EASTERN EUROPEAN JOURNAL OF TRANSNATIONAL RELATIONS

Beyond AML: Learning the Hard Way About Sanctions Compliance Gaps in EU Financial Institutions

Damian Kemmerer
Independent Researcher, Italy
damiankemm@gmail.com
ORCID 0009-0001-4233-1778

Abstract. This paper examines the structural and operational challenges financial institutions face in developing effective sanctions compliance frameworks within the European Union, particularly in comparison to the more mature Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regimes. Drawing on recent work at a medium-sized EU-based bank, the research reflects on how sanctions exposure can be systematically incorporated into institutional risk assessments and compliance practices. A case study of institutional responses to the sudden extraterritorial designation of several EU entities and individuals by U.S. authorities highlights the vulnerabilities smaller institutions face when confronted with conflicting legal regimes, in the absence of harmonised sanctions compliance standards. The analysis shows that, although Directive (EU) 2024/1640 expands the visibility of sanctions within the AML compliance architecture, it leaves significant operational uncertainties unresolved, particularly regarding implementation and supervisory oversight. The paper concludes by outlining key areas for capacity-building, including improved risk identification, targeted due diligence instruments, contractual safeguards, contingency planning, and organisational awareness, in order to strengthen sanctions compliance even in the face of fragmented regulatory frameworks.

Keywords: sanctions compliance, AML/CFT, financial institutions, risk management, Directive (EU) 2024/1640, compliance architecture.

JEL Classification: F51, G28, K33.

Citation: Kemmerer, D. (2025). Beyond AML: Learning the Hard Way About Sanctions Compliance Gaps in EU Financial Institutions. *Eastern European Journal of Transnational Relations*, *9*(3), 35-44. https://doi.org/10.15290/eejtr.2025.09.03.04.

Academic Editor: Marcin Łukowski

Publisher's Note:

1. INTRODUCTION

In recent years, financial sanctions have assumed a central role in the European Union's external policy toolbox, deployed with increasing frequency in response to geopolitical crises, security threats, and systemic human rights violations. Despite their growing prominence, sanctions-related obligations remain significantly less developed, formalised, and institutionally embedded than their counterparts in the anti-money laundering and countering the

financing of terrorism (AML/CFT) domain. This asymmetry is evident not only in the underlying regulatory architecture but also in the internal compliance structures of European financial institutions. While AML/CFT frameworks benefit from decades of legislative refinement, international standard-setting, and supervisory integration, sanctions compliance is often characterised by fragmented responsibilities, limited internal guidance, and reactive operational practices.

This paper offers a practitioner-informed reflection on the structural and operational challenges associated with building sanctions compliance capacity within EU-based financial institutions. Drawing on recent work undertaken at a medium-sized European bank, it highlights the tensions that arise when institutions calibrated primarily for AML/CFT obligations are confronted with the extraterritorial reach and institutional ambiguity of sanctions regimes, particularly those imposed by third countries, such as the United States. The paper begins by outlining the divergent regulatory trajectories of AML and sanctions compliance frameworks, followed by a case study illustrating how these asymmetries manifest in institutional decision-making during a sanctions enforcement scenario. It then turns to the evolving legal landscape, with particular attention to Directive (EU) 2024/1640 and related European Banking Authority (EBA) guidelines, before offering an institutional-level assessment of current implementation challenges.

The final section synthesises key considerations for financial institutions seeking to strengthen their sanctions compliance frameworks in the absence of clear or harmonised EU-level operational standards. Emphasis is placed on practical entry points, such as risk identification, due diligence design, contractual safeguards, and internal governance through which institutions may begin to calibrate their compliance structures to the specificities of sanctions exposure. By linking regulatory analysis with observed practice, this paper aims to contribute to a more grounded and actionable understanding of how sanctions compliance can be approached systematically, even in the absence of full legal certainty or institutional maturity.

2. FRAGMENTATION AND FORMALISATION: DIVERGENT PATHS OF AML AND SANCTIONS REGIMES

A marked asymmetry characterizes the evolution of compliance frameworks within the European financial sector. While anti-money laundering and countering the financing of terrorism (AML/CFT) measures have undergone decades of structured development, sanctions compliance remains comparatively underdeveloped, lacking both regulatory harmonization and operational consistency across institutions. This disparity has significant implications for how financial institutions identify and manage risk, particularly in the context of increasingly assertive extraterritorial sanctions regimes.

AML/CFT compliance in Europe is anchored in a robust and codified framework. Since the adoption of the First EU Anti-Money Laundering Directive in 1991, successive legislative efforts have progressively refined the obligations imposed on financial institutions. These include mandatory risk assessments, customer due diligence, transaction monitoring, and the implementation of internal control systems. The regulatory trajectory culminated in the creation of the EU Anti-Money Laundering Authority (AMLA) in 2024, designed to supervise high-risk entities and enforce uniform standards across the internal market. Institutions subject to AML obligations benefit not only from legal clarity, but also from sectoral guidance, established supervisory expectations, and detailed technical standards.

By contrast, the domain of sanctions compliance remains fragmented and lacks comparable institutional scaffolding. Although EU sanctions are legally binding for entities operating within the Union, the mechanisms for implementation are far less detailed than those in place for AML/CFT. In particular, European institutions must often interpret evolving sanctions regimes (both EU and non-EU) without the benefit of harmonized operational standards or central oversight. A recent article by the Boston Consulting Group (Wedege et al., 2024) recently noted that sanctions compliance in European banking remains highly variable, with many institutions lacking a centralized

function or consistent ownership of sanctions-related risks. This lack of structural maturity becomes especially problematic when institutions must respond to designations by foreign authorities, such as the United States, whose measures carry extraterritorial effects without corresponding legal clarity under EU law.

This regulatory asymmetry is mirrored at the institutional level. Larger banks, especially those with global operations, have developed comparatively sophisticated sanctions compliance frameworks, often modelled on their AML/CFT programs. These include dedicated sanctions teams, automated screening systems, escalation procedures, and integration of foreign sanctions risk into broader risk governance. Such measures are typically supported by internal training and periodic audits. Smaller and regional banks, however, frequently lack the resources and strategic foresight to replicate this infrastructure. Their compliance efforts are often reactive, shaped primarily by domestic legal obligations, and may omit risk-based considerations related to non-EU sanctions entirely.

3. INSTITUTIONAL EXPOSURE TO EXTRATERRITORIAL SANCTIONS: A CASE STUDY IN COMPLIANCE ASYMMETRY

No financial institution, regardless of its size, can be considered immune to the impact of international sanctions and their enforcement. In mid-2024, the compliance team at a smaller EU-based bank encountered an unanticipated scenario: several of its corporate clients were found to have engaged in activities that violated U.S. sanctions. These infractions included both sector-specific violations and the unauthorized export of U.S.-origin technology to countries subject to U.S. embargoes. As a result, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) designated the European companies, along with several of their senior officers, on the Specially Designated Nationals (SDN) list, constituting a primary sanctions enforcement action under U.S. law. Although the bank itself had not engaged in sanctionable conduct, its continued dealings with the designated clients placed it at risk of exposure to secondary U.S. sanctions. Under prevailing U.S. regulations, foreign financial institutions that knowingly facilitate significant transactions for, or provide material support to, SDNs may be subject to a range of restrictive measures, including limitations on access to the U.S. financial system. Faced with this risk, the bank had to act swiftly, initiating an urgent internal review to assess the feasibility and legal implications of terminating its relationships with the designated clients in order to mitigate potential exposure.

Risk management and compliance procedures at the bank had recently undergone significant reform and were well-calibrated for compliance with the European Union's sanctions framework and anti-money laundering (AML) obligations, both of which are legally binding under EU law. However, as a regionally focused institution with limited exposure to international financial markets, the bank had not developed a comprehensive approach to managing the risks associated with non-EU sanctions regimes, particularly those administered by the United States. Because U.S. sanctions compliance is not generally mandated for EU-based banks absent a U.S. nexus, it had been treated, if at all, as a peripheral risk management issue rather than as a core component of the bank's compliance architecture. As a result, there was no internal guidance on how to respond to designations by foreign authorities, nor did client contracts contain provisions addressing the legal and operational consequences of such designations. This institutional blind spot left the bank particularly vulnerable when its clients were listed by OFAC.

Had the bank continued to provide financial services, process payments, or extend credit to the designated individuals or entities, it could have been exposed to secondary sanctions under U.S. law. While secondary sanctions are applied at the discretion of U.S. authorities and do not carry the force of law within the EU, they have significant extraterritorial consequences. These may include the loss of access to correspondent banking relationships with U.S. financial institutions, restrictions on U.S. dollar clearing, and severe reputational damage in the global financial community. Of particular concern for the bank was its reliance on larger correspondent banks for executing cross-border transactions and accessing international payment networks. These institutions, often themselves subject to U.S. jurisdiction or reliant on U.S. financial infrastructure, tend to adopt a conservative posture and may engage in de-risking by severing ties with counterparties perceived as exposed to sanctions. Even the perception of indirect

involvement with SDNs can trigger such risk-averse behavior, effectively isolating smaller institutions from critical financial services. The episode revealed a systemic compliance weakness: an overreliance on regional legal obligations, without corresponding risk-based controls to address the extraterritorial impact of dominant non-EU sanctions regimes.

Compounding the bank's vulnerability was the fact that it had no contractual basis for unilaterally terminating its relationships with the designated clients. The client agreements had not contemplated the possibility of U.S. sanctions designations, and unlike EU sanctions, where asset freezes are mandated and provide legal grounds for suspending or severing ties, the bank faced no clear legal obligation, under either domestic or EU law, to cease services solely due to U.S. listings. At the same time, continuing the relationships carried the very real risk of exposure to secondary sanctions, which could have devastating operational consequences. The bank found itself between a rock and a hard place: on one side, contractual obligations enforceable under national law; on the other, the extraterritorial reach of U.S. sanctions, which, though not directly binding, could jeopardize the bank's international standing and access to essential financial infrastructure.

Following consultations with senior management and external sanctions compliance experts, the bank opted to take preemptive action. Despite the lack of a contractual or regulatory mandate to do so, it proceeded to freeze the accounts of the US-designated clients and suspend all related transactions. This decision constituted a deliberate breach of contract, but one that was deemed necessary to avoid the greater risk of being perceived as facilitating the activities of SDN-listed persons.

Unlike anti-money laundering (AML) compliance, which benefits from well-established international standards, regulatory harmonization, and structured internal procedures, sanctions compliance remains a comparatively fragmented and reactive domain. The Financial Action Task Force (FATF) provides detailed guidance on AML and counter-terrorist financing (CTF) systems, requiring designated entities to adopt formalized risk-based approaches, reporting protocols, and independent audits. Similarly, compliance frameworks such as data protection or anti-bribery, anchored in instruments like the GDPR or the OECD Anti-Bribery Convention, provide clear institutional obligations, enforcement mechanisms, and cross-border coordination.

Sanctions compliance, by contrast, lacks this level of codification and clarity, especially when it comes to the extraterritorial application of foreign sanctions regimes. Institutions are often left navigating overlapping and occasionally contradictory legal requirements with minimal guidance. This is particularly true for non-U.S. entities dealing with U.S. sanctions, which are not formally binding absent a jurisdictional nexus, yet carry severe indirect consequences through mechanisms such as secondary sanctions or reputational de-risking. The resulting compliance posture is often one of risk aversion rather than legal certainty, shaped more by perceived exposure and institutional caution than by clear regulatory mandates or consistent best practices.

The difficulties encountered by the bank in responding to the U.S. designations, ranging from contractual paralysis to ad hoc account freezes, did not arise in isolation. Rather, they reflect a broader structural deficiency within the European compliance landscape: the absence of a harmonized and operationally mature framework for sanctions implementation. While EU law imposes clear and binding obligations with respect to AML/CFT, the compliance architecture surrounding restrictive measures remains comparatively fragmented, reactive, and dependent on national discretion. This regulatory asymmetry contributes to institutional uncertainty and inconsistent practices, particularly among smaller or regionally focused institutions. The recent adoption of Directive (EU) 2024/1640 offers an opportunity to address some of these gaps. However, as the following section will argue, the directive's approach to integrating sanctions into the AML framework raises new questions about clarity, consistency, and institutional readiness.

4. THE EMERGING ROLE OF DIRECTIVE (EU) 2024/1640 IN SANCTIONS COMPLIANCE GOVERNANCE

Directive (EU) 2024/1640 is part of the European Union's revised Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) package. It replaces the previous Directive 2015/849 and is intended to enhance the internal consistency and effectiveness of the Union's AML/CFT framework.

One of the most consequential developments introduced by the directive is the at least partial integration of sanctions compliance into the broader AML governance structure. While the directive does not create a fully harmonized EU sanctions compliance regime, it provides that national authorities and obliged entities implement effective cooperation mechanisms to prevent the evasion of targeted financial sanctions. Article 61 explicitly requires Member States to ensure that policymakers, financial intelligence units (FIUs), supervisors, including the newly created AML and other competent authorities have the means to coordinate national strategies not only for AML/CFT but also for preventing the evasion of financial sanctions. In operational terms, this provision signals an expectation that oversight of sanctions implementation will increasingly be coordinated through the existing AML/CFT institutional infrastructure. However, the directive does not explicitly assign supervisory responsibility for sanctions to AML bodies as a matter of law, nor does it establish a distinct legal or operational framework for sanctions compliance at the institutional level.

The conflation of AML and sanctions obligations presents significant implementation challenges. First, the directive's language remains intentionally broad and non-prescriptive regarding the specific obligations of financial institutions with respect to sanctions. Unlike AML obligations, which are defined through detailed regulatory provisions, supervisory expectations, and established typologies, the scope and nature of sanctions compliance remain vaguely articulated. Financial institutions are thus left to infer how existing AML procedures should be adapted to accommodate the added dimension of sanctions risk, without clear regulatory guidance or performance benchmarks.

Second, the directive requires transposition by Member States by 10 July 2027, with staggered deadlines for certain provisions. As with prior directives, this approach risks generating a patchwork of national implementation strategies. Some jurisdictions may opt to embed sanctions screening obligations explicitly within their AML statutes, while others may interpret the directive's scope more narrowly. The absence of a uniform supervisory mandate risks further entrenching the existing asymmetry in how financial institutions across the EU approach sanctions compliance.

Third, while the directive itself does not establish EU-wide operational tools, standardized training modules, or supervisory benchmarks specific to sanctions, this gap is now being partially addressed by the European Banking Authority (EBA). In Guidelines EBA/GL/2024/14 and EBA/GL/2024/15, applicable from 30 December 2025, the EBA introduced common EU standards on internal governance, restrictive measures exposure assessments, and the allocation of responsibility for sanctions compliance within obliged entities. These guidelines require financial institutions to appoint a senior staff member responsible for sanctions implementation, conduct formal exposure assessments, and design internal controls proportionate to their risk profile. However, despite this progress, institutions, particularly smaller ones, still face significant operational burdens. The guidelines, while valuable, do not establish a centralised EU watchlist, sanctions screening infrastructure, or common sector-specific benchmarks. Institutions remain reliant on commercial vendors or third-country sources, most notably U.S. government designations, for screening lists and technical solutions.

This stands in sharp contrast to the EU's AML/CFT framework, which is considerably more developed, coordinated, and operationally supported. The AML regime benefits from a harmonised legal base through Regulation (EU) 2024/1624 and successive directives, complemented by detailed technical standards, sectoral risk factor guidelines, and established supervisory practices. It is further reinforced by a multilayered institutional structure, including national FIUs and AMLA, which together provide coherent oversight and interpretive guidance.

Institutions subject to AML obligations can rely on a comprehensive and time-tested system of compliance benchmarks, typologies, and enforcement protocols. Sanctions compliance, by contrast, remains comparatively under-resourced, fragmented, and reliant on ad hoc risk assessments. While its formal integration into the AML framework reflects an evolving understanding of financial crime risks, the supporting architecture necessary to ensure consistent implementation across the Union is still under construction.

A recent example of this uncertainty is provided by the German Federal Financial Supervisory Authority (BaFin), which declared that it does not intend to comply, or only partially complies, with the European Banking Authority's Guidelines on restrictive measures (Compliance Table for EBA/GL/2024/14, April 2025) citing a lack of supervisory competence under national law and referring instead to the competence of the Deutsche Bundesbank under § 23 of the German Foreign Trade and Payments Act (AWG). Notably, the Bundesbank itself has not yet issued a public position. Given that BaFin remains responsible for supervising compliance with anti-money laundering (AML) obligations, it remains to be seen how this division of responsibilities will interact with the new obligations assigned to AML compliance officers under Directive (EU) 2024/1640, particularly in the area of sanctions compliance.

5. OPERATIONAL ASYMMETRIES IN THE IMPLEMENTATION OF AML AND SANCTIONS COMPLIANCE

The divergence between the AML/CFT and sanctions compliance frameworks is not only a matter of regulatory design but manifests with particular clarity in the internal architecture and day-to-day practices of financial institutions. Within a bank recently assessed on its sanctions-compliance maturity, the AML function is highly formalised and benefits from a well-established legal and supervisory framework. It is integrated into the second line of defence, supported by a calibrated risk taxonomy, a centralised KYC system, and rule-based transaction monitoring that is periodically reviewed for effectiveness. Staff training, internal audit cycles, and reporting structures all operate within a coherent and externally benchmarked compliance environment. This institutional maturity reflects the broader professionalisation of the AML compliance field, where officers are increasingly positioned as actors who not only enforce regulatory mandates but also shape internal risk standards and control frameworks that extend beyond minimum legal requirements Tsingou, 2018. Crucially, the institution is able to rely on detailed EU legislation, technical standards, and interpretive guidance to assess and respond to jurisdictional and customer risk, drawing, for instance, on classifications provided by the OECD, FATF, and the European Commission's list of high-risk third countries for AML/CFT purposes.

In contrast to this, the sanctions compliance function remains fragmented, operationally peripheral, and underpinned by a far less coherent framework. Nowhere is this more evident than in the practices of the bank's trade finance unit, which bears responsibility for sanctions-related screenings of both goods and geographic destinations. In the absence of a formal EU-wide classification of jurisdictions associated with sanctions evasion risks, the unit has developed an internal list of countries deemed "high-risk" for such purposes. However, this list is not grounded in a regulatory or empirical methodology; rather, it reflects a patchwork of operational experience and publicly available information. As a result, entire regions, such as all "-stan" countries, are treated uniformly despite significant differences in their actual involvement with or proximity to sanctions evasion networks.

This practice introduces two critical compliance risks. First, the lack of differentiation between jurisdictions may lead to over-compliance, with legitimate transactions delayed or blocked based on inflated perceptions of risk. Second, and more problematic, the informal nature of the list and the absence of clear validation criteria may result in under-compliance, especially where evasion typologies evolve in ways that are not captured by static, experience-based frameworks. Unlike in the AML domain, where institutions can rely on risk-based approaches endorsed by competent authorities and regularly updated to reflect emerging threats, sanctions-related due diligence lacks an equivalent evidentiary or supervisory anchor.

Moreover, the escalation of ambiguous cases, such as those involving complex ownership structures or dual-use goods, suffers from the absence of a centralised interpretive body. This stands in contrast to the AML framework, where institutions can often refer to FIUs or sector-specific regulators for guidance. In the sanctions space, legal ambiguity is typically resolved through ad hoc consultation with external counsel or informal peer exchanges, leading to inconsistent outcomes and delayed decision-making. The operational result is a compliance function that is both overcautious in low-risk areas and insufficiently robust in areas of genuine exposure.

This dual-speed architecture, one part structured and aligned with supranational standards, the other improvised and institution-specific, reflects the broader structural asymmetries in the EU's financial crime compliance landscape. Unless sanctions compliance is supported by more precise legal frameworks, supervisory guidance, and reliable jurisdictional benchmarks, institutions will continue to face the impossible task of calibrating risk without a regulatory compass.

6. KEY CONSIDERATIONS FOR BUILDING SANCTIONS COMPLIANCE CAPACITY

As the European Union increasingly employs sanctions as a strategic policy instrument, the capacity of financial institutions to comply with these measures becomes correspondingly significant. However, the structural underdevelopment of the sanctions compliance framework, relative to the AML/CFT regime, places institutions in a position of operational uncertainty. In the absence of harmonised standards, supervisory guidance, or established typologies, institutions must develop their own approaches to identifying, assessing, and mitigating sanctions-related risks. The following considerations, drawn from institutional practice and reflective of the limitations outlined in the previous sections, delineate practical domains in which capacity-building efforts may be most effectively concentrated.

First, institutions must improve their methods for risk identification and country exposure differentiation. A central deficiency in current sanctions compliance practice lies in the absence of authoritative risk indicators at the jurisdictional level. Whereas AML/CFT frameworks benefit from widely recognised benchmarks, such as the FATF grey and blacklists, the OECD's transparency indices, and the EU's own list of high-risk third countries, no equivalent exists for identifying jurisdictions associated with sanctions evasion. In response, some institutions have attempted to fill this gap through internal classification systems based on operational experience and open-source information. As previously described, for example, in a recently assessed bank a list of high-risk countries for sanctions evasion was compiled by the trade finance unit, incorporating entire regions, such as Central Asia, without further differentiation based on concrete evidence or enforcement data.

This approach, while understandable in the face of regulatory silence, risks both over- and under-compliance. Over-compliance may result from the indiscriminate application of restrictions to jurisdictions with minimal proven exposure to sanctions evasion; under-compliance may emerge where institutional knowledge fails to capture more subtle or emerging evasion typologies. A more structured methodology is therefore required, one that integrates geopolitical analysis, enforcement trends, financial system opacity indicators, and patterns of transactional behaviour, ideally with coordination at the sectoral or supervisory level to ensure consistency across the Union.

Second, capacity building should focus on the design of due diligence instruments, particularly client questionnaires. The standard onboarding questionnaires used for AML purposes are generally inadequate for capturing sanctions-specific exposure. Institutions should instead develop sanctions-focused modules that inquire into ownership structures, intermediary relationships, jurisdictional exposure (including secondary sanctions risks), and the end-use or destination of goods in trade finance transactions.

Such instruments should not be static. They must be adapted to reflect evolving regulatory expectations, emerging typologies, and geopolitical developments. Critically, the information collected should not remain confined to onboarding files, but should instead inform ongoing risk assessments and monitoring processes. In practice, this

would entail close coordination between client-facing units, compliance functions, and transaction monitoring teams to ensure that sanctions-related risks are assessed holistically and in real time.

Third, legal instruments and contractual safeguards remain a significantly underutilised area of compliance architecture. Clauses attesting to the non-involvement of clients or counterparties with sanctioned persons or activities, notification obligations in the event of changes in ownership or control, and explicit termination rights in cases of sanctions breaches, can all contribute to mitigating institutional exposure.

These provisions must be drafted with attention to enforceability across relevant jurisdictions and should be reviewed periodically to reflect changes in the applicable sanctions landscape. In some cases that were recently observed, contractual clauses addressing sanctions were present in some areas but inconsistently applied, reflecting the absence of a coordinated policy on the legal integration of compliance requirements. Institutions would benefit from a standardized approach that incorporates sanctions-related provisions across relevant contractual categories, developed in collaboration between legal, compliance, and business units.

Fourth, institutions must develop contingency planning and scenario testing protocols for sanctions-related disruptions. Sanctions regimes are often introduced or expanded with immediate effect, requiring institutions to respond rapidly to designation events, regulatory changes, or geopolitical developments. This necessitates robust contingency planning and scenario testing protocols. Institutions should regularly assess their capacity to update internal sanctions lists promptly, identify and freeze relevant assets, communicate effectively with clients and counterparties, and report to competent authorities within prescribed timeframes.

Some banks exhibit limited preparedness in this regard, with sanctions-related scenarios addressed only informally and without dedicated drills or escalation pathways. A more structured approach is recommended, modelled in part on the stress testing methodologies familiar from prudential supervision, whereby high-risk hypothetical situations are simulated, and the institution's operational and decision-making processes are tested for adequacy, speed, and coordination.

Finally, the effectiveness of any sanctions compliance framework depends on the awareness and engagement of staff beyond the core compliance function. Sanctions risks often materialize in areas such as trade finance, payments, and client onboarding, where frontline staff must be able to recognize and escalate red flags. Targeted training, tailored to business lines and risk exposure, is therefore essential. This training should go beyond the standardized e-learning formats, incorporating practical case studies, recent enforcement actions, and comparative analysis of jurisdictional frameworks (e.g., EU vs. U.S. sanctions). Sanctions training often remains general in nature and is not consistently tailored to the responsibilities of specific roles. Enhancing awareness across departments and embedding sanctions considerations into the institution's broader culture of compliance represents a key step towards operational efficacy.

While these measures do not replace the need for harmonised legal standards or supervisory alignment, they provide a pragmatic starting point for institutions operating in regulatory uncertainty. Importantly, the integration of sanctions compliance into broader AML governance also demands the refinement of institutional organisation and risk management strategies. Emerging literature points to the value of adopting multi-faceted approaches that combine technological tools, improved regulatory quality, and the institutionalisation of financial intelligence capabilities to enhance resilience and coordination (Jiao, 2023; Mekpor et al., 2018).

Artificial intelligence and machine learning, for instance, have been identified as promising enablers of screening, filtering, and behavioural analysis functions that support both AML and sanctions-related tasks Jiao, 2023. Yet the presence of advanced tools alone is insufficient unless coupled with comprehensive internal structures and human expertise. The development of integrated compliance departments, supported by dynamic risk assessment methodologies and cross-functional collaboration, remains essential for sustaining effective responses to complex and evolving financial crime risks. This combined focus (on governance, operational culture, and technology) offers a meaningful path toward more robust sanctions compliance frameworks.

7. CONCLUSIONS

The growing centrality of financial sanctions in the European Union's external action has not yet been matched by a corresponding level of regulatory maturity within the Union's compliance architecture. While anti-money laundering and counter-terrorist financing (AML/CFT) frameworks operate within a well-developed and harmonised legal environment, sanctions compliance remains comparatively under-resourced and operationally fragmented. This structural imbalance poses practical challenges for financial institutions, particularly smaller or regionally focused ones, which are increasingly expected to navigate sanctions risks without the benefit of clear supervisory guidance or consistent legal instruments.

The institutional case examined in this paper highlights the practical implications of this asymmetry. Even when AML systems are well-developed, the absence of dedicated sanctions procedures, contractual clauses, or exposure assessments can leave institutions vulnerable, especially in the face of extraterritorial measures such as U.S. secondary sanctions. The resulting compliance posture is often one of cautious improvisation, driven by reputational risk and institutional self-preservation rather than legal certainty.

Directive (EU) 2024/1640 does not formally anchor sanctions compliance exclusively within the AML framework. However, it significantly expands the visibility of sanctions-related concerns within AML governance structures. By requiring cooperation mechanisms to prevent sanctions evasion and by tasking institutions with broader coordination responsibilities, the directive signals a shift in institutional expectations. Yet the absence of clear supervisory mandates, legal definitions, or operational benchmarks limits its practical effect. Recent EBA guidelines offer some support, but fall short of providing the type of infrastructure that AML compliance enjoys, such as shared lists, typologies, or harmonised enforcement practices.

In response, this paper outlined practical considerations for institutions seeking to build sanctions compliance capacity in an uncertain regulatory environment. These include developing internal methodologies for country and counterparty risk assessments, enhancing due diligence tools, introducing contractual safeguards, and investing in staff awareness and scenario testing. Such measures, while not substitutes for a unified regulatory framework, can help institutions better manage sanctions-related risks in the interim.

More broadly, the findings presented here invite further reflection. Should sanctions compliance remain a parallel but loosely regulated obligation, or should it be more systematically integrated into the EU's financial crime infrastructure? Can supervisory bodies such as AMLA extend their role in the field of sanctions without formal legal mandates ? And how should institutions balance obligations coming from EU law with risks emerging from foreign legal systems that exert influence through extraterritorial enforcement? These questions will only become more pressing as the EU continues to expand and refine its use of financial sanctions. Addressing them is essential not only to mitigate institutional risk, but to ensure the coherence of the Union's broader compliance ecosystem.

REFERENCES

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 (Text with EEA relevance), OJ L, 2024/1640, 19.6.2024, ELI: http://data.europa.eu/eli/dir/2024/1640/oj.

EBA. (n.d.). *Compliance table for EBA/GL/2024/14*.

EBA/GL/2024/14 Guidelines on Internal Policies, Procedures and Controls to Ensure the Implementation of Union and National Restrictive Measures.

Financial Action Task Force. (2013, June). *Recommendation 6*. https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/BPP-Fin-Sanctions-TF-R6.pdf.coredownload.pdf.

Jiao, M. (2023). Big Data Analytics for Anti-Money Laundering Compliance in the Banking Industry. *Highlights in Science, Engineering and Technology*, *49*, 302–309. https://doi.org/10.54097/hset.v49i.8522.

Mekpor, E. S., Welbeck, J., & Aboagye, A. (2018). The determinants of anti-money laundering compliance among the Financial Action Task Force (FATF) member states. *Journal of Financial Regulation and Compliance*, *26*(3), 442–459. https://doi.org/10.1108/jfrc-11-2017-0103.

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 (Text with EEA relevance), OJ L, 2024/1624, 19.6.2024, ELI: http://data.europa.eu/eli/reg/2024/1624/oj.

Tsingou, E. (2018). New governors on the block: The rise of anti-money laundering professionals. *Crime, Law and Social Change*, *69*(2), 191–205. https://doi.org/10.1007/s10611-017-9751-x.

Wedege, A., Hildebrand, F., Gittfried, N., & Testino, B. (2024, December 3). *The Future of Sanctions Compliance in European Banking*. Boston Consulting Group. https://www.bcg.com/publications/2024/future-of-sanctions-compliance-in-european-banking.