BRATISLAVA LAW REVIEW

PUBLISHED BY
COMENIUS UNIVERSITY BRATISLAVA
FACULTY OF LAW

p-ISSN 2585-7088
e-ISSN 2644-6359

TARGETED FINANCIAL SANCTIONS AND THE EVOLVING EUROPEAN UNION AML/CFT FRAMEWORK: WHAT'S CHANGING AND WHY IT MATTERS

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Submitted: 20 May 2025
Accepted: 24 November 2025
Published: 31 December 2025

Abstract: *This paper aims to examine two recent legislative initiatives of the European Union (EU)—the 6th AML Directive and the new AML Regulation, focusing particularly on the provisions that reform targeted financial sanctions as part of the EU's anti-money laundering and countering the financing of terrorism (AML/CFT) framework. The paper explores why the reform was considered necessary, highlights the key objectives and rules governing targeted financial sanctions in the context AML/CFT, and discusses the challenges, as well as the opportunities that arise. The article argues that the integration of TFS into AMLD6 and AMLR represents more than a technical adjustment. It transforms sanctions from primarily foreign-policy tools into core preventive obligations embedded in the compliance frameworks of public authorities and private actors. This reorientation, however, raises challenges of consistency, resource allocation, and rights protection that will ultimately determine the effectiveness of the EU's new sanctions architecture.*

Key words: *European Union; Targeted Financial Sanctions; Money Laundering; AML; Obliged Entities; FIU*

Suggested citation:
Pavlidis, G. (2025). Targeted Financial Sanctions and the Evolving European Union AML/CFT Framework: What's Changing and Why It Matters. *Bratislava Law Review*, 9(2), 193-210. https://doi.org/10.46282/blr.2025.9.2.1055

1. INTRODUCTION: THE EVOLVING ROLE OF TARGETED FINANCIAL SANCTIONS

Targeted financial sanctions (hereinafter referred to as "**TFS**") are designed to restrict designated individuals and entities from accessing assets and financial resources in various contexts. Originally, TFS were primarily associated with counter-terrorism and non-proliferation efforts,[1] though their use has since broadened to serve broader objectives (Pavlidis, 2012, p. 89). They now play an important role in enhancing international security and preventing crises. They support conflict resolution, uphold international law, and hold human rights violators accountable.

At the level of the European Union (hereinafter referred to as "**EU**"), TFS have progressively become an integral component of the anti-money laundering (hereinafter referred to as "**AML**") and countering the financing of terrorism (hereinafter referred to as "**CFT**") framework. A key aspect of this integration is the use of well-known AML/CFT tools and measures—such as customer due diligence (hereinafter referred to as "**CDD**") and suspicious transaction reporting—to prevent the circumvention of TFS.

[1] See United Nations Security Council Resolutions 1267 (1999) concerning sanctions against individuals and entities associated with Al-Qaida, and 1540 (2004) on the non-proliferation of weapons of mass destruction, which established the foundational link between targeted financial sanctions, counter-terrorism, and counter-proliferation objectives.

Strengthening these safeguards has been a primary objective of Directive (EU) 2024/1640 (Sixth AML Directive, hereinafter referred to as "**AMLD6**")[2] and Regulation (EU) 2024/1624 (AML Regulation, hereinafter referred to as "**AMLR**").[3] These legislative instruments mark a step forward in the EU's efforts to embed TFS within its AML/CFT framework. Building on previous AML Directives, which focused on disrupting illicit financial flows and reinforcing the 'Crime-Does-Not-Pay' principle (European Commission, 2021, p. 18; European Commission, 2020, p. 17; Naylor, 2017), AMLD6 and AMLR introduce more explicit and effective provisions. These include enhanced enforcement of TFS, based on stricter monitoring and improved implementation mechanisms. Indeed, compared to previous initiatives, AMLD6 and the AMLR introduce a more structured and detailed approach to the implementation of TFS. This approach formally defines TFS, integrates them into AML/CFT risk assessments, and strengthens the enforcement role of Financial Intelligence Units (hereinafter referred to as "**FIUs**"), supervisory authorities, and central registers of beneficial ownership information. Additionally, the new framework contains clearer obligations for financial institutions and other obliged entities, requiring them to incorporate TFS into their internal risk assessments, internal policies and procedures, and CDD processes.

Given the significance of these provisions, a closer examination of the legal and institutional dimensions of TFS is warranted, particularly their integration within the EU AML/CFT framework. To this end, Section 2 defines the legal bases and scope of TFS in the EU legal order. Section 3 analyses how AMLD6 and AMLR incorporate TFS into risk assessments, data collection, and statistical monitoring. Section 4 focuses on the expanded responsibilities and tasks of public authorities, including FIUs, national supervisors, and central registers of beneficial ownership information, in ensuring the effective enforcement of TFS. Section 5 explores the obligations of financial institutions and other obliged entities, regarding compliance programs, CDD measures, and transaction monitoring and reporting. Finally, Section 6 addresses key challenges in the implementation of TFS, including risks of circumvention and enforcement gaps. Thus, the article aims to contribute to the academic and policy debate on the effectiveness of TFS within the EU AML/CFT framework, also considering potential future developments in EU policy on sanctions.

The central argument advanced is that the embedding of TFS within the EU's AML/CFT framework marks a qualitative shift in sanctions policy: it reframes their logic from *ad hoc* foreign policy instruments towards structural, compliance-based obligations. This transformation enhances preventive capacity but also generates tensions with proportionality, legal certainty, and national resource disparities. The following sections examine this evolution, analyse the institutional and private-sector responsibilities it creates, and highlight the challenges it entails.

This article employs a legal-analytical methodology, combining doctrinal analysis of the EU's AML instruments with a contextual reading of their legislative history, explanatory recitals, and AML policy framework. It also situates these instruments within the broader EU AML/CFT acquis and considers their interaction with adjacent areas of law, including the Common Foreign and Security Policy (hereinafter referred to as "**CFSP**")

[2] Directive (EU) 2024/1640 of the European Parliament and of the Council of 31 May 2024 on the mechanisms to be put in place by Member States for the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Directive(EU) 2019/1937, and amending and repealing Directive (EU) 2015/849, OJ L, 2024/1640, 19.6.2024.

[3] Regulation (EU) 2024/1624 of the European Parliament and of the Council of 31 May 2024 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, OJ L, 2024/1624, 19.6.2024.

and fundamental rights jurisprudence. The analysis is complemented by secondary literature and case law of the Court of Justice of the European Union (hereinafter referred to as "**CJEU**"), enabling a critical assessment of both the normative content of the reforms and their likely operational impact.

2. UNDERSTANDING THE EU'S TARGETED FINANCIAL SANCTIONS

International sanctions may take various forms: they can be multilateral restrictive measures authorised by the United Nations Security Council (Biersteker and Hudáková, 2021, p. 108), imposed at the regional level, such as within the EU, or unilaterally enacted by individual jurisdictions, such as the United States (Hufbauer and Jung, 2021; Kittrie, 2008). There is an increasing reliance on financial sanctions, which has been characterised as marking "*a new era of financial warfare*" or the "*weaponization of finance*" (Bogdanova, 2024, p. 407). Sanctions have been imposed against state actors, such as Iran and North Korea (Portela, 2015), but they have also targeted non-state actors, entities or individuals, such as terrorists or terrorist organisations. Unlike broader sanctions that apply to entire jurisdictions, TFS can be designed to restrict the financial activities of specific individuals, entities, or organisations, which are deemed to pose a risk to international security (Honda, 2020). One of the most prominent functions of TFS has been to disrupt terrorism financing by preventing designated individuals and organisations from accessing, transferring, or using financial resources to support terrorist activities (Cameron, 2011, p. 57). Similarly, TFS have played an important role in preventing the proliferation of weapons of mass destruction by restricting financial transactions linked to the development, acquisition, or trafficking of such weapons, i.e., nuclear, chemical, and biological weapons (Stewart, Viski and Brewer, 2020). In sum, the objective of TFS has been to prevent designated subjects from accessing financial resources, disrupt illicit financial flows, and minimise unintended consequences on legitimate economic activities (Drezner, 2015, p. 755).

Targeted sanctions, however, face a degree of conceptual ambiguity, if not confusion. They can be seen as hybrid measures that occupy a nebulous space between the areas of administrative and criminal law (Pavlidis, 2023b, p. 8; Ansems and Loeve, 2016, p. 64). While their primary purpose is preventive, they can also exhibit strong punitive characteristics and impose significant restrictions on fundamental rights. This is the case with property rights in the case of asset freezes, as well as with freedom of movement in the case of travel bans. The dual nature of targeted sanctions must be taken into consideration when designing procedural safeguards and judicial review mechanisms (Van der Have, 2021; Spaventa, 2006). Although the imposition of targeted sanctions does not constitute a judicial process, does not involve judicial authorities such as prosecutors and judges, and does not activate the presumption of innocence, it restricts the fundamental rights of designated individuals and entities, which must therefore be afforded the right to effective remedies and a fair trial to contest the legality of the sanction (Bílková, 2024, p. 193; Biersteker, 2010; Thony and Png, 2007). Not surprisingly, national frameworks of targeted sanctions, such as those in the US and UK, allow designated persons to seek an administrative review of their designation and, ultimately, to challenge it in court. Recent and ongoing scholarship has explored how national constitutional courts assess the compatibility of EU sanctions with domestic fundamental-rights guarantees (Terlinden 2025; Lonardo 2023; Matuška 2023; Pavlidis, 2012). Meanwhile, the European Court of Human Rights (hereinafter referred to as "**ECtHR**") acknowledges the necessity of effective remedies and judicial oversight for sanctions imposed at the request of the United Nations Security Council (Trávníčková,

DOI: 10.46282/blr.2025.9.2.1055

2024; Willems, 2014). While the ECtHR has affirmed that sanctions regimes must ensure access to an effective remedy and a fair trial, similar safeguards are embedded in the EU legal order through the judicial review mechanisms available before the General Court and the Court of Justice.[4] Although FTS, particularly asset freezes, are temporary restrictive measures that do not entail a transfer of ownership, they significantly impact the affected individuals by limiting their access to and control over assets and financial resources. For this reason, TFS must be subject to time limits and adhere to the principles of legality and proportionality, alongside ensuring effective remedies and judicial review (Birkett, 2020, p. 505; de Wet, 2011).

At the EU level, targeted sanctions have been imposed in several contexts, i.e., in the framework of counter-terrorism efforts, anti-proliferation efforts, as well as in response to human rights violations and the misappropriation of public funds in third countries. The EU restrictive measures, adopted within the framework of the CFSP, typically include travel bans and asset freezes, but they can also cover arms embargoes, and restrictions on specific sectors such as finance, energy, and technology. However, like most UN-authorised multilateral sanctions, EU sanctions focus largely on financial measures (Bogdanova, 2024, p. 407). Beyond counter-terrorism sanctions, the EU typically imposes measures on specific countries before designating specific individuals and entities. For example, in response to the events of the Arab Spring, the Council of the EU adopted targeted sanctions against Tunisia[5] and Egypt[6] to address human rights abuses and the misappropriation of state assets in those countries. The list of designated persons and entities subject to these sanctions has since been amended multiple times to reflect evolving circumstances. Moreover, in December 2020, the EU established a global sanctions regime for human rights violations through Regulation 2020/1998 and Decision 2020/1999.[7] More recently, the EU has introduced an unprecedented volume and scope of sanctions, targeting nearly 2,400 individuals and entities in response to Russia's invasion of Ukraine.[8] There are ongoing discussions on potential mechanisms for confiscating frozen assets in this context (Nakatani, 2024; Stephan, 2022).

According to the EU's standardised approach to asset freezes,[9] the Council of the EU: (a) establishes, reviews, and modifies the list of designated persons, entities, and bodies; (b) orders the freezing of funds and economic resources belonging to these individuals or groups; (c) prohibits participation in activities aimed at circumventing the restrictive measures; (d) determines the duration of asset freezes, with the option to extend them; and (e) grants exemptions to freezing measures to cover essential needs, legal fees, and extraordinary expenses of affected individuals.

[4] Under EU law, individuals and entities listed under restrictive measures may bring an action for annulment before the General Court pursuant to Article 263 TFEU and, where appropriate, seek damages under Article 340 TFEU. The Court of Justice has confirmed that such listings must respect fundamental rights and procedural guarantees, see CJEU, judgment of 18 July 2011, *Kadi II*, joined cases C-584/10 P, C-593/10 P and C-595/10 P, EU:C:2013:518, paras 97–133.

[5] Council Decision 2011/72/CFSP, OJ L 28, 2.2.2011, p. 62; Council Regulation (EU) No 101/2011, OJ L 31, 5.2.2011, p. 1 (as amended).

[6] Council Regulation (EU) No 270/2011, OJ L 76, 22.3.2011, p. 4 (as amended).

[7] Council Regulation (EU) 2020/1998 concerning restrictive measures against serious human rights violations and abuses, OJ L 410 I, 7.12.2020, p. 1; Council Decision (CFSP) 2020/1999 concerning restrictive measures against serious human rights violations and abuses, OJ L 410 I, 7.12.2020, p. 13.

[8] For a comprehensive list of all sanctions, which the EU has adopted against Russia, see: https://www.consilium.europa.eu/en/topics/russia-s-war-against-ukraine/.

[9] See Council of the EU, *Basic Principles on the Use of Restrictive Measures (Sanctions)*, 2004; Council of the EU, *Guidelines on Implementation and Evaluation of Restrictive Measures in the Framework of the EU Common Foreign and Security Policy*, 2012; Council of the EU, *Best Practices on the Effective Implementation of Restrictive Measures*, 2016.

An important dimension of reform is the harmonisation achieved through the designation of sanctions circumvention as an EU crime under Article 83 Treaty on the Functioning of the European Union (hereinafter referred to as "**TFEU**") and as predicate offences of money laundering for AML/CFT purposes (Tosza, 2024). Directive (EU) 2024/1226, the so-called Sanctions Directive,[10] obliges Member States to criminalise the violation of EU restrictive measures, thereby closing loopholes that previously allowed divergent national practices. This development strengthens the preventive logic of the AML/CFT framework: breaches of TFS are not only regulatory failures but also criminal offences, reinforcing deterrence and uniformity across the Union.

In this context, it is worth noting that the EU sanctions regime has demonstrated a positive short-term signalling effect, but also exhibits significant weaknesses (Boogaerts, Portela and Drieskens 2016, p. 209; Portela, 2012). First, the restitution of assets frozen and held in the EU has proven challenging, primarily due to shortcomings in the judicial systems of third countries and the absence of criminal court judgements confirming the illicit origin of these assets (Boogaerts, 2020). Since the EU cannot maintain asset freezes indefinitely, the passage of time and the complexity of mutual legal assistance mechanisms create obstacles to asset recovery. Second, the EU's approach to sanctions relies on *ad hoc* measures, leading to a certain lack of predictability. Third, once asset freezes are imposed at the EU level, Member States are responsible for managing mutual legal assistance requests, which may result in delays and inconsistencies in judicial review standards and outcomes. Finally, TFS largely constitute a learning process for both the sanctioned entities and the jurisdictions that impose and enforce them (Bosse, 2025, p. 1720; Drezner, 2015). In this context, the EU's decision to integrate TFS into the AML/CFT framework represents a logical progression. The following chapter explores this integration in detail, examining its implications and the broader regulatory landscape.

3. THE INCLUSION OF TFS WITHIN THE EU'S AML/CFT FRAMEWORK

The incorporation of TFS into the EU's AML/CFT framework constitutes a significant development. It aims to strengthen the integrity of the EU financial system and mitigate the risk of obliged entities being exploited for sanctions evasion. It also ensures the EU's adherence to its international obligations, particularly those stemming from the resolutions of the United Nations Security Council (Sonnenfeld, 2024).

The AMLR offers a well-structured definition of TFS, providing clarity for implementation. Under Article 2(1)(49) AMLR, TFS encompass asset freezes and prohibitions to make funds or other assets available, directly or indirectly, for the benefit of designated persons and entities' pursuant to Council Decisions adopted on the basis of EU primary law. Asset freezes restrict access to or use of funds and other assets belonging to designated persons or entities (Gordon, 2019), while fund transfer prohibitions prevent the direct or indirect provision of financial resources to such subjects (Steinbach, 2023). This definition aligns with existing EU legal instruments, ensuring consistency across the relevant regulatory framework and facilitating enforcement by both obliged entities and national authorities.

The legal basis for TFS in the EU derives from a two-tier system established under the Treaty on European Union (hereinafter referred to as „**TEU**") and the TFEU. At

[10] Directive (EU) 2024/1226 of the European Parliament and of the Council of 24 April 2024 on the definition of criminal offences and penalties for the violation of Union restrictive measures and amending Directive (EU) 2018/1673, OJ L, 24.4.2024 (issue number to be assigned).

DOI: 10.46282/blr.2025.9.2.1055

the first level, Article 29 TEU provides the foundation for the adoption of Council Decisions as part of the EU's CFSP, based on intelligence assessments and considerations of international security. At the second level, Article 215 TFEU enables the Council of the EU to adopt measures that implement financial restrictions at the EU level. This ensures that TFS measures are binding and legally enforceable across all EU Member States, requiring compliance from financial institutions and other obliged entities, as well as from supervisors and law enforcement agencies. Thus, the EU approach to the imposition and enforcement of TFS achieves to link political decision-making under the CFSP with enforceable regulatory measures under the TFEU (Eckes, 2018, p. 206).

By further integrating TFS into AML/CFT framework, the EU has strengthened its capacity to prevent, detect, and respond to risks of circumvention of sanctions (Teichmann and Wittmann, 2024). As we will see, AMLD6 and AMLR introduce more detailed obligations for obliged entities and public bodies, ensuring that TFS are implemented across the EU in an effective manner. Moreover, the structured incorporation of TFS within risk assessments, financial supervision, and due diligence processes reflects a broader shift towards a proactive and intelligence-driven approach in the fight against financial crime (Phythian, Kirby and Swan-Keig, 2024; Maguire, 2000).

4. RISK ASSESSMENTS AND DATA-DRIVEN OVERSIGHT

The integration of targeted financial sanctions within the EU's AML/CFT framework has a clear and strong preventive component. It involves a new structured approach to risk assessment and data collection, which ensures that regulatory and supervisory authorities, as well as obliged entities, can proactively identify vulnerabilities and prevent the circumvention of sanctions. Grounded in the risk-based approach (De Koker and Goldbarsht, 2024; Costanzo, 2013) which is of great importance in the AML/CFT context, the EU acknowledges the evolving tactics of sanctions evasion and the growing sophistication of illicit financial flows. More specifically, the EU establishes explicit requirements for integrating TFS into both supranational and national risk assessments while also enhancing data collection and statistical monitoring. As explained in Recital 21 of AMLD6, given the specific risks of non-implementation and evasion of targeted financial sanctions to which the Union is exposed, the assessment of risks must encompass all targeted financial sanctions adopted at the Union level.

At the supranational level, Article 7 of AMLD6 requires the European Commission, in collaboration with the newly established Anti-Money Laundering Authority (hereinafter referred to as "**AMLA**"), to assess money laundering and terrorist financing risks across the EU. Such assessments were already mandated under previous AML Directives. However, AMLD6 explicitly expands their scope to include risks associated with the non-implementation and evasion of TFS. Thus, the EU embeds TFS into supranational risk evaluations and ensures a more coordinated approach to the threats posed by sanctioned individuals and entities. Similarly, at the national level, Article 8 of AMLD6 requires Member States to incorporate TFS into their national risk assessments, taking into account country-specific vulnerabilities and the adequacy of existing preventive measures at national level. These requirements in Articles 7 and 8 of AMLD6 reflect a broader shift towards the risk-based approach, where regulatory responses are tailored to the identified threats rather than applied uniformly across all sectors and types of economic activities (De Koker and Goldbarsht, 2024; Simonova, 2011).

In addition to risk assessments, AMLD6 also strengthens data collection and statistical monitoring, ensuring that public bodies have access to comprehensive

information on the implementation and effectiveness of TFS. Article 9(2)(k) of AMLD6 explicitly requires Member States to collect and compile statistics on the enforcement of financial sanctions, including the volume of assets frozen, the volume of transactions blocked, and human resources allocated to authorities competent for implementation and enforcement of TFS. This data will be very useful in assessing the effectiveness and impact of TFS, identifying enforcement gaps and addressing challenges that also arise in the broader AML/CFT framework (Levi, Reuter and Halliday, 2018).

The integration of TFS into risk assessments and data collection mechanisms constitutes a significant advancement. Rather than relying solely on enforcement actions, the EU has adopted an intelligence-driven strategy, offering to policymakers the necessary tools to detect and mitigate the risks associated with designated persons and entities. This intelligence-driven approach will strengthen the overall effectiveness of TFS, making it more difficult for sanctioned individuals and organisations to exploit enforcement gaps. As sanctions evasion tactics continue to evolve—much like those observed in organised and financial crime (Europol, 2021)—the EU's focus on risk-based supervision and data-driven oversight will play a key role in safeguarding the integrity of the EU financial system.

5. STRENGTHENING THE ROLE OF PUBLIC AUTHORITIES IN TFS COMPLIANCE

The enforcement of TFS is not solely the responsibility of financial institutions and other obliged entities. It also rests with Member State authorities, through a complex network of regulatory and supervisory bodies tasked with ensuring compliance and preventing circumvention of sanctions (Finelli, 2023). In this context, a coordinated approach is required. AMLD6 and AMLR provide clear mandates for public authorities and enhance their responsibilities in monitoring compliance, sharing intelligence, and promoting cooperation. At the same time, these instruments reflect a broader regulatory trend of involving private actors in enforcement efforts, thereby reinforcing a shared responsibility between public authorities and obliged entities, with the ultimate goal of preventing sanctions evasion.

One of the key areas where public authorities play an important role is the verification of beneficial ownership information (Moiseienko, 2020). AMLD6 contains detailed provisions on the central registers of beneficial ownership, as well as on the powers and responsibilities of the entities managing such registers. Under Article 10(9) of AMLD6, entities responsible for managing the central registers must ensure that the individuals and entities listed are not subject to TFS. To this end, central register entities must screen beneficial ownership information against sanctions lists both upon designation and on a regular basis. Then, it is important to identify and indicate associations with sanctioned persons or entities in these registers. These requirements aim to prevent sanctioned persons and entities from using complex corporate structures, trusts, or shell companies to obscure their financial and business activities and evade sanctions. Indeed, timely detection of ownership structures enables appropriate mitigation measures. The systematic integration of TFS screening into the beneficial ownership verification will reinforce transparency in corporate ownership, making it more difficult for designated individuals to access the financial system.

In addition to beneficial ownership verification, the EU AML/CFT framework contains provisions on the functioning, powers and responsibilities of FIUs. The scope and organisation of FIUs may vary, following different models: judicial, law enforcement, administrative, or hybrid (FATF, 2025; Thony, 1996). These models differ in their access to information, investigative and law enforcement capabilities, as well as the levels of

DOI: 10.46282/blr.2025.9.2.1055

independence and accountability of the FIUs (McNaughton, 2023). The new AMLD6 reinforces the role of FIUs in the implementation of TFS. In addition to receiving and analysing suspicious transaction reports under Articles 69 ff AMLR, Article 21(1)(b)(xxi) of AMLD6 grants FIUs proactive access to detailed information on funds and assets frozen or immobilised under TFS measures. This expanded access enhances their ability to track and investigate potential violations. Strengthening FIUs' intelligence-gathering capacity is very important as alternative payment methods, virtual assets, and complex cross-border transactions become more prevalent. Of course, to effectively counter evolving evasion techniques, FIUs must remain adaptable and respond swiftly to emerging threats (Karapatakis, 2019, p. 128).

Supervisory authorities are also tasked with monitoring the compliance of obliged entities with TFS obligations. Under Article 37(5)(e) and Article 39(4) of AMLD6, national supervisors are responsible for ensuring that financial institutions and other supervised entities adhere to TFS requirements. In this context, supervisory authorities have the power to verify that internal compliance policies and procedures of supervised entities adequately address the risks of non-implementation and evasion. Supervisory authorities have also the power to conduct audits and to impose sanctions where necessary. Furthermore, supervisors are responsible for disseminating up-to-date information on designated persons and entities to obliged entities, giving them access to the most current listings. Ultimately, this will prevent inadvertent transactions involving sanctioned subjects. Such disseminations and information exchanges are also important for effectively tracing and identifying assets that will be subject to asset freezes and asset confiscation (Pavlidis, 2024, p. 327; Kennedy, 2007).

Given the transnational nature of TFS, strong inter-agency cooperation and information-sharing mechanisms are very important for ensuring the effective implementation of sanctions (Early and Spice, 2015, p. 339). Following this logic, Articles 61 and 66 of AMLD6 establish a structured framework for collaboration among policymakers, FIUs, supervisors, tax authorities, and the newly established AMLA. These provisions aim to mitigate enforcement fragmentation, allowing authorities across different Member States to work together and prevent forum shopping by sanctioned entities. The new AMLA is also expected to reinforce consistency in enforcement, providing guidance, coordination assistance, and oversight to national authorities (Pavlidis, 2024, p. 328), while lessons from the uneven implementation of EU sanctions across Member States (Matuška & Sabján, 2023 illustrate the challenges that a central authority must address. By overseeing the implementation of TFS by supervised entities and assisting in the analysis of non-implementation risks and evasion tactics, as mandated by its founding regulation,[11] AMLA is expected to play a central role in strengthening the effectiveness of the EU's sanctions policy.

The growing involvement of supervisory authorities and central registers in sanctions enforcement inevitably interacts with the CJEU's jurisprudence on transparency and rights. In WM and Sovim SA v. Luxembourg Business Registers (Joined Cases C-37/20 and C-601/20),[12] the Court curtailed indiscriminate access to beneficial ownership registers on proportionality grounds, thereby reminding policymakers that sanctions-related transparency must remain balanced against privacy and fundamental

[11] Article 5 of the Regulation (EU) 2024/1620 of the European Parliament and of the Council of 31 May 2024 establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism and amending Regulations (EU) No 1093/2010, (EU) No 1094/2010 and (EU) No 1095/2010, OJ L, 19.6.2024 (issue number to be assigned).

[12] CJEU, judgment of 22 November 2022, *WM, Sovim SA v Luxembourg Business Registers*, joined cases C-37/20 and C-601/20, ECLI:EU:C:2022:912, par. 88.

rights (Zigo, 2023; likewise, in AS PrivatBank (C-78/21),[13] the Court underscored the obligations of financial institutions to ensure effective AML compliance, illustrating how judicial interpretation can reinforce the implementation of targeted financial sanctions. Yet case law alone cannot resolve the persistent divergences in national practice. Enforcement of restrictive measures remains heavily dependent on domestic institutional capacity, political will, and administrative prioritisation, which means that the same EU regulation may be applied with very different levels of intensity across Member States. Sensitive or politically exposed listings can create uneven enforcement outcomes, signalling that reliance on national authorities without strong EU-level coordination risks reputational and strategic gaps (Matuška and Sabján, 2023). This fragmented landscape is particularly problematic at a time when sanctions are central to the Union's geopolitical response to Russia's aggression, and when financial crime networks adapt quickly to regulatory arbitrage. Against this background, the creation of AMLA is not only a technical upgrade but a political necessity, aiming to guarantee that enforcement standards are applied uniformly and that the EU can credibly claim both effectiveness and fairness in its restrictive measures regime.

6. OBLIGED ENTITIES AND THEIR COMPLIANCE OBLIGATIONS

The expanded role of public authorities in TFS compliance, as described in the previous section, marks an important advancement. However, its effectiveness hinges on the engagement of the private sector. Thus, financial institutions, as well as designated non-financial businesses and professions, and other obliged entities are required to ensure the proper application and enforcement of TFS measures. This aligns with a broader trend in EU regulation, where private actors are increasingly involved in enforcement efforts (De Cock and Senden, 2020, p. 247; Eren, 2021).

More specifically, the new AMLR and the AMLD6 impose new compliance obligations on obliged entities, requiring them to integrate TFS into their frameworks of risk management, CDD processes, and monitoring procedures. As explained in Recital 21 of AMLD6, AML/CFT measures related to TFS are risk sensitive. At the same time, obliged entities are required to freeze funds and other assets of designated persons or entities and to ensure that such funds or assets are not made available to them. For its part, Recital 87 of AMLD6 correctly points out the importance of outreach activities, including the dissemination of information by the supervisors to the obliged entities under their supervision, which includes 'disseminations of designations under targeted financial sanctions and UN financial sanctions, which should take place immediately once such designations are made in order to enable the sector to comply with their obligations'.

Another key component of TFS compliance is the requirement for obliged entities to establish internal policies, controls, and procedures that mitigate the risks associated with non-implementation and circumvention of sanctions. While earlier scholarship (Cunningham, 2003, p. 60; Killick and Parody, 2007) already underscored the importance of internal controls and compliance cultures in preventing financial crime, these concerns have evolved in the current regulatory environment. More recent contributions illustrate how the logic of compliance has expanded from financial crime prevention to the enforcement of restrictive measures themselves (Moiseienko, 2024). For its part, Article 9 of the new AMLR reaffirms that obliged entities develop robust internal compliance frameworks, which must include mechanisms for screening clients against TFS lists,

[13] CJEU, judgment of 2 April 2020, *AS "PrivatBank" v Finanšu un kapitāla tirgus komisija,* Case C-78/21, ECLI:EU:C:2020:274, par. 68.

implementing automated monitoring systems, and providing regular staff training on sanctions compliance. These measures ensure that businesses remain alert to emerging risks and that employees have the necessary expertise to detect and report violations of TFS. Additionally, Article 10 of AMLR requires obliged entities to integrate TFS risks into their business-wide risk assessments, ensuring that sanctions compliance is treated as a fundamental component of broader AML/CFT strategies.

Beyond internal governance under Articles 9 and 10 of AMLR, compliance with TFS requirements is integrated into CDD processes. Typically, these processes involve identifying and verifying customer identities, understanding the purpose and intended nature of business relationships, conducting ongoing monitoring, and applying enhanced due diligence for higher-risk scenarios or simplified due diligence where risks are minimal (Mugarura, 2014). Under the new Article 20(1)(d) of AMLR, obliged entities must verify whether a customer or a beneficial owner is subject to TFS. This verification must take place before establishing a business relationship or conducting transactions. The requirement also extends beyond initial onboarding to include ongoing due diligence, where entities must continuously screen customers against updated sanctions lists. Article 26 of AMLR further reinforces this obligation by requiring obliged entities to conduct continuous transaction monitoring to detect any attempts to bypass TFS. In cases where transactions are flagged as potentially linked to a designated person or entity, financial institutions are required to freeze the funds immediately and submit a report to the relevant authorities. Another significant compliance measure relates to the exclusion of simplified CDD under Article 33(5)(e) of AMLR, if there is reason to believe that a customer is attempting to circumvent financial sanctions. This provision is particularly important in cases where clients seek to exploit legal loopholes, complex corporate structures, or third-party intermediaries to disguise their financial or business activities. Thus, AMLR ensures that high-risk transactions receive heightened scrutiny.

A key figure in enforcing AML/CFT requirements is the compliance officer, whose responsibilities are outlined in Article 11 of AMLR. In addition to the existing obligations imposed by legislation (DeMott, 2013, p. 69), compliance officers are now tasked with overseeing the implementation of TFS-related policies, ensuring the effective application of internal controls, and acting as the primary liaison between obliged entities, FIUs and supervisory authorities in this context too. Their role is particularly crucial in ensuring that automated sanctions-screening tools are properly calibrated, suspicious transactions are appropriately identified and reported, and staff receive regular updates on changes to the EU's TFS regime.

The obligations introduced by AMLD6 and AMLR reflect a shift towards a more preventive and risk-based approach to TFS enforcement. Rather than relying solely on post-transaction investigations and actions, the new AML/CFT framework requires obliged entities to identify and mitigate sanctions risks at every stage of the financial process. This includes reporting suspicions to the FIU under Articles 69 ff of AMLR, when transactions may be linked to sanctioned persons or entities. This responsibility has practical implications; it means that obliged entities must invest in technological solutions for real-time sanctions screening, adopt advanced analytics for transaction monitoring, and foster a strong culture of compliance within their organisations.

AMLD6 and AMLR embed TFS into the core functions of obliged entities. They also create a multi-layered system of compliance and enforcement, in which the private sector and regulators work together to prevent evasion of TFS. However, the effectiveness of this system will ultimately depend on the ability of obliged entities to adapt to emerging risks, as well as on the sufficiency of technological resources for sanctions screening and the capacity of supervisory authorities to provide guidance and

oversight. Evidently, the growing complexity of financial transactions—especially with the rise of virtual assets and decentralised finance—will necessitate adaptations in compliance strategies (Karapatakis, 2019) to effectively counter attempts to circumvent TFS measures, in line with the principles of proportionality and effectiveness.

Recent CJEU rulings also confirm that obligations imposed on private actors must be interpreted in light of proportionality and effectiveness. In Rodl and Partner (C-562/20),[14] the Court clarified the scope of due diligence obligations under AML law, emphasising that compliance duties extend beyond formalistic checks and must be applied with a risk-sensitive approach. This reasoning has relevance to targeted financial sanctions, where financial intermediaries are expected not only to detect listed entities but also to identify indirect ownership structures, beneficial control, and potential circumvention schemes. The Mistral Trans (C-3/24) case,[15] which narrows obliged-entity status in corporate groups and refocuses supervisory enforcement on genuinely risk-exposed actors, is likely to provide further guidance on how private operators are to balance legal certainty with proactive vigilance. Parallel developments before the European Free Trade Association (EFTA) Court, such as Joined Cases E-1/24 and E-7/24,[16] highlight the centrality of the principle of proportionality in relation to access to beneficial ownership information. They also demonstrate that such questions are not confined to the EU legal order but form part of a wider European judicial dialogue on the effectiveness of sanctions regimes. Taken together, these proceedings suggest that compliance obligations will increasingly be judicially defined at the supranational level, reducing Member State discretion in interpretation and placing private actors—especially financial institutions and logistics providers—at the frontline of sanctions enforcement. This trend raises significant policy questions: while it strengthens uniformity and closes loopholes, it also shifts considerable regulatory burdens onto private entities, blurring the line between state enforcement and delegated corporate responsibility.

7. CHALLENGES AND FUTURE PERSPECTIVES IN THE IMPLEMENTATION OF TFS

Despite the significant strides made in strengthening the EU's legislative framework for TFS through the AMLD6 and the AMLR, several challenges remain in ensuring the effective implementation of sanctions. The practical enforcement of TFS still varies significantly across jurisdictions due to differences in national supervisory practices, institutional capacity, and legal interpretations. Some Member States have well-resourced FIUs and financial supervisors that can effectively oversee the implementation of TFS, while others struggle with limited resources and inconsistent enforcement. The divergence in enforcement capacity across Member States is not merely theoretical. Larger jurisdictions such as Germany and the Netherlands have developed well-resourced FIUs with advanced IT infrastructures, allowing for real-time sanctions screening. By contrast, smaller jurisdictions including Malta or Cyprus have repeatedly been flagged in MONEYVAL assessments for under-resourcing and inconsistent application of AML obligations. Such discrepancies illustrate why the establishment of AMLA is expected to be decisive in levelling the playing field of

[14] CJEU, judgment of 17 November 2022, *SIA 'Rodl & Partner' v Valsts ieņēmumu dienests*, case C-562/20, ECLI:EU:C:2022:883, par. 38.
[15] CJEU, judgment of 5 December 2024, *'MISTRAL TRANS' SIA v Valsts ieņēmumu dienests*, case C-3/24, ECLI:EU:C:2024:999, par. 41.
[16] European Free Trade Association Court, *TC and AA*, joined cases E-1/24 and E-7/24, par. 84.

DOI: 10.46282/blr.2025.9.2.1055

supervision. This fragmentation creates gaps that sanctioned individuals and entities can exploit.

The establishment of the AMLA is expected to address some of these disparities by enhancing supervision at the EU level and promoting more consistent enforcement (Pavlidis, 2024, p. 328), but the extent of its impact will depend on the political will of Member States to actively support centralised enforcement efforts. A further dimension of reform is the harmonisation achieved through the designation of sanctions circumvention as an EU crime under Article 83 TFEU. Directive (EU) 2024/1226—the so-called Sanctions Directive—obliges Member States to criminalise the violation of EU restrictive measures, thereby closing loopholes that previously allowed divergent national practices. As already mentioned, this development strengthens the preventive logic of the AML/CFT framework: breaches of TFS are not only regulatory failures but also criminal offences, reinforcing deterrence and uniformity across the Union.

Another significant challenge is the increasing sophistication of evasion techniques used by designated individuals and entities to bypass TFS (Early, 2021). Traditional evasion methods, such as the use of front companies, nominee arrangements, and offshore financial structures, remain prevalent, but newer tactics involving cryptocurrencies, decentralised finance, and other privacy-enhancing technologies present additional enforcement difficulties. Virtual assets, in particular, offer avenues for sanctions circumvention due to their borderless nature, pseudonymity, and the limited, at least so far, oversight of some cryptocurrency exchanges (Tiwari, Lupton, Bernot and Halteh, 2024, p. 1630; Wronka, 2022, p. 1279). Thus, ensuring that virtual asset service providers effectively screen for TFS risks remains a challenge, while further technological advancements in blockchain analytics and AI-driven transaction monitoring will facilitate detection and prevention of illicit financial flows linked to sanctioned individuals (Pavlidis, 2023a, p. 157).

Beyond enforcement and evasion risks, the effectiveness of TFS greatly depends on the quality of collaboration and information-sharing between obliged entities, FIUs and supervisors (Sugg, 2024). Delays in receiving updated sanctions lists, insufficient guidance from regulators, and constraints on cross-border data sharing can undermine the ability to act swiftly. Thus, it is important to enhance real-time information-sharing mechanisms and foster closer cooperation between supervisory bodies, FIUs, and financial institutions to ensure that sanctions implementation remains adaptable to emerging risks. The option to establish AML/CFT supervisory colleges for cross-border cases under the new legal framework (Article 49 ff of AMLD6) constitutes an important step forward. Additionally, the use of machine learning and AI-driven compliance tools could improve the ability of financial institutions to detect complex patterns of evasion of TFS, reducing false positives and increasing the accuracy of risk detection. Finally, TFS investigations serve broader strategic goals: similar to AML/CFT investigations, they can be used to map financial networks or specific market sectors, helping to identify vulnerabilities and inform future risk mitigation measures (Moiseienko, 2024; Van Duyne and Levi, 1999).

Looking to the future, the EU will likely continue refining its TFS framework to address these challenges. One possible direction is the further centralisation of TFS enforcement, granting to AMLA stronger supervisory powers over high-risk financial sectors and facilitating greater coordination among national authorities. Moreover, as the EU's emphasis on external geopolitical threats grows, TFS are likely to become increasingly central to the EU's response to international conflicts, human rights violations, and transnational organised crime. This will extend the EU's influence on the global stage (Bradford, 2020, p. 25). Ultimately, the success of the EU's TFS framework

will depend on the ability of policymakers, regulators, and the private sector to adapt to a rapidly evolving landscape. As sanctioned individuals and entities continue to develop more sophisticated evasion tactics, the EU's regulatory response must remain agile and globally coordinated to protect the integrity of the EU financial system.

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