



## EBA REPORT

ON THE FUNCTIONING OF ANTI-MONEY  
LAUNDERING AND COUNTERING THE  
FINANCING OF TERRORISM COLLEGES IN 2022

EBA/REP/2023/31

**EBA**

EUROPEAN  
BANKING  
AUTHORITY

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## List of abbreviations

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<b>AM</b>	asset managers
<b>AML</b>	anti-money laundering
<b>CDD</b>	customer due diligence
<b>CI</b>	credit institutions
<b>CFT</b>	countering the financing of terrorism
<b>EBA</b>	European Banking Authority
<b>EDD</b>	enhanced due diligence
<b>EMI</b>	Electronic money institutions
<b>EuReCA</b>	European reporting system for material CFT/AML weaknesses
<b>FATF</b>	Financial Action Task Force
<b>FIU</b>	financial intelligence unit
<b>FM</b>	Fund managers
<b>IF</b>	investment firms
<b>LIU</b>	life insurance undertaking
<b>ML</b>	money laundering
<b>NRA</b>	national risk assessment
<b>PEP</b>	politically exposed person
<b>PI</b>	payment institutions
<b>SNRA</b>	supranational risk assessment
<b>SREP</b>	supervisory review and evaluation process
<b>STR</b>	suspicious transactions report
<b>TF</b>	terrorist financing



## Executive summary

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The guidelines (JC 2019 81) on cooperation and information exchange for the purpose of Directive (EU) 2015/849 (AMLD) between competent authorities supervising credit and financial institutions (the 'Guidelines') were published by the three European Supervisory Authorities in December 2019. The Guidelines set out the cooperation framework, which includes AML/CFT colleges. AML/CFT colleges are permanent structures that bring together different supervisory authorities responsible for the AML/CFT supervision of a cross-border financial institution, which operates in at least three Member States. The aim is to ensure that supervisors exchange information in a timely manner, and that they cooperate to achieve better and more targeted supervisory outcomes in the fight against financial crime.

In 2020, 18 AML/CFT colleges were fully operating. By December 2022, the number of fully operating colleges had increased to 229. EBA staff was also notified of 54 additional colleges which had not yet held their first meeting but would hold such meeting in the course of 2023. Through 2022, EBA staff actively monitored 16 of those colleges, and carried out a thematic review of 10 investment funds colleges. EBA staff also collected data on all AML/CFT colleges to assess their performance against six action points that the EBA had issued in 2022 to address the findings of the second report on AML/CFT colleges<sup>1</sup>.

The EBA found that competent authorities had taken important steps to make AML/CFT colleges useful and effective. A structured approach to organising colleges' meetings had contributed to the exchange of more substantive, actionable information, than was the case previously, and prudential supervisors and FIUs had actively participated in most AML/CFT colleges, to which they had been invited. In several colleges, the quality of discussions was greatly enhanced, and the lead supervisor was leading these discussions much more effectively. A small number of colleges had taken coordinated actions to address areas of common concern with good outcomes.

Nevertheless, none of the 2022 action points have been fully addressed by all colleges. In particular, EBA staff observed that:

- More than 50 AML/CFT colleges which had been set up pursuant to the Guidelines were still not operating, and members' ability to share information in some colleges was hampered by their failure to sign the requisite cooperation agreements.
- The number of third country observers remained very low, which could limit what supervisors know about group-wide risks.
- There was limited awareness among some competent authority staff of the benefits of sharing information in the colleges' setting and some competent authorities were unable to explain how they used information from AML/CFT colleges in their own work. Common

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<sup>1</sup> Available on the EBA's website: [Report on the functioning of AML Colleges in 2021](#).

approaches or coordinated actions were rarely envisaged or discussed because members did not determine whether the issues identified had a common root cause.

- Several lead supervisors had not adjusted the nature and frequency of meetings based on the ML/TF risks to which the financial institution had been exposed. This meant that some high-risk colleges met infrequently, while colleges set up in relation to lower risk institutions met at least biannually.

Based on these findings, the action points adopted in 2022 remain relevant for the 2023-2024 period. Lead supervisors should address them without delay to make the best use of the AML/CFT colleges framework. The examples of good practice highlighted in this report can be useful for competent authorities in this regard.

# 1. Background

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1. The legal basis for anti-money laundering and countering the financing of terrorism supervisory colleges ('AML/CFT colleges') is set out in Article 57a(4) of Directive (EU) 2015/849<sup>2</sup> ('AMLD'). Article 57a(4) contains a high-level requirement for 'competent authorities supervising credit and financial institutions to cooperate with each other to the greatest extent possible, regardless of their respective nature or status'. Further details and practical modalities of this cooperation are specified in the joint Guidelines (JC 2019 81) on cooperation and information exchange for the purpose of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions (the 'Guidelines') published by the European Supervisory Authorities (ESAs) in December 2019. AML/CFT colleges, i.e. permanent structures for collaboration and information exchange between competent authorities that are responsible for the AML/CFT supervision of the same financial institution, are central to these Guidelines and should be set up whenever a financial institution operates in three or more EU Member States. Competent authorities had two years, until January 2022, to implement the Guidelines.
  
2. The EBA has been monitoring AML/CFT colleges since their inception in line with its AML/CFT colleges methodology<sup>3</sup>. The EBA has published previous AML/CFT colleges monitoring reports in 2021 and 2022<sup>4</sup>. In 2022, the EBA set out six action points that supervisors were asked to address as a matter of priority to ensure the effective functioning of AML/CFT colleges. These action points were:
  - a. Finalising structural elements of the college;
  - b. Enhancing the discussions during the AML/CFT college meetings;
  - c. Fostering the ongoing cooperation between members and observers within AML/CFT colleges;
  - d. Applying the risk-based approach to AML/CFT college meetings;
  - e. Taking steps to identify areas for a 'common approach' or 'joint actions';

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<sup>2</sup> 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.

<sup>3</sup> The EBA explained its approach in its [factsheet on the EBA's approach to monitoring the functioning of AML/CFT colleges](#) published in December 2021.

<sup>4</sup> The first EBA report (EBA/REP/2020/35) on the functioning of AML/CFT colleges was published in December 2020 and is available here: [Report on the functioning of AML/CFT colleges in 2020](#). The second report (EBA/REP/2022/18) is available here: [Report on the functioning of AML/CFT colleges in 2021](#).

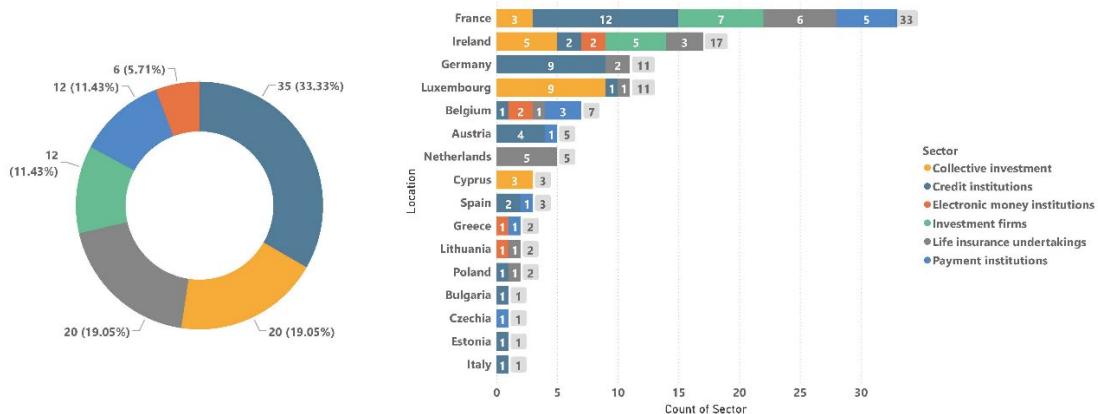
f. Enhancing supervisory convergence in AML/CFT colleges.

3. This report provides an overview of AML/CFT colleges which were established or continued operating in 2022, and summarises EBA staff’s observations. It also provides an assessment of the progress made by lead supervisors in implementing the six key action points mentioned above, good and poor practices observed by EBA staff, and lists the steps that competent authorities are recommended to take to make further progress in this regard, to improve the effectiveness of AML/CFT colleges in the future.
4. This report draws on information from the EBA’s monitoring of AML/CFT colleges as well as information from other sources including information gathered from the EBA’s central AML/CFT database, EuReCA<sup>5</sup>, findings from the EBA’s ML/TF risk assessments and AML/CFT implementation reviews and information from the EBA’s work on colleges of prudential supervisors and resolution colleges<sup>6</sup>.

## 2. Overview of AML/CFT colleges

5. In 2022, competent authorities notified the EBA of the establishment of 105 new AML/CFT colleges. Out of these 105 colleges, 35 were established in relation to a credit institution, 18 were established in relation to a payment institution or electronic money institution, 20 were established in relation to a collective investment undertaking or fund manager, 12 were established in relation to an investment firm, and 20 were established in relation to a life insurance undertaking (see figure 1 below).

Figure 1.: Number of AML/CFT colleges established between 01/01/2022 and 31/12/2022 per country and per sector

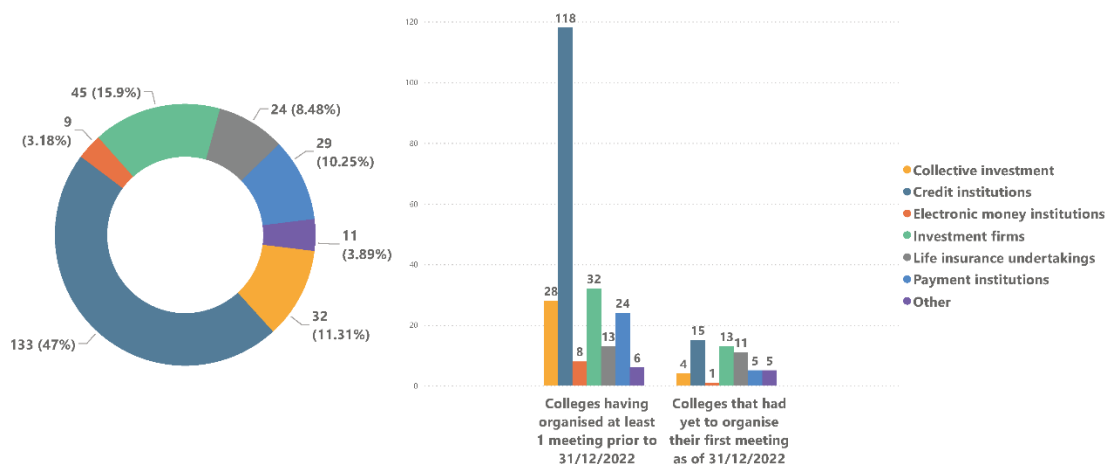


<sup>5</sup> EuReCA is EBA’s central database for reporting AML/CFT weaknesses. For more information, see the EBA’s [EuReCA webpage](#)

<sup>6</sup> See the EBA’s webpage dedicated to [prudential colleges](#).

6. Overall, Competent authorities from 28 EU/EEA Member States reported 283 colleges in total in the EBA's general monitoring questionnaire. As of 31/12/2022, 229 of these 283 colleges were fully operating, while 54 colleges had not yet held their first meeting (see figure 2 below).

Figure 2.: Total number of AML/CFT colleges per sector



## 3. EBA's role in AML/CFT colleges

7. In 2022, EBA staff monitored 229 operating colleges. EBA staff also provided technical assistance and support to lead supervisors and permanent members.

### 3.1 Monitoring the functioning of AML/CFT colleges

8. In 2022, the EBA adopted a new approach to monitoring AML/CFT colleges to reflect the growing maturity of the AML/CFT colleges framework. This new approach comprises three distinct monitoring activities, namely general monitoring, active monitoring and thematic monitoring.

#### 3.1.1 General monitoring

9. General monitoring of AML/CFT colleges consists of the collection of data from all AML/CFT colleges on an annual basis. The objective of general monitoring is to keep track of trends and general developments within the AML/CFT college framework.

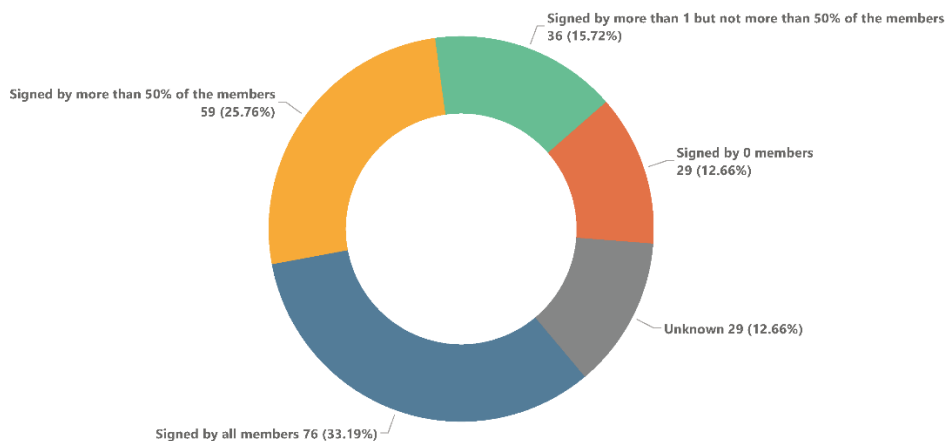
10. In 2022, the data was collected through two main channels:

- a. Notifications sent by competent authorities to the EBA on an ongoing basis (for instance to inform the EBA of the establishment of a new college or to inform the EBA of upcoming meetings).



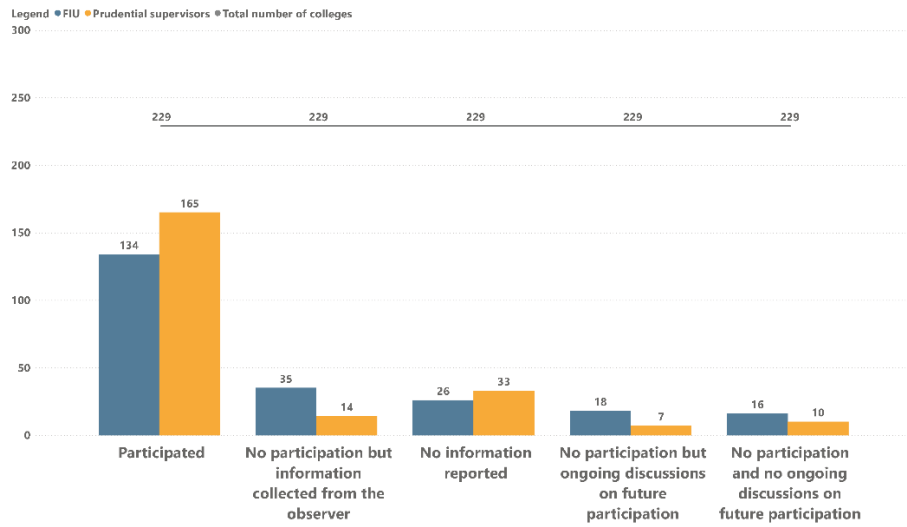
- b. The questionnaire for 2022, which all competent authorities were requested to complete, and which contained questions on the colleges' performance against some of the action points it had issued as part of its last report on the functioning on AML/CFT colleges.
11. EBA staff observed a continued increase in the number of fully operating AML/CFT colleges. In 2020, 18 AML/CFT colleges were fully operating. By 31/12/2022, this number had increased to 229. Nevertheless, 54 additional colleges had still not held a first meeting. These meetings should be held in the course of 2023.
12. Competent authorities' answers also showed that in about half of the colleges that had organised at least one meeting, the cooperation agreement had not been signed by all permanent members (124 out of 229 colleges). In 29 of the remaining 105 colleges, the cooperation agreement had been signed by none of the permanent members and in 36 of the other colleges at least half of the permanent members had not signed the cooperation agreement (see figure 3 below).

Figure 3.: Signing of the cooperation agreement



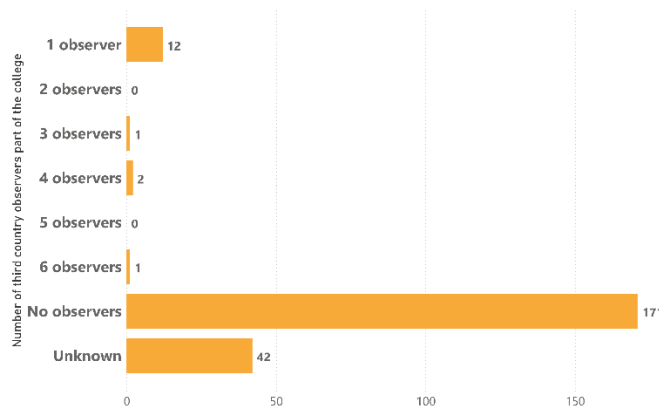
13. The level of participation of prudential supervisors and FIUs was high, with prudential supervisors attending 165 and FIUs 134 of the 229 colleges reported in the general monitoring questionnaire as having held at least 1 meeting before 31/12/2022. Additionally, in many of these colleges, where prudential supervisors were not participating, lead supervisors indicated that information had been collected from them either in written form or orally, prior to all meetings. In others, there were ongoing discussions regarding their participation in future meetings, which suggests that prudential supervisors and FIUs will become even more involved in colleges in the coming years (see figure 4 below).

Figure 4.: Participation of the FIU and prudential supervisors



Ensuring the participation of third country observers, on the other hand, proved to be challenging. In almost all colleges where institutions had operations in third countries, third country observers had still not yet been onboarded. In the few colleges that had started onboarding third country observers, there were rarely more than 1 third country observer participating (see figure 5 below)

Figure 5.: Participation of third country observers



14. These data show that competent authorities made significant progress towards setting up and operating all the colleges that should be established pursuant to the Guidelines, which is key to ensure that information can flow between supervisors in a timely fashion and without undue restrictions. Despite these notable improvements, competent authorities were still unable to finalise all the structural elements of most colleges. Section 4 and 5 of the report provide further details on this point.

### 3.1.2 Active monitoring

15. Active monitoring consists of closely following a small number of AML/CFT colleges notably by participating in all the meetings and assessing the improvements made by these colleges. For the 2022-2024 period, EBA staff selected 16 colleges, based on a list of 6 criteria<sup>7</sup>.
16. In 2022, 12 of these 16 colleges had held at least one meeting. 3 of these colleges held a meeting that EBA staff could not attend due to a lack of available staff. In total, EBA staff attended 13 meetings organised by 9 actively monitored AML/CFT colleges across a wide range of financial institutions and Member States. Two of these meetings were ad hoc meetings that were called to ensure a better follow up of a major incident affecting the whole group. EBA's staff participation entailed attendance at the college meetings and providing updates on key policy developments and new measures, such as the opportunities afforded by the EBA's new AML/CFT database. It also included identifying potential emerging risks raised in those colleges and intervening where necessary to ensure that these risks were sufficiently addressed.
17. In the cases where EBA staff had concerns relating to the functioning of actively monitored colleges, EBA staff liaised bi-laterally with the lead supervisors of these colleges and suggested the steps which lead supervisors should take to address these concerns. For example, in one college, a member had identified serious weaknesses in the financial institution's AML/CFT controls but did not share this information in the college. EBA staff asked the lead supervisor to ensure a better flow of information between permanent members and to consider calling an ad hoc meeting of the college to discuss the implications of this case.
18. EBA staff found that, compared to the two previous years, the effectiveness of most actively monitored colleges had notably improved. EBA staff notably observed that:
- a. Most actively monitored AML/CFT colleges were well organised. The meeting agenda was systematically sent sufficiently in advance to allow permanent members to prepare ahead of the meetings.
  - b. Most lead supervisors were leading colleges more effectively than they had done in the previous two years. They were more actively leading the discussions and putting more questions to the other members.
  - c. Members and observers were sharing more meaningful information. In some colleges, members were discussing more targeted issues, focusing on certain specific risks and/or topics.

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<sup>7</sup> The criteria comprise three core criteria and three additional criteria. The core criteria include: (1) the sector's exposure to high inherent ML/TF risk; (2) the financial institution's exposure to a high or very high level of ML/TF risk; (3) the width of scope of the institution's cross-border operations. The additional criteria include: (4) the strategic importance of the institution in its Member State or region; (5) the existence of serious weaknesses in the institution's AML/CFT procedures, systems and controls; (6) the existence of concerns in relation to AML/CFT supervision in the institution's Member State. For more information, see EBA's factsheet on the new approach to monitoring AML/CFT colleges referred to in the EBA's [factsheet on the EBA's approach to monitoring the functioning of AML/CFT colleges](#) published in December 2021.

- d. In two colleges, permanent members who had identified common compliance gaps, made use of the college platform to take coordinated actions instead of addressing these gaps separately.

19. However, in a minority of actively monitored colleges, EBA staff also observed persisting issues that limited the effectiveness of these colleges. For instance:

- a. In one college, the lead supervisor was not actively leading the college enough. This resulted in a limited sharing of relevant information, even though significant developments had occurred, which would have merited more in-depth exchanges and possibly the implementation of joint supervisory measures.
- b. In a few colleges, the persons attending on behalf of some members did not have sufficient knowledge of the recent supervisory activities carried out in relation to the financial institution. As a result, the information shared by these members did little to raise the other members' understanding of the ML/TF risks to which the financial institution was being exposed.
- c. In several actively monitored colleges, there was no proper discussion on the need for a common approach or coordinated actions. This meant that members could not identify whether there were risks or issues that would be better addressed in a coordinated manner by all the members.

20. Overall, active monitoring in 2022 showed that AML/CFT colleges have become an effective supervisory tool which allow many competent authorities to access relevant information that can enhance their supervisory strategy and practices and enables them to address key issues in a coordinated manner. Nevertheless, the fact that the functioning of a minority of colleges did not improve much, means that there were still obstacles to the sharing of some of the relevant information between competent authorities. Section 4 and 5 of the report provide further details on this point.

### **3.1.3 Thematic monitoring**

21. Each year, EBA staff carry out a thematic review of AML/CFT colleges. The objective of this thematic review is to focus on certain sectors, activities or products which may be under-represented in the actively monitored colleges or which may otherwise warrant closer attention, for example, because of emerging ML/TF risks.

22. In 2022, EBA staff decided to focus on the asset management sector on the following grounds:

- a. Investment funds are often commercialised in a large number of jurisdictions both within the EU and abroad, which exposes the sector to geographical risks.
- b. A majority of competent authorities expressed concerns regarding the level of AML/CFT compliance within the sector when answering the EBA's 2020 survey on

ML/TF risks in the EU. Notably, 45% had expressed concerns regarding the quality of business-wide risk assessments in the sector in 2019. 55% had expressed concerns regarding the quality of individual risk assessments. And 48% had expressed concerns about the effectiveness of ongoing monitoring systems.

- c. The same survey also showed that the sector had been subject to limited supervisory activities in comparison with other sectors.
23. In accordance with the EBA's AML/CFT colleges methodology<sup>8</sup>, EBA staff selected 10 colleges established in relation to collective investment funds or fund managers. When choosing the sample, EBA staff ensured that the selection covered all Member States in which at least one college had held one or more meetings, including colleges of different sizes and funds with different business models. The lead supervisors of the relevant colleges were also requested to complete a dedicated questionnaire.
24. Through its thematic monitoring of colleges from the collective investment sector, EBA staff observed that all groups in relation to which a thematically monitored college had been set up, had organised their AML/CFT compliance framework in a highly centralised manner. In all cases, customers were onboarded by the head office which was carrying out extensive CDD checks. The other EU establishments, on the other hand, had a limited role in the onboarding process and were carrying out little or no CDD checks.
25. This specificity made operating thematically monitored colleges challenging for lead supervisors. Due to the limited activities of cross-border establishments, the competent authorities responsible for the supervision of these establishments were reluctant to allocate resources for participation in these colleges.

Lead supervisors of thematically monitored colleges had difficulties adjusting the functioning of colleges accordingly. Although all lead supervisors chose periodic online meetings as the primary channel for exchanging information within the college, other college members appeared to consider this as too resource intensive. As a result, the rate of participation in the scheduled meetings was very low. In two colleges, the lead supervisor indicated that the other permanent members were responsive where requests were made but they were not willing to attend the meetings of the college. In six other colleges, the lead supervisors indicated that the other permanent members decided not to attend the meeting because they considered the exposure of the financial institution to ML/TF risks in their Member State to be limited. In one college, the lead supervisor indicated that some permanent members had initially agreed to participate but then declined to participate only a few days before the session. Other permanent members did not reply to the lead supervisor's invitation to participate in the college.

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<sup>8</sup> See the EBA's [factsheet on the EBA's approach to monitoring the functioning of AML/CFT colleges](#) published in December 2021.

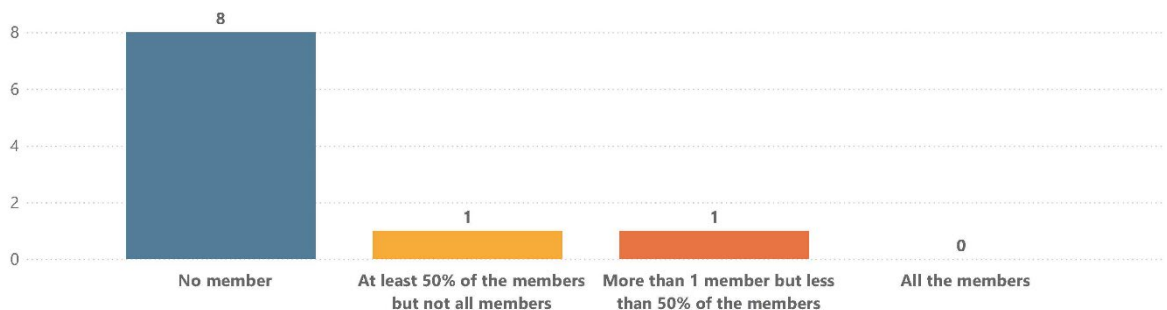


As a result, the level of information sharing appeared to be very limited in all thematically monitored colleges.

26. In addition, EBA staff identified several issues which all appeared to have been partly linked to the difficulties mentioned above, namely:

- a. In all thematically monitored colleges, the cooperation agreement had not yet been signed by all members. In 8 of the 10 colleges, the agreement had not been signed by any of the members (excluding the EBA and lead supervisor) (see figure 6 below).

Figure 6.: Percentage of members that have not yet signed the cooperation agreement in AML/CFT colleges from the thematic monitoring sample



- b. Only half of the thematically monitored colleges discussed the need for a common approach or coordinated actions. In three other colleges, the need for a common approach was raised but no meaningful discussion could be held because of the insufficient level of participation in the college.
- c. The participation of observers was limited. Out of the 10 thematically monitored colleges, 6 had managed to onboard the FIU of the lead supervisor's Member State as an observer. None had onboarded any third country observers, even though several of the selected colleges had establishments in third country jurisdictions, including the United States of America, the United Kingdom, Switzerland, Australia, the United Arab Emirates, Japan, China, Hong Kong, Singapore and India. This suggests that competent authorities may not have had access to some of the information which could have enhanced their understanding of the ML/TF risks to which the firm had been exposed in these third country jurisdictions. One lead supervisor of thematically monitored colleges nevertheless, reported that it was in the process of onboarding certain third country observers.
- d. In most thematically monitored colleges, there were discrepancies between the lead supervisors' risk ratings and the functioning of the colleges. Three thematically monitored colleges led by the same lead supervisor were meeting annually, even though the underlying institutions had different risk profiles (one being exposed to a significant level of risks while the other two were exposed to a moderately

significant level of risk). In the case of another lead supervisor, the frequency of meetings seemed to be insensitive to the risk. The agreed frequency of meetings was lower for the colleges led by this lead supervisor with a significant risk rating than those with a moderately significant risk rating. Overall, across the sample, there were major differences in the scheduled frequency of meetings for colleges relating to firms exposed to similar levels of risk and those which had organised their AML/CFT compliance framework in a similar manner.

27. As a result of all the issues mentioned above, the effectiveness of AML/CFT colleges operating in the collective investment sector appeared to be limited. To improve the effectiveness of these colleges, lead supervisors of colleges from the sector are encouraged to:

- a. Make their best efforts to finalise the cooperation agreement, so as to improve the practical modalities under which permanent members can share information and cooperate.
- b. Assess the need to review the functioning of the colleges to make it more adapted to the way in which the firm's AML/CFT compliance framework is organised. In some cases, it may be sufficient to use written exchanges as the primary means of sharing information and to hold a meeting only on an ad hoc basis, when significant developments have arisen.
- c. Make their best efforts to onboard third country observers, insofar as it is possible, to ensure that members of the college have access to more information on the ML/TF risks which the underlying group may be exposed to as a result of its exposure to third country jurisdictions. In those cases where the group has organised its AML/CFT compliance framework in a highly centralised manner, it may be sufficient for the lead supervisor to engage with these observers on a bilateral basis.

28. In addition, lead supervisors may find examples of good practices which they may find useful to tackle some of the issues mentioned above in sections 4 and 5 of the report.

## 3.2 Supporting the creation and development of AML/CFT colleges

29. In addition to carrying out the monitoring activities mentioned in the previous section, EBA staff continued to provide technical assistance and support to AML/CFT colleges and the lead supervisors of these colleges, especially in the following areas:

- a. mapping and identification of members and observers, including authorities from third countries, in particular for institutions involving complex structures;

- b. developing template terms of participation for specific observers, including prudential and third country AML/CFT supervisors, which can be used as a template in all AML/CFT colleges;
- c. assisting lead supervisors in implementing the requirements set out in the Guidelines;
- d. promoting the active participation of prudential supervisors in AML/CFT colleges by raising awareness of the impact that ML/TF risks could have on prudential aspects of financial institutions.

30. In December 2022, EBA staff organised a training event on effective AML/CFT supervision, which included a session about cooperation for supervisory purposes, including through AML/CFT colleges. Approximately 300 supervisors from AML/CFT, prudential and resolution authorities attended the training.

## 4. Progress made in improving the functioning of AML/CFT colleges

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31. The key objective of AML/CFT colleges is to provide supervisors, responsible for the supervision of the same cross-border financial institution, with comprehensive and up to date information about the financial institutions' exposure to ML/TF risks so that they can take the necessary actions to address these risks in a timely manner before they crystallise. In 2022, the EBA identified six priority action points that lead supervisors and colleges should address to achieve these objectives.

### 4.1 Action point 1 - Finalising structural elements of the college

32. The first action point set out by the EBA was to finalise structural elements of the college to ensure the conditions are met for supervisors to exchange relevant information on the ML/TF risks to which the financial institutions is exposed in a timely fashion. As part of this, the EBA recommended that competent authorities:

- a. Ensure that an AML/CFT colleges is set up for all institutions that meet the criteria set out in the Guidelines.
- b. Finalise the Cooperation Agreement.
- c. Ensure the participation of all permanent members in the AML/CFT college.
- d. Take the necessary steps to ensure that all relevant observers are identified and invited to the AML/CFT college in line with the Guidelines.

33. As shown in the presentation of general monitoring activities (see section 3.1.1), competent authorities have made significant progress in implementing this first action point. Nevertheless, EBA staff observed that:

- a. 54 AML/CFT colleges had still not held their first meeting.
- b. In most colleges where at least one meeting had been organised, the cooperation agreement had not yet been signed by all permanent members.
- c. Some lead supervisors had difficulties onboarding other members in the college and getting them to participate in the meetings. In some actively monitored colleges and most colleges selected for thematic monitoring, for instance, some members had declined the lead supervisor's invitation to participate in the college. This was generally due to the limited resources available to these members to participate in colleges. The results from thematic monitoring show that onboarding college members may be particularly challenging in the collective investment sector (see section 3.1.3).
- d. The number of third country observers which onboarded in AML/CFT colleges, remained extremely limited. From its active monitoring activities and communications with different competent authorities, EBA staff found that this was due to four main challenges:
  - i. Assessing the equivalence of potential observers' confidentiality regime with the regime applicable pursuant to the AMLD where such assessment had not been conducted by the EBA (which was the case for most potential observers).
  - ii. Identifying and reaching out to contact points in the third country authorities where participation was envisaged. For instance, in one actively monitored college, a lead supervisor indicated that it had tried to reach out to potential observers to start the onboarding process but had not received an answer.
  - iii. Getting potential third country observers to agree on the terms of participation prepared by the lead supervisors and permanent members. In this regard, EBA staff is currently finalising template Terms of Participation for third country observers which lead supervisors should be able to use when negotiating with any third country authority where participation is envisaged. This would render the onboarding process much easier in the future.
  - iv. The reluctance of certain third country authorities to participate in college meetings as observers, due to the lack of a clear legal basis to share

information with the other college participants in the legal framework applicable to these authorities.

## 4.2 Action point 2 - Enhancing the quality of discussions during the AML/CFT college meetings

34. The second action point was to enhance the quality of discussions in AML/CFT college meetings.

Enhancing the quality of discussions is key to ensuring that permanent members of colleges, exchange information which raises the members' understanding of the risks to which the financial institution may be exposed, both at group level and in their Member State, and enhances the effectiveness of AML/CFT supervision in all Member States. To guide lead supervisors and permanent members in implementing this action point, EBA staff had identified a series of good practices, including notably:

- a. Leading the discussions by proactively asking follow-up questions, where necessary, and encouraging other members to contribute to the discussions. EBA staff had also encouraged permanent members to seek clarifications, where necessary, to develop a better understanding of the issues discussed.
- b. Ensuring that sufficient time is allocated for the exchange of views between members and observers.
- c. Setting out, prior to the meeting, the topics on which members and observers should be prepared to provide an update or discuss during the meeting (which should include, as a minimum, the topics mentioned in the Guidelines).
- d. Requesting the information to be presented in a structured way, including through the use of visuals, presentations, excel spreadsheets, tables and other supporting documentation and to ensure that this information is available to all relevant members and observers.
- e. Where the financial institution is invited to attend a college meeting, narrowing the scope of its presentation or contributions to focus on specific ML/TF risks or measures it applies to mitigate these risks.

35. Through its active monitoring of colleges, EBA staff observed that compared to the two previous years, members and observers were sharing more meaningful information (see section 3.1.2). Most of the good practices mentioned above were implemented in some of the actively monitored colleges, with good results. In particular:

- a. Most lead supervisors were actively leading discussions and asking other members questions.
- b. Some lead supervisors used a template spreadsheet to collect the information in advance, which ensured that permanent members came prepared to the meeting.



- c. Where the financial institution was invited to make a presentation, some lead supervisors requested that such a presentation focus on a specific topic. As a result, the presentation provided more targeted and useful information to competent authorities attending the meeting.
- d. Some lead supervisors had, either on their own initiative or at another member's request, included a discussion on a specific topic that was of special interest for several competent authorities attending the meeting. These authorities could therefore discuss more specific issues which they were facing when supervising the financial institution in their Member State.

36. EBA staff observed good practices that were implemented in addition to those mentioned. For example.

- a. One lead supervisor asked each permanent member to report the three main risks they had identified ahead of the meeting. The lead supervisor then used the information collected to carry out an assessment of the ML/TF risks to which the financial institution was exposed at group level, which could then be discussed in the subsequent college meeting with the other members.
- b. In one college, the lead supervisor immediately organised a discussion following a presentation on the financial institution's presentation for permanent members only. The discussion was useful, as members could share their concerns about the bank's AML/CFT compliance and discuss where possible weaknesses could potentially be identified in the institution's systems and controls, based on the information shared by the institution and its answers to the questions asked by permanent members.
- c. One lead supervisor of a large college requested that members do not use slides when sharing information with the college but rather present this information based on the template spreadsheet to be completed ahead of the meeting. As a result, the tour de table was more time-efficient with more time for discussions.

37. However, EBA staff also observed poor practices which in some cases significantly limited the improvement made in enhancing the level of discussions within colleges, namely:

- a. One college had not scheduled enough time for discussions. As a result, even though permanent members had shared relevant information with the lead supervisor, prior to the meeting through a spreadsheet, some of them did not have sufficient time to make a proper presentation during the meeting (including members who had carried out recent onsite inspections and had inspection findings to share). Due to the lack of time, discussions between the members were also rushed and therefore were not as interesting as they could have been for the members.

- b. In one college permanent members shared limited information, even though significant weaknesses had been identified by several members in the financial institution's AML/CFT compliance and serious remedial measures had been imposed on this institution in two different Member States.
- c. No lead supervisor of an actively monitored college shared any instructions regarding the position of the person attending on behalf of each member. As a result, in some colleges, some competent authorities were represented by staff members who had not participated in most of the supervisory activities carried out in relation to the financial entity and subsequently, could not share specific information on these supervisory activities even where these had led, or were going to lead, to significant enforcement actions.

### 4.3 Action point 3 - Fostering the ongoing cooperation between members and observers within AML/CFT colleges

38.AML/CFT colleges are permanent structures that provide an opportunity for supervisors involved in the supervision of cross-border institutions to engage with each other during the college meeting but also on an ongoing basis. Exchanging information on an ongoing basis is especially crucial to ensure that competent authorities are informed of emerging risks to which financial institutions may be exposed or of significant developments relating to these institutions as early as possible. The third action point set out by the EBA was for supervisors to make use of the colleges framework to cooperate and exchange information in a timely manner, particularly in cases where significant developments related to the financial institution have emerged and may have an impact on the entire group or some institutions within the group.

39.EBA staff's active monitoring of colleges showed that not all competent authorities have implemented this action point:

- a. In one actively monitored college, significant developments occurred between periodic meetings which led the lead supervisor to organise two ad hoc meetings in 2022. As a result, permanent members could discuss these developments without having to wait for the next periodic meeting and were able to decide to react in a coordinated way.
- b. In one other actively monitored college, one competent authority identified a significant weakness and took measures to address it after informing the lead supervisor. Even though the weakness was affecting all the other establishments of the group, the lead supervisor did not organise a college meeting or share information with the other permanent members. The other permanent members were informed about the significant weakness identified and subsequent measures taken only nine months later, during the annual college meeting.

40. Lastly, in most actively monitored colleges, EBA staff found no evidence that competent authorities were approaching the use of the information shared within the college in a strategic way. In some of these colleges, even though several members had identified similar issues, these members did not discuss how these issues could have been related and did not make any attempt to determine whether the information shared by their counterparts could help them better understand their root cause and figure out what supervisory measures would be most relevant in addressing these issues.

#### 4.4 Action point 4 - Applying the risk-based approach to AML/CFT college meetings

41. The fourth action point was to set the frequency and form of college meetings in such a way that is commensurate to the ML/TF risks, to which the financial institution is exposed. This means that supervisors involved in the supervision of higher risk institutions should meet more frequently than those supervising lower risk institutions. Conversely, lower risk colleges may not require a college meeting to be held annually or in person, less frequently or ad hoc meetings may be sufficient. Adapting the functioning of colleges in this way is especially important to ensure that supervisors can use most of their resources where the risks are the most significant.

42. Through its monitoring activities, EBA staff observed that many colleges have not adjusted the frequency of their meetings on a risk-sensitive basis. For instance, 20 colleges reported in the general monitoring data collection exercise, had agreed to meet once a year or more, even though the lead supervisors had assessed the risk as less significant or moderately significant. Conversely, 33 colleges had agreed to only meet once every two years or less, even though the lead supervisors had assessed the risk as significant or very significant. EBA staff acknowledges that, in some cases, the college may have specific features that justify a higher or lower frequency of meetings in comparison to other colleges exposed to similar levels of risk. Nevertheless, the level of discrepancies observed by EBA staff is unlikely to be explained by this factor alone.

43. Regarding the form of meetings, EBA staff observed that lead supervisors systematically tended to organise colleges meetings, virtually, without assessing whether a physical meeting would be more effective. Only 4 colleges reported in the general monitoring questionnaire, indicate having organised a physical meeting prior to 31/12/2022. While EBA staff acknowledges that remote meetings may be more effective in most cases, in some colleges where the risks are complex or increased, holding a physical discussion may be warranted, to the extent where it is assessed by the lead supervisor as an effective means of enhancing the level of exchange between the members.

44. In addition, as EBA staff noted in section 3.1.3 above, in those colleges that relate to a firm the cross-border establishments of which have an extremely limited role in the operation of the firm's AML/CFT controls, members of the college may use written exchanges as their primary means of communication, and hold meetings only on an ad hoc basis, where significant developments arise.

## 4.5 Action point 5 - Taking steps to identify areas for common approaches or joint actions

45. AML/CFT colleges provide supervisors with an opportunity to address common issues and risks in a coordinated and consistent manner. The fifth action point was therefore to take steps to identify areas where a common approach or joint action would be warranted.

46. Out of the 19 actively and thematically monitored colleges that met in 2022, only 9 colleges held a discussion on the need for a common approach or coordinated actions in 2022. In one actively monitored college, the members identified a weakness in the financial institution's CDD controls that was affecting the whole group and decided to address it in a coordinated manner by sending a joint formal request to the financial institution. However, permanent members took a lot of time to make their decision and accepted to take a joint action only after one competent authority and EBA staff insisted that the issue identified be addressed in a coordinated manner. In the end, permanent members agreed that the joint action was more efficient than had separated actions be taken on an individual basis. In another actively monitored college, several competent authorities saw merit in addressing a deficiency in the financial institution's group-wide transaction monitoring system in a coordinated way and thus decided to take joint action and informed the college after this joint action was launched.

47. When attending the meetings of the seven other colleges that were actively monitored in 2022, EBA staff could observe that lead supervisors and permanent members made little effort to determine whether the issues identified by each member had a common root cause and/or whether these issues could be addressed through a joint action. Lead supervisors had not included a discussion on common issues on the agenda nor had they done sufficient preparatory work to be able to lead fruitful exchanges on this topic. As a result, discussions on the need for a common approach or joint actions were limited and could only lead to the outcome that there was insufficient basis for such approach or actions.

## 4.6 Action point 6 - Enhance supervisory convergence in AML/CFT colleges

48. Action point 6 was to share supervisory experiences when dealing with certain matters as this may inform and enhance the supervisory approach and practices by other members and observers in the college. In last year's report on the functioning of colleges, EBA staff had identified certain areas that may merit the exchange of views between competent authorities and which lead supervisors should therefore consider including on the agenda of college meetings, namely:

- a. the cooperation for the purposes of the risk assessment and supervision, including cooperation with tax authorities, the FIU, prudential supervisors;
- b. the methods applied by supervisors to monitor and assess the effectiveness of transaction monitoring policies and procedures put in place by institutions;

- c. the approaches applied by supervisors when assessing the AML/CFT governance arrangements put in place by financial institutions, including their oversight of the outsourced AML/CFT systems and controls;
- d. the approaches for assessing the effectiveness of measures taken by financial institutions to remedy breaches and weaknesses identified by supervisors;
- e. the approaches for identifying and addressing relevant risk factors for their sectoral and entity-level risk assessments, including the identification of risks arising from laundering the proceeds of tax crimes.

49. From its participation in the actively monitored colleges, EBA staff nonetheless observed that lead supervisors did not include any discussion on these topics on the agenda of meetings held by actively monitored colleges in 2022.

## 5. Further improving the functioning of AML/CFT colleges in the future

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50. The EBA's findings suggest that the six priority action points from 2022 have not yet been fully addressed. The EBA encourages competent authorities to make further progress in this regard, especially by continuing to implement the good practices flagged in the previous EBA report on the functioning of AML/CFT colleges.

51. Moreover, the EBA encourages competent authorities to consider implementing the following additional good practices:

- a. Considering the need to organise at least one in-person meetings in the 2023-2024 period where the risk associated with the financial institution is increased or the institution is complex. Lead supervisors should assess the extent to which such physical meetings may build trust and therefore ease the sharing of information and enhance the level of discussions.
- b. Where the financial institution is invited to a college meeting, requesting that the financial institution send its presentation sufficiently in advance, so that it may be communicated to permanent members ahead of the meeting. Additionally, it may be a good practice to request permanent members to prepare questions to ask the financial institution during the session.
- c. Assessing the need to give clear directions to permanent members regarding the form through which information should be shared within the college. For instance, in those colleges where there is a large number of participants, a good practice is to discourage the use of substantive PowerPoint presentations and request that



members share information based on a short template spreadsheet instead. This could ensure that presentations are more targeted, and that more time is available for subsequent discussions.

- d. Assessing the need to give clear directions to permanent members regarding the position of the person(s) attending the meeting on their behalf, with a view to ensuring that these persons have sufficient knowledge of the supervisory actions recently taken in relation to the financial institution to be able to make a detailed presentation of these measures and answer all questions that other members may have. For instance, where permanent members have recently carried out an on-site inspection, the lead supervisor could consider requesting that at least one member of the inspection team attend the meeting.
- e. Ensuring that permanent members collect and share the necessary data to have an informed discussion on the need to adopt a common approach or to take coordinated measures in each college meeting. As part of this, lead supervisors may request other permanent members:
  - i. Ahead of the meeting, to analyse the data at their disposal and determine:
    1. Whether there are elements in their risk assessments that may be relevant for other permanent members and in what way.
    2. In case they have identified early warnings of emerging risks or crystallised risks, whether establishments in other Member States could also be exposed to these risks and why.
    3. In case they have identified weaknesses or shortcomings in the course of their supervisory activities, whether these weaknesses or shortcomings could also affect establishments of the financial institution in other Member States and why.
    4. In case they have identified weaknesses or shortcomings in the course of their supervisory activities, whether it would be more effective to rely on a joint action rather than measures taken at domestic level and why.
  - ii. Prior and/or during the meeting, to share the outcome of the analysis mentioned in point i above with the whole college. This can be done, for instance, by requesting each member to present the outcome of its analysis during the meeting, as part of the general presentation of its risk assessment of the financial institution and recent supervisory activities. In those colleges where the lead supervisor decided to use a template spreadsheet to collect information from the members in a more structured

way, the spreadsheet can also be used as a means of collecting information on the outcome of the members' analyses.

- iii. During the meeting, assess whether a common approach or joint actions should be decided by the college and provide the justification for its position.

## 6. Conclusions

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52. The fact that AML/CFT colleges will be enshrined in the level 1 legislative text in future, as proposed by the European Commission in the proposed AML/CFT legislative package published in July 2021<sup>9</sup>, is a clear signal to competent authorities that AML/CFT colleges are a key cooperation tool. This means that lead supervisors and members should continue to focus on enhancing the functioning of existing colleges to ensure that, by the time the new legislation is implemented, these colleges are fully functional and meeting their objectives.

53. The EBA found that competent authorities have taken important steps to make AML/CFT colleges useful and effective. A structured approach to organising colleges meetings had contributed to the exchange of more substantive, actionable information than was the previously case, and prudential supervisors and FIUs actively participated in most AML/CFT colleges to which they had been invited. In several colleges, the quality of discussions was greatly enhanced, and the lead supervisor was leading these discussions much more effectively. A small number of colleges had taken coordinated actions to address areas of common concern with good outcomes.

54. EBA staff observed that competent authorities made notable progress in implementing the 2022 key action points, which resulted in a significant increase in the effectiveness of AML/CFT colleges. Nevertheless, none of the key action points has been fully implemented.

55. Based on the findings presented in this report, the action points adopted in 2022 remain relevant for the 2023-2024 period. Lead supervisors should address them without delay to make the best use of the AML/CFT colleges framework.

56. To this aim, in addition to the good practices that had been highlighted in the EBA's previous report on the functioning of colleges for 2021, competent authorities may consider the additional good practices identified in this report, which include notably:

- a. Where the financial institution is invited to a college meeting, requesting that it sends its presentation in advance and sharing it with the other members, so that

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<sup>9</sup>See [https://ec.europa.eu/info/publications/210720-anti-money-laundering-counteracting-financing-terrorism\\_en](https://ec.europa.eu/info/publications/210720-anti-money-laundering-counteracting-financing-terrorism_en)

they have time to prepare questions for the financial institution before the meeting.

- b. Assessing whether there is a need to give directions to permanent members regarding the form of the information shared during the meeting. For instance, in those colleges where there is a large number of participants, it could be good practice to discourage the use of PowerPoint presentations and request that members share information based on a short template spreadsheet to make presentations shorter and save more time for subsequent discussions.
- c. Assessing the need to give directions to permanent members regarding the position of the person(s) attending the meeting on behalf of each permanent member, with a view to ensure that these persons have sufficient knowledge of the supervisory measures recently taken on the financial institution and are thus able to share comprehensive information on these measures.
- d. Ensuring that permanent members collect and share the necessary information to have an informed discussion on the need to adopt a common approach or to take coordinated measures in each college meeting.





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