March 11, 2020

<u>Submitted electronically</u>
European Commission
Rue de la Loi / Wetstraat, 170
B-1049 Bruxelles/Brussel
Belgique/België

Re: European Commission Initiative on Money Laundering & Terrorism Financing Action Plan

Dear Sir or Madam:

The European Network of Credit Unions (ENCU) appreciates the opportunity to comment on the European Commission's Communication on *money laundering & terrorism financing action plan*.[1] Credit unions are consumer-owned, not-for-profit financial cooperatives that promote financial inclusion in underserved European communities by offering their members affordable and easily understandable financial products. There are approximately 1,000 credit unions in the European Union (EU) with more than EUR 20 billion in total assets and 7 million physical person members.[2]

ENCU supports the EBA's effort "to identify the areas where further action would be needed at EU level in order to achieve a comprehensive and effective framework to prevent criminals from laundering the proceeds of their illicit activities and the financing of terrorism."[3] We urge the European Commission ("Commission") to consider small, non-complex institutions such as credit unions when finalizing its new proposals through continued reinforcement and support of risk-based assessments, and provide a tailored and proportional approach to these proposals, as well as clear direction to national level regulators on how to proportionally apply the EU framework to credit unions. ENCU understands the Commission's inclination to further harmonize the EU anti-money laundering framework to address its deficits, however, we request that these enhancements are not implemented to the detriment of credit unions and financial cooperatives as a whole. Particularly, we urge the allowance of national-level discretion to tailor regulations for those entities that do not operate on a cross-border basis.

The money laundering and terrorist financing (ML/TF) risks associated with a member-owned financial institution are greatly reduced because of the smaller size in assets, the size of loans and issued credit, less complex structure, and diminished profit driven motivations because they

[1] The European Commission's *Communication on Money Laundering & Terrorism Financing – action plan*, *available at*: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12176-Action-Plan-on-anti-money-laundering.
[2] *See* "Credit Unions in Europe;" http://creditunionnetwork.eu/cus_in_europe.
[3] See, Roadmap - Ares(2020)910750, February 12, 2020.

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are not beholden to stockholders. More importantly, as member-owned institutions that often contain limited fields of membership, credit unions enjoy an advantage as compared to their bank counterparts in knowing the identity of their members. Because credit unions do not have shareholders, they are at a lower risk for issues related to identifying beneficial owners or customer due diligence concerns. Additionally, few if any EU member credit unions engage in cross border functions, and therefore pose a much lower risk for AML/CFT activity. Finally, credit unions are often more stringently regulated than their bank counterparts at the national level.

In Ireland, for instance, industrial or occupationally based credit unions are typically funded directly from its members' salaries, which allows a credit union to monitor the derivation and flow of funds, therefore mitigating AML/CFT risk. Furthermore, the Central Bank of Ireland assesses overall ML/TF risk of the credit union sector as medium-low. This type of low risk activity is common among the credit union industry in the EU.

Small financial institutions such as credit unions have limited resources and capacity to monitor unlikely AML/CFT risks. Credit unions often have minimal financial and staff resources because of the relatively small size of their assets, as such, regulatory burden is a significant issue for credit unions. The amount of necessary staff, resources, training and money to support operational costs in order to monitor AML/CFT risks required by law proves to be disproportionate for credit unions, especially because the risk of AML/CFT violations within these institutions are so low. Credit unions usually cannot not afford to provide the additional measures requested by regulators to mitigate risks that do not necessarily exist. In addition to any combined efforts to comply with regulations and requirements, any added sanctions or penalties could bring a credit union to its figurative knees -- further draining much needed resources used to benefit its members.

ENCU restates it support for the Commission's efforts to create a more comprehensive approach to combating money laundering and terrorist financing, however, we respectfully appeal to the Commission to consider the unique structure of credit unions and the disproportionate compliance requirements that are posed on them when finalizing your proposals. We ask for a risk-based approach, proportional requirements, national-level discretion to tailor regulations, and clear guidance to national level regulators on how to apply proportional regulations so that credit unions can continue its mission to improve financial inclusion and provide affordable and necessary services to the underserved European Union community. The European Network of Credit Unions appreciates the opportunity to comment on the European Commission's initiative on money laundering & terrorism financing action plan. Please do not hesitate to contact me (information below) or Denitsa Marchevska by email at info@creditunionnetwork.eu or phone at +32 2 626 9500 should you have any questions regarding our comments.

Sincerely,

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