and other financial institutions a tool to improve, but not replace, their current know-your-customer procedures, said Koen Roovers, an analyst with the Financial Transparency Coalition, a Washington, D.C.-based advocacy group.

"It doesn't mean they can check the public registry, see that the company's listed director is familiar because it is the same as a thousand other shell companies, and then stop there after checking a box," said Roovers.

A number of countries, led by the United Kingdom, have already proposed rules to shine a light on corporate ownership. In October, the U.K. said that it would publish a register naming individuals who control more than 25 percent of a corporation's shares or otherwise exercise control over the entity.

Thursday's draft rules would also impose AML reporting requirements on gaming operations but allow member-states to exclude activities not directly related to casinos. Casinos and other covered institutions would have to implement due diligence and know-your-customer controls on transactions of 2,000 euros or more.

Lawmakers also asked that member-states order covered institutions to examine unusual, large transactions with no apparent purpose or which could violate tax laws, and report their suspicions "without delay" to the financial intelligence units of all EU nations that "might be concerned."

In stipulating the European Commission's list of domestic PEPs, the committee said that the EU should notify individuals named as political figures and nations should prevent the trading of such data for commercial purposes.

Should a final draft of the directive require enhanced due diligence controls on domestic PEPs, financial institutions will be required to collect "a lot more information, and do a lot more checking up on the backgrounds" of judges, high-ranking army officers, lawmakers and other officials, said Alison Matthews, a regulatory consultant and AML attorney based in Birmingham, United Kingdom.

Rather than allow banks to apply fewer checks on local officials, the Fourth Directive will mean "one size fits all, and I think the biggest change with that is it means having to confirm the source of wealth of lower ranking officials to a greater level of specificity," she said. "That will mean a lot of work."

The European Commission proposed some of the changes included in Thursday's draft proposal in February 2013.

A full parliamentary vote is scheduled for March. Following its adoption, the EU Parliament will negotiate a final directive with the European Commission and the Council of the European Union, also known as the Council of Ministers.

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