# RegCORE Client Alert

**Stepping up the fight against financial crime – transforming Germany from money laundering paradise into a high-security system?**

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# Financial Crime

## Stepping up the fight against financial crime – transforming Germany from money laundering paradise into a high-security system?


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### QuickTake

August 2022 has been a busy month for financial crime prevention reform proposals in Germany. On 23 August, Germany's Federal Finance Minister, Christian Lindner, set out his plans for overhauling the current supervisory architecture for anti-money laundering (**AML**), countering terrorist financing (**CTF**) and financial crime prevention efforts in Germany.[1] A high-level action plan from Germany's Federal Finance Ministry (**BMF**) that was published 24 August.[2]

In many ways these announcements was timed with and perhaps as a means of heading off criticism contained in the 25 August 2022 publication of a report from the Financial Action Task Force (**FATF**) on the outcome of its comprehensive review of Germany's AML/CTF system (the **FATF Report**).[3] The FATF Report, which is explored in further detail below, concludes Germany needs to step up its on-going reform efforts even despite some positive developments during the period under review i.e., 2019.[4] This is also the case despite the finalisation of wide-reaching institutional reforms at the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – **BaFin**).[5] Overall FATF's Report hands the

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[1] See a Client Alert, the first in this dedicated series from PwC Legal's EU RegCORE available here.
[2] Dated 23 August and available (in German only) here.
[3] The FATF's August 2022 Anti-money laundering and counter-terrorist financing – Mutual Evaluation Report for Germany can be found here. An executive summary of that report can be found here. The BMF's FAQ to the FATF Report is available (in German only) here.
[4] According to estimates from various commentators, the annual volume of money laundering in Germany is around at least 100 billion euros a year which equals approximately to 1/5 of Germany's entire 2022 federal budget, or as much as the special funds that have been budgeted for the *Bundeswehr* to ensure the defence readiness of Germany in light of new geostrategic threats. As of now, far less than 1 percent of that 100 billion of estimated money laundering activity is currently actively investigated and processed by law enforcement and through the criminal justice system.
[5] See a dedicated Client Alert from PwC Legal's EU RegCORE, on this development available here.

German government (who recently held the lead at FATF) a mixed report card noting that despite having made "significant reforms" in the last five years, the country has been slow to implement them. "The transition has been difficult" according to the FATF, "and Germany must continue to prioritise the operational implementation of these reforms and improve the collection, analysis, dissemination, and use of financial intelligence." Moreover, "Germany could be more proactive in using the targeted financial sanctions regime to freeze terrorist assets as a preventive measure," FATF added.

In light of the above the BMF, on 25 August 2022 published further details on the proposals announced over the preceding two days and context around its action plan to strengthen AML/CTF and financial crime prevention efforts in Germany going forward.[6] This included the following quotes from the German Federal Finance Minister:

> "We must ensure that financial crime has no future in Germany. With the aim of effectively fighting financial crime and vigorously enforcing sanctions, we will bundle key competencies under one roof. We will also train the best financial investigators, and we will drive forward digitalisation and connectivity."

and

> "Germany must overcome its reputation as a money-laundering paradise. We are not afraid to take bold and decisive action. We will create strong and effective structures to make sure that honest players are protected from those who don't stick to the rules."

As explored in greater detail below delivering on these aims includes proposed objectives to:

1. Bundle core competencies under one roof – under a new Higher Federal Authority for Combatting Financial Crime (*Bundesoberbehörde zur Bekämpfung der Finanzkriminalität* – **BBF**):

    a. creating a new Federal Police Office for Financial Crime (*Bundesfinanzkriminalamt* - **BFKA**);[7]
    b. A more effective Financial Intelligence Unit (**FIU**) that works closely with the BFKA;
    c. A new central office for AML Coordination Office (**AML-CO**) (*Zentralstelle für Geldwäscheaufsicht*) which will also be responsible for creating uniform standards and supervisory best practices and coordinate the individual authorities (more than 320) in each of the 16 Federal States;

2. Train highly qualified financial (crime) investigators; and

3. Promote the digitalisation and linking of corporate and (ultimate) beneficial ownership registers.

The BaFin published its own press release on the FATF Report on 25 August 2022 and also welcomed the BMF's proposals for institutional reform.[8] Further details of how the BaFin, FIU, the new BBF and BFKA as well as AML-CO and the more than 320 authorities responsible primarily for oversight of what FATF terms Designated Non-Financial Businesses and Professions (**DNFBP**s) in each of the 16 Federal States (*Bundesländer*) in Germany will coordinate remains to be seen. The same applies as how those new as well as improved authorities will interact with reforms (legislative and institutional) that are set to be advanced at the EU level.

This Client Alert provides an overview of the FATF's Report on Germany's current system to combat financial crime and assesses its recommendations in the context of the BMF's reforms and should be read in conjunction with further updates on this topic in respect of German as well as EU proposed reforms as part of dedicated coverage from PwC Legal's EU RegCORE.

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[6] See details in the following concept paper (available in German only) available here as well as a BMF article with further details (available in German here and in English here).
[7] The name, in English, has since been clarified in the BMF's publication on 25 August 2022 (available here). It should be noted that the BFKA, if implemented, aims to make it easier to tackle complex and international financial crime in particular money laundering cases. How the BFKA and the BFF might interoperate with the EU's own proposal to create an EU-Anti-Money Laundering Authority (**AMLA**) remains to be seen.
[8] The press release is available, at the time of writing hereof, only in German and can be accessed here.

## Outcomes and key findings in the FATF Report

The FATF's Report examines and evaluates the AML/CTF measures in place in Germany as at the date of FATF's on-site visit, which occurred from 1 to 19 November 2021. It assesses compliance with FATF's "40 Recommendations"[9] and the effectiveness of Germany's AML/CFT system as well as making additional recommendations on how that system could be strengthened.

As the world's fourth largest economy as well as the EU's largest, and with a high number of global linkages in financial services, trade, and other "real economy" sectors, FATF concluded that Germany faces several significant AML/CTF and financial crime risks. FATF discovered that German authorities have a good understanding of these risks and cooperate constructively with counterparts in other FATF member countries. Domestic coordination across Germany's 16 Federal States (*Bundesländer*) is considered difficult, and consistency between different supervisory and law enforcement agencies should be improved. This is an area that the BMF has also identified as one of its reform pillars. Furthermore, as suggested by the FATF Report, priority should be given to mitigating the risks associated with Germany's high use of cash and the use of informal money or value transfer services (**MVTS**). The FATF Report also draws special attention to some of the jurisdiction and system specific characteristics and risks, namely that:

> "Asset confiscation is a strong feature of Germany's regime. The introduction of non-conviction-based asset confiscation laws has resulted in the confiscation of significant amounts of criminal proceeds.
>
> Germany's transition in 2017 to an administrative FIU model has been a positive step towards improving the collection and use of financial intelligence. However, the transition has been challenging and Germany needs to continue to prioritise the implementation of these reforms at the operational level and continue to enhance the collection, analysis, dissemination and use of financial intelligence. Authorities also need to do more to proactively and systematically investigate and prosecute ML activity in line with Germany's risk profile.
>
> Germany faces significant terrorist financing risks and has a good track record of investigating, prosecuting and disrupting financing activity as part of a holistic approach to combating terrorism. However, Germany could be more proactive in using the targeted financial sanctions regime as a preventive measure to freeze terrorist assets.
>
> While there is a robust and comprehensive framework in place for regulating and supervising the financial and non-financial sector for compliance with AML/CFT, more priority needs to be given to resourcing the over 300 supervisors and ensuring there is a consistent risk-based approach taken. The introduction of a Transparency Register has been positive, but priority needs to be given to ensuring it is adequately resourced when it transitions to a full register in 2022"[10]

### *Summary of FATF Report's key findings*[11]

FATF compiled and communicated the following findings in the FATF Report and in its executive summary:

a. Over the past five years, Germany has made significant advancements to its AML/CFT framework, including using the National Risk Assessment (**NRA**) process to strengthen national awareness of the risks associated with money laundering and terrorist financing (**ML/TF**), putting in place mechanisms to enhance coordination and cooperation between the Federal and State (*Bundesländer*) governments, increasing BaFin's (the primary financial sector regulator) and the Financial Intelligence Unit's (**FIU**) [12] human capital and other resources significantly, removing restrictions on asset recovery and ML offences and establishing the Transparency Register to facilitate easier access to (ultimate) beneficial ownership data. Technical adherence to FATF Standards is generally high, but some recent reforms have not yet fully taken effect.

b. Germany has a solid understanding of the risks associated with real estate, the banking industry, as well as newly emerging risks from the COVID-19 pandemic and virtual/digital/crypto-assets, largely based on FATF's first NRA (2019). Cash-related risks and international risks are well known (with the exception of risks related to unaccompanied cash). In some areas, including complex ML,

[9] Published by the FATF in October 2004 the "FATF 40 Recommendations" provide a complete set of countermeasures against money laundering covering the criminal justice system and law enforcement, the financial system and its regulation. And international co-operation. The recommendations can be found here.

[10] The abstract of the report can be found here.

[11] As listed in the executive summary of the FATF's report than can be found here.

[12] Please also see comments on the FIU in our first Client Alert in this dedicated series set out in Footnote 1.

professional enablers, and the use of legal entities, understanding of ML risk is still developing, in part due to information gaps, historical problems with the ML offence, and the limited participation of some sectors in the NRA. In order to reduce identified risks in the real estate sector, Germany has taken action. Additional steps must be taken to more effectively reduce the risks associated with using cash and hawala services.

c. Germany has recently taken significant steps to address cooperation and coordination issues raised in its 2010 FATF mutual evaluation report. The Anti-Financial Crime Alliance (**AFCA**), Germany's new public-private partnership, is a positive step that should be expanded. While cooperation has improved, ensuring coordination between and across Länder remains difficult, particularly with the over 300 DNFBP supervisors.

d. Germany has taken several steps to strengthen the FIU's role and improve the quality of financial intelligence. However, there is room to improve access to and use of the FIU's financial intelligence, as well as better align FIU analysis with the operational needs of law enforcement authorities (**LEAs**). While the FIU and LEAs have access to and use a wide range of financial intelligence sources, processes could be improved and made more efficient by continuing to equip the FIU with tools for processing and analysing available data, such as artificial intelligence or other advanced analytics.

e. Germany has demonstrated a policy commitment to investigating and prosecuting ML. However, it is unclear whether this commitment has fully translated into operational results. The overall number of ML cases that proceed to prosecution is lower than expected and does not fully correspond to Germany's risk profile.

f. Germany passed non-conviction asset confiscation legislation in 2017 and has made asset confiscation a mandatory consideration for prosecutors in all cases. These legal and policy changes, combined with increased resourcing, have resulted in Germany achieving impressive asset confiscation results over the last five years. However, the risks of cross-border cash smuggling (particularly via mail and cargo) are underappreciated.

g. In Germany, TF activity is effectively investigated, prosecuted, and disrupted through the use of a variety of criminal offence provisions. Germany is proactive in investigating TF activity alongside terrorism-related investigations and has demonstrated the capacity and willingness to use all available measures to disrupt TF activity, including banning organisations and other counter-violent extremism measures.

h. Understanding and mitigation of TF risks is strong and proportionate in Germany's non-profit organisation (**NPO**) sector. While Germany has sponsored UN designations, it does not proactively designate individuals and entities based on their risks and context, nor does it use targeted financial sanctions (**TFS**) to support its broader TF and counter-terrorism strategy. Financial Institutions (**FI**s) and DNFBPs are generally aware of their TFS obligations, though TFS compliance monitoring is complex and ineffective (particularly, as FATF notes, in the DNFBP sectors). Domestic measures are available to deprive terrorists and financiers of assets, but they have limitations and some could be better utilised. The total amount frozen is small in comparison to the total amount raised in Germany.

i. Germany requires all FI and DNFBP sectors (as well as many other non-financial sectors) to take preventive measures. Larger financial institutions (**FI**s) and virtual asset service providers (**VASP**s), particularly major banks, MVTS, insurance providers, and VASPs, have a good understanding of their ML/TF risks and take appropriate preventive measures. DNFBPs' risk understanding is still developing, and DNFBPs, including some entities in higher risk sectors (such as legal professionals, notaries, real estate agents, and dealers in precious metals and stones (**DPMS**), face difficulties in implementing preventive measures. Significant flaws exist in suspicious transaction reporting (**STR**) to the FIU, which is especially low for non-bank FIs and DNFBPs. Poor reporting by DNFBPs is likely due to a variety of factors, including a lack of awareness, misunderstandings of the reporting threshold, and a lack of motivation., poor implementation of preventive measures, and confusion around professional secrecy obligations.

j. AML/CFT supervision applies to all FIs, DNFBPs, and VASPs (the latter of which are considered FIs in Germany). Based on a strong understanding of risks, BaFin largely implements a satisfactory risk-based framework for supervising FIs (including VASPs). BaFin is also actively targeting and sanctioning unlicensed VASP as well as enforcing the wire transfer rules that apply to VASPs (pursuant to the KyrptoWTransferV) where VASPs have not been able to avail of transition provisions. However, independent BaFin supervisory activity is limited in some high-risk non-bank sectors. A variety of corrective measures are implemented, some of which have a positive impact. However, in some cases, measures have failed to ensure prompt remediation of non-compliance or the prevention of repeat violations. Market entry requirements are adequate, but the low number of rejections and a lack of data make it difficult to draw firm conclusions about the robustness of controls, and BaFin could be more proactive in identifying unlicensed MVTS providers, especially hawala operators.

k. The DNFBP and other financial regulators have begun to adopt a risk-based approach to AML/CFT supervision. However, difficulties in coordinating the large number of supervisors (300+), the vast scope of the supervised non-financial sector population (approximately 1 million entities), and a critical lack of resources are impeding this. Remedial measures are used only to a limited extent and are not always proportionate. The licensed sectors have stronger measures to prevent and detect criminals and associates entering the market, whereas the DPMS sector has more limited measures and the trust and company service provider (**TCSP**) sector has no market entry checks. Outside of the casino industry, measures to identify unlicensed DNFBP providers are mostly reactive.

l. Germany has taken important steps towards implementing a regime to allow competent authorities and the general public access to (ultimate) beneficial ownership information on legal persons and arrangements through a Transparency Register (which is required under EU-law). However, at the time of the onsite visit of FATF, accurate and up-to-date (ultimate) beneficial ownership information was not consistently available, and FATF noted that there will be a significant transition period before all entities, particularly civil law partnerships, are covered by that regime. There are issues with bearer shares and nominee shareholders that have yet to be resolved.

m. FATF acknowledged that Germany prioritises international cooperation, and there is effective cooperation with Germany's most important international crime cooperation partners. The European schemes for mutual legal assistance (**MLA**) and extradition are particularly effective and timely. Statistics, centralised case management, and case tracking, on the other hand, are a challenge in Germany's federal system and an area for improvement.

n. FATF concluded that the lack of available data across the Federal and State governments to measure effectiveness, the need to apply new technologies to improve data use to combat AML/CFT, and the need to collaborate with Data Protection and Privacy authorities arose in a variety of areas.

***Priority actions*[13]:**

The FATF Report recommends that the following measures are given priority so as to:

1. Ensure that ML/TF/PF issues are consistently prioritised by the Federal and State governments:

   a. at the political-level, secure high-level commitment and ongoing accountability by Federal and States governments for risk understanding, mitigation, and resource allocation;

   b. at the official-level, give the Inter-ministerial Steering Committee for Combatting Money Laundering and Terrorist Financing (RÜST-GW/TF) a formal and binding mandate and ensure all relevant authorities are adequately represented, including adding tax authorities and strengthening procedures for appropriate State government participation; and

   c. formalise the Federal State Coordinating Offices and provide them with the mandate and resources necessary to ensure adequate and consistent cooperation and coordination of the national and regional framework at both policymaking and operational levels (including on supervision and law enforcement functions).

2. Substantially strengthen the detection, investigation and prosecution of ML offences by: (a) prioritising ML as an offence distinct from predicate offences; and (b) enhancing understanding and importance of

[13] As listed in the executive summary of the FATF's report which can be found here.

cases in high-risk areas for Germany including cases involving legal persons, professional third-party ML and foreign predicate offences.

3. Improve the availability and use of financial intelligence by: (a) increasing the FIU's access to bulk data and analytical tools to enhance the efficiency and effectiveness of FIU analysis; and (b) enhancing co-ordination and cooperation between the FIU and LEAs so that FIU intelligence prioritisation models and products more fully align with LEA operational needs.

4. Enhance DNFBP supervision by adopting measures to ensure (a) a harmonised, risk-based approach; considering a mechanism for oversight of DNFBP supervision across Germany; (b) substantially increasing DNFBP supervisory resources (human and technical); and (c) enhancing information available to DNFBP supervisors.

5. Implement the planned reforms to the Transparency Register and registration requirements for civil law partnerships and equally enhance and deepen understanding of risks arising from legal persons in Germany as well as consider additional mitigation measures to address the risks arising from bearer shares and nominee shareholders.

6. Considering the risks associated with cash-based ML activity, develop comprehensive policies to address these risks and consider all available measures. Improve understanding of risks arising from cross-border cash movements (particularly bulk cash movements); actively monitor and target high-risk movements of cash through mail and cargo. Ensure the risks from informal MVTS (such as hawala) are addressed holistically and there is continued focus on the investigation, prosecution and disruption of these illicit finance through these channels.

7. Improve the effectiveness of the TFS system by proactively proposing designations and considering the development of a domestic listing process (in addition to the EU list). Address technical deficiencies to ensure that UN listings that occur on Friday afternoon or on a national holiday are implemented without delay.

8. Improve STR reporting by: reviewing whether legal professional privilege requirements are impeding reporting in practice and ensure that there are adequate measures (such as guidance) to encourage higher-risk sectors to fulfil their legal reporting obligations; having the FIU routinely analyse the quality of STRs and provide substantive feedback; understanding the root causes of STR increases from the banking sector to ensure there is no defensive reporting and, if so, provide clarity on when STRs should be filed; and enhancing guidance to obliged entities including by continuing to support the work of Germany's public-private partnership AFCA.

9. Improve FI supervision and compliance by assessing the level of inspections BaFin carries out itself each year of higher risk non-bank FIs to ensure entities are subject to regular supervisory activity as necessary; adopting a more proactive approach by BaFin to the prevention and detection of unlicensed MVTS providers, including informal value transfer services such as hawala operators; and increasing BaFin's use of sanctions, including business restrictions and personal accountability as appropriate in light of the level of dissuasiveness of these measures.

10. Improve Germany's collection and use of data across its system to increase its ability to measure and monitor its performance on AML/CFT on an ongoing basis (particularly ML/TF investigations and prosecutions, international cooperation and areas of shared or decentralised responsibilities). Make better use of data and utilise advanced analytics to improve effectiveness in several areas of the AML/CFT system.

While FATF's Report for 2022 is unequivocally clear as to what Federal-level legislative policymakers should focus on, it falls to the BMF to translate this into legislative and institutional reform and this will require coordination at both the Federal and State-level. The BMF's various publications on its proposals serve as a first (welcome) necessary step in that direction although further detail would be warranted as this proposal moves from paper to actual practical implementation and operationalisation.

## Further details on reforming Germany's system against financial crime

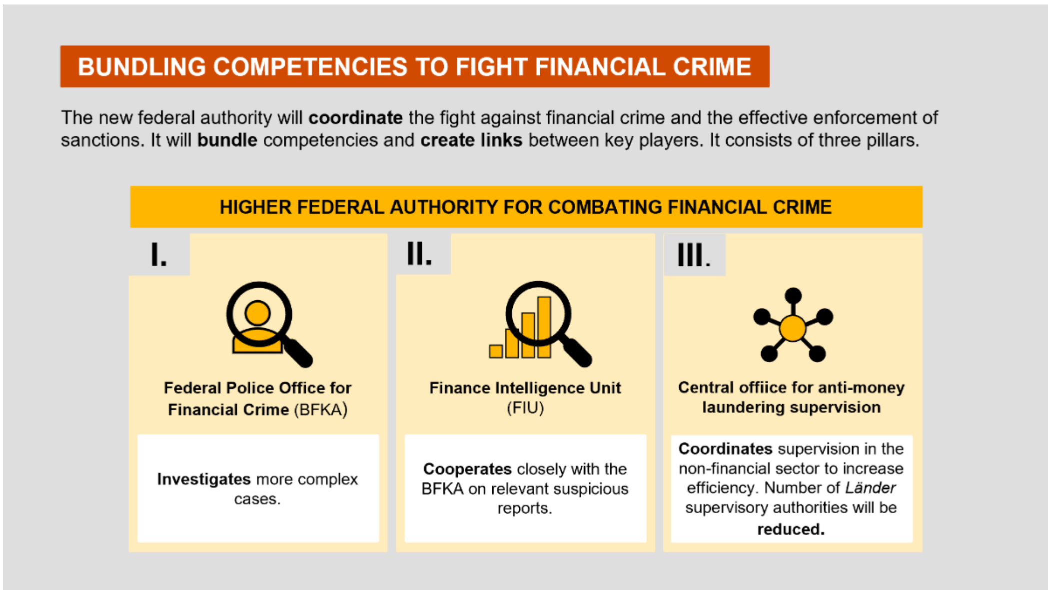
Germany has implemented significant reforms in the last five years to strengthen its financial crime system and combat money laundering and terrorist financing more effectively. Some of these new measures are already yielding results, but according to the FATF Report, Germany must continue to implement reforms and take steps to ensure operational resourcing and prioritisation to combat illicit financial flows. Based on the findings of FATF's analysis, Germany plans to address the following issues in the future.[14] Notably this includes:

### 1. Bunding core competencies under one roof

The essential core competencies for combating financial crime and enforcing sanctions will be consolidated under one roof. This includes bringing together relevant functions and competencies, such as: investigative activities for large and complex financial crime cases (particularly international money laundering), operational responsibility for sanctions enforcement, analytical activities for STRs and suspicious activity reports (collectively **SAR**s), and coordination of supervisory activities, particularly in the non-financial sector, i.e., the DNFBP sector. All of the major functions will be consolidated under the steering of the BBF as a new federal authority, to coordinate the three pillars, specifically in the areas of:

- Investigations into large and complex cases of financial crime (especially international money laundering) to be undertaken by the BFKA;
- Operational responsibility for implementing sanctions which will be led on by the BFKA;
- Analysis of SARs to be undertaken by the FIU, working closely with the BFKA; and
- Coordination of supervisory activities in the non-financial (in particular DNFBP) sector through the AML-CO.

The following graphic is, as set out as in the BMF's press release regarding the new measures to fight financial crime in Germany and presents this visually.[15]




***Pillar I: A new Federal Police Office for Financial Crime – the BFKA***

The new BFKA will investigate international and complex financial crime cases, which currently lack prioritisation and targeted focus under the current AML regime. By delegating such cases of illicit financial flows to a new Federal authority, special expertise and knowledge can be bundled and expanded to improve the efficiency of Germany's AML/CTF, financial crime and sanctions enforcement system. The BFKA will work

[14] An overview of the planned measures is available here (in German only).
[15] The press release can be found here.

to implement the "follow-the-money" approach in order to guide the way through entangled financial crime networks and penetrate to their sources.

***Pillar II: A more effective FIU***

Because many investigations are triggered by SARs received by the FIU, it will be incorporated into the structure as an important ally of the BFKA and will continue to operate as an independent analysis unit in accordance with European and international standards. The FIU's goal is to increase efficiency even further through more targeted management and a risk-based approach: complex and international money laundering, in particular, necessitates higher-quality analysis.

***Pillar III: the new AML-CO***

The third pillar will be the establishment of the AML-CO to create uniform standards and supervisory best practices and coordinate the individual authorities (more than 320) in each of the 16 Federal States. This aims to cover both financial services activity (not regulated by the BaFin) but also to ensure more stringent and coordinated oversight of the broad and diverse non-financial sector, which includes gambling operators as well as various types of traders.[16]

The BMF FAQ from 24 August also clarified that the AML-CO will centralise standard-setting but not centralise supervision rather it will coordinate a streamlined set of Federal State-level authorities. This preservation of a general Federal and State-level split is expressed as follows (convenience translation from German):

> "It is an advantage that the state authorities are represented throughout the country and are therefore much closer to the economic structures and regional characteristics. According to our Basic Law, money laundering supervision in the non-financial sector is in principle the responsibility of the federal states, which makes sense in view of the large number of obligated parties such as jewellers, used car dealers and real estate agents. That's why we believe a central office creates the best of both worlds:
>
> We continue to have authorities that are present in the area and close to the companies to be supervised, and at the same time, with an institutionalised body for coordination and cooperation, we ensure the necessary stringency through best practices, concrete guidelines and an intensive exchange. Currently, there are more country supervisors (around 320) than full-time staff (less than 300), and this is for many different professions with several hundred thousand players to supervise. We must work to increase staff while working with the states to reduce the number of authorities. In short, supervision should continue to be carried out locally and close to the individual professional groups, but with greater capacity and more expertise, which will accompany and facilitate effective coordination by a central office."

The AML-CO will also serve as a central point of contact for the future European anti-money laundering supervisory authority, AMLA,[17] on non-financial sector issues.

### 2. Training highly qualified financial (crime) investigators

"An organisation is only as good as the people who work for it," and the newly established system to combat financial crime aims to be no exception. As a result, the BMF plans to focus on training highly qualified financial investigators in order to expand their expertise. Beginning with a core set of particularly relevant course-based offerings, it intends to bring together relevant experts from each field to improve and evolve existing concepts in order to produce the best financial investigators.

The BMF FAQ from 24 August also discussed considerations around recruitment challenges (convenience translation from German):

> "We will recruit both in the government sector and in the private sector. This will not be easy; we know about the shortage of well-qualified experts. But with the new structure and the stronger focus on combating financial crime, we can offer experts a more attractive proposition for their work than in the previous fragmented structures. Someone who wants to make a difference and build something has the best opportunities and chances here.

[16] The aim here is to reduce the number of state supervisory authorities, while increasing staff. As of now there are more state supervisory authorities (around 320) than there is full-time staff (around 280). Supervision should continue to be carried out on a regional basis and close to the individual professional groups, but with greater capacities and more expertise, which will accompany and facilitate effective coordination by a central office.
[17] Further information on the European AMLA can be found here.

> Just as important as recruitment, however, is that we want to train and develop the best financial investigators worldwide. This is a key tool for increasing the output of analyses and investigations. We will therefore also develop an education and training concept based on international best practices."

No doubt this call to action for recruitment and training may also be open to candidates and providers from across the EU, provided they can demonstrate sufficient understanding of the specifics that are present in Germany and the AML/CTF and financial crime prevention framework

**3. Promoting the digitalisation and linking of registers**

All relevant corporate and (ultimate) beneficial ownership registers must be digitally linked so that ownership structures and (ultimate) beneficial ownership information can be checked efficiently, particularly during investigations and sanction enforcement. Until this type of comprehensive linking can be implemented, interim solutions that provide immediate added value are planned to be implemented and the BMF will pursue those efforts.

## Outlook and next steps

The new "high security system," built on the three pillars described above, aims to further transform Germany's efforts in AML/CTF and financial crime prevention by uncovering criminal networks, providing supervision from a single source rather than a fragmented patchwork, and leaving no room for financial crime and sanction evasion due to its "follow the money" approach.

It remains unclear when exactly the breadth of these reforms will be implemented, however, there is no doubt that an improved system for fighting financial crime will be in place eventually forcing organisations and actors in the German economy to comply with a changed institutional set-up with a greater supervisory toolkit and stricter supervisory tone due to domestic legislative reforms as well as concurrent legislative and institutional reforms being advanced at the EU level.

As noted in our first Client Alert in this dedicated series, whatever the BMF does next, may require careful navigation of politics at both the Federal and State-level and without financial resources to recruit, pay and train the breadth of new staff at comparable standards to those available in the private sector (or possibly the EU's AMLA) to join the new authorities in the BMF's proposed pillars or over at the BaFin, this welcome proposal may run the risk of flatlining. The same is true if there is no dedicated improvement of resources in the criminal justice system (as equally discussed in our first Client Alert in this dedicated series).

Regardless of how domestic policymakers choose to proceed, both FIs (in particular those that are BaFin and EU-level authority supervised) and DNFBPs as well as others that are "obliged entities" for purposes of German and EU-level AML/CTF or financial crime prevention legislation will in the interim want to take note of the FATF Report as well as the BMF's reform proposals and consider reviewing their own AML/CTF and financial crime prevention efforts. This may include updating policies and procedures accordingly (including risk assessments) as well as re-examining existing relationships more thoroughly in order to be prepared for a number of changes ahead even if those may come from the EU level in the form of new rulemaking or AMLA or ultimately at the domestic level.

# About us

PwC Legal is assisting a number of financial services firms and market participants in forward planning for changes stemming from these proposals.

If you would like to discuss any of the developments mentioned above, or how they may affect your business more generally, please contact any of our key contacts or PwC Legal's EU RegCORE Team via de_regcore@pwc.com or our website.

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