

## Executive Summary

1. This report provides a summary of the anti-money laundering and combating the financing of terrorism (AML/CFT) measures in place in Sweden at the date of the on-site visit (26 May 2016 to 10 June 2016). It analyses the level of compliance with the *FATF 40 Recommendations*, the level of effectiveness of Sweden's AML/CFT system, and makes recommendations on how the system could be strengthened.

### A. Key Findings

- Sweden has a reasonable understanding of its ML/TF risks, but this is not consistent across authorities. Sweden does not have a national coordination body for AML/CFT at the policy level, which has a negative effect on Sweden's effectiveness in other areas, including the understanding of risk across agencies.
- Sweden's implementation of targeted financial sanctions (TFS) against terrorist financing is ineffective, mainly because of serious technical deficiencies that are inherent within the framework of applicable EU regulations, and because of Sweden's failure to propose or make designations itself. Sweden is not able to transpose TFS against proliferation financing without delay, but this is mitigated by other factors and has not had a practical effect on Sweden's ability to properly comply with UNSCRs on proliferation.
- Sweden prioritises international cooperation and has established highly effective mechanisms for providing it, including specific liaison mechanisms with Nordic and Baltic neighbours, EU cooperation instruments, and dedicated channels for operational cooperation with law enforcement authorities.
- Sweden systematically collects and uses financial intelligence; however, the FIU has inadequate IT tools and its strategic analysis function is still being established. These deficiencies limit its ability to identify complex cases of money laundering and to provide risk information for other authorities and the private sector.
- Authorities show a high degree of commitment and capacity to pursue ML and TF cases and to trace and confiscate the proceeds of crime. Prior to 2014 Sweden suffered problems with both its ML and TF offences. The new ML offence (introduced in 2014), and the new TF offence (introduced in 2016) have

addressed these problems and have greatly improved the potential for investigation and prosecution of ML and TF, although authorities still need to build experience and precedents for applying the new offences in practice.

- Sweden has a comprehensive supervisory system. Financial institutions and Designated Non-Financial Business and Professions (DNFBP) generally comply with their obligations, and have been subject to enforcement action when they do not. However, not all supervisors have a sufficient understanding of the risks to apply a risk-based approach effectively, and the FSA should increase its capacity, in order to conduct an appropriate number of AML/CFT-focused supervisory actions given the risk and size of Sweden's financial sector.
- Legal ownership and control is highly transparent in Sweden, and some beneficial ownership information is available. However, this is not sufficient to ensure that beneficial ownership information is available in all cases as such information is not collected systematically and not subject to adequate verification or sanctions.

## ***B. Risks and General Situation***

2. Sweden is an open economy that is located in the northern periphery of Europe. The economic system is characterised by a large proportion of card transactions, and consequently a small proportion of cash handling. Sweden is ranked by the IMF as one of 29 systemically important financial centres in the world, and has a large banking sector with assets amounting to about four times GDP. Sweden is also an important financial centre for the Nordic and Baltic regions.

3. Sweden is generally perceived as a safe country with low crime. Sweden ranks near the top of international indices for low corruption and strong rule of law. Tax crimes are the most significant predicate offence for money laundering identified in Sweden's national risk assessment. Fraud is also identified as a major and growing concern. Both offences contribute a large part to the proceeds of organised crime in Sweden. The most significant criminal typology is tax fraud related to unregistered labour where, in order to bypass tax regulations, businesses pay undeclared cash wages. Some such schemes use corporate structures in Sweden and other countries, and false invoicing, to conceal the nature of the activity. Organised crime is also associated with smuggling, mainly of narcotics, performance enhancing drugs, cigarettes and arms.

4. Terrorism, and as a consequence terrorist financing, in Sweden is dominated by actors motivated by violent Islamic extremism, whose purpose is to promote or commit acts of violence in conflict areas such as Syria, Iraq, Afghanistan, Somalia and Yemen, or against Sweden or Swedish interests. The emergence of ISIL in Syria and Iraq transformed the terrorist threat in Sweden: between 2012 and 2015, approximately 300 Swedish residents had travelled to Syria to join ISIL, of which 40 have been confirmed deceased and 140 had returned to Sweden, where they constitute a new risk.

### *C. Overall Level of Effectiveness and Technical Compliance*

5. Following the last FATF evaluation in 2006, Sweden's AML/CFT regime has undergone significant reforms. The introduction of a revised money laundering offence and other measures in 2014 and a revised terrorist financing offence in 2016, together with organisational changes to a number of authorities, has led to significant changes and improvements in Sweden's AML/CFT system. Nevertheless, improvements are still needed in national AML/CFT policy coordination, the assessment of risk, and the implementation of targeted financial sanctions.

6. While these changes have been implemented quickly in some cases, there has been limited time for them to be reflected in the results being achieved and assessed for Effectiveness. The quality and use of statistics relevant for money laundering is uneven, especially regarding the proceeds of crime. Sweden is highly effective in the area of international cooperation, and achieves a substantial level of effectiveness in the investigation and prosecution of both money laundering and terrorist financing as well as in confiscation of the proceeds of crime, and in the application of measures to counter the financing of proliferation of weapons of mass destruction. Sweden achieves only a moderate level of effectiveness in other areas, and significant improvements are needed in understanding ML/TF threats, domestic coordination, using financial intelligence and other information, the supervision of financial institutions and non-financial businesses and professions, the application of targeted financial sanctions for TF, and measures to prevent the misuse of legal persons and arrangements.

#### *C.1 Assessment of risk, coordination and policy setting (Chapter 2; IO.1, R.1, 2 & 33)*

7. Sweden's authorities perceive their highest ML risks to be tax crimes, fraud, organised crime, and cash movements. The identified risks are largely reasonable, but some significant risks identified by law enforcement are not sufficiently developed in the national risk assessments (NRAs), for example the misuse of companies and new technologies. Key agencies in Sweden have gone beyond their limited NRAs in terms of identification and understanding of the risks that Sweden faces. But gaps remain and not all authorities have done so, which limits how Sweden is able to address its risks, in particular some areas that have been identified as higher risk. The strengths of the process and results of the development of the NRAs are the broad agency involvement and the frank identification and description of the vulnerabilities and knowledge gaps. Swedish authorities have commissioned a number of follow-up reports to the NRAs in different formats.

8. Sweden has a national strategy to address key deficiencies identified by the 2013–14 NRAs. It outlines high-level priorities and describes a number of measures to be taken, such as legislative amendments to improve LEAs' tools for pursuing ML, TF, confiscation and cross-border cash movements, actions to fill knowledge gaps in several areas, and necessary improvements in co-ordination and analysis. The strategy is a significant step for Sweden's development of AML/CFT policies, but contains a number of gaps, in part because of the knowledge gaps identified by Sweden's NRA. With a few exceptions it does not contain national priorities to address Sweden's specific ML/TF risks identified (e.g. tax crimes, fraud, organised crime and cash movements). There

is no formal mechanism of coordination to assess risks and develop policy in Sweden. Nor is there any formal mechanism in place to review and update the strategy.

9. Sweden's largest challenge is the coordination of a complex structure of agencies in the field of AML/CFT. Currently, there is no national coordination body for AML/CFT and responsibilities are dispersed between many autonomous agencies. While operational cooperation and coordination is good in some areas (e.g. on organised crime or tax), there are some disconnects in Sweden's system, as individual agencies form and pursue their own priorities. There is also a concern that relevant risk information gathered by one agency may not be shared in an effective manner with other agencies. Swedish authorities are aware of these deficiencies, which are identified both in the 2013 NRA on ML and the Strategy of 2014.

*C.2 Financial intelligence, and ML investigations, prosecutions and confiscation (Chapter 3; IO.6, 7, 8; R.3, 4, 29–32)*

10. Sweden systematically collects and uses financial intelligence and other relevant information in investigations of money laundering and in tracing criminal proceeds. The ability of Sweden to use financial intelligence has improved since the new money laundering offence entered into force July 2014. The new offence provided the authorities with better tools to freeze assets and prosecute money-launderers. As a consequence, the work of the financial intelligence unit and law enforcement authorities has since focused more on the money laundering offence itself, while previously their focus was on the predicate offences. Several major money laundering investigations and prosecutions have been undertaken on the basis of financial intelligence, and the FIU also supports other law enforcement investigations.

11. However, the Swedish FIU (the Financial Police – “Fipo”) has not yet achieved its potential because its operational analysis is not able to identify complex cases of money laundering. This is mainly due to the inadequate IT tools that do not allow for transaction pattern recognition. Fipo's strategic analysis function is still being established and it does not yet produce strategic intelligence products. Sweden's access to financial intelligence in some financial sector entities and DNFBPs has been hindered by the fact that Fipo has not provided supervisory authorities and the private sector with information on typologies, trends, and financial profiles. Improved strategic analysis of ML (beyond the misuse of cash), and increased access to financial intelligence, would contribute to better understanding of ML scenarios by law enforcement. This should enhance the investigation and prosecution of third-party ML, particularly large scale cases.

12. The new ML offence (in force since July 2014) has greatly improved Sweden's ability to investigate and prosecute ML. The requirements of the pre-2014 ML offence severely limited LEAs' ability to investigate and prosecute ML activity. Since 2014, the new ML offence requires prosecutors to show that laundered property “derives from criminal activity”. The new legislation has been used proactively and has contributed to good results in a short time period. Different types of ML have been investigated, prosecuted and convicted, particularly targeting stand-alone ML. The authorities show a high degree of commitment to the new ML offence, particularly embedding the ML offence within their structure and practices. Due to the legislation being relatively new, it is not yet clear whether the sanctions imposed are effective and dissuasive. Lack of comprehensive statistics (due in

part to Sweden's sentencing practices) also limits the ability of the authorities to monitor convictions and fully understand the impact of the new legislation.

13. The authorities consider depriving criminals of their assets to be a highly dissuasive penalty and therefore prioritise tracing and confiscating assets. Confiscation is pursued as a policy objective. Asset tracing investigations are generally effective: Swedish LEAs efficiently trace assets, take measures to secure them, and are increasingly able to ensure that judges award the confiscation of criminal assets. Nonetheless, the lack of clear statistics on the assets recovered from criminals make it challenging to quantitatively assess the degree to which Sweden achieves the objectives of its confiscation policies. The identification and seizure of cash by Customs could be improved, and the efforts to uncover ML through transportation of cash do not reflect the risks identified.

### *C.3 Terrorist and proliferation financing (Chapter 4; IO.9, 10, 11; R.5–8)*

14. Swedish authorities prioritise combating terrorist financing and have developed methods and capacity to pursue it. Financial investigations are conducted alongside all counter-terrorism cases, and authorities disrupt terrorist financing activity in cases when it is impossible to obtain a conviction for TF. There is active and well-coordinated inter-agency and international cooperation, including through dedicated liaison staff, and CFT is reflected in Sweden's measures to prevent terrorism and violent extremism.

15. Sweden has only prosecuted a small number of TF cases reflecting the difficulty of successfully conducting prosecutions under the old TF offence, and the very recent introduction - in April 2016 - of a new TF offence. In addition, TF threats to Sweden relating to foreign terrorist fighters have escalated sharply since 2014. The new TF offence, addresses past problems, but it is too early for its practical impact on effectiveness to be widely felt, and authorities still need to build experience and precedents for applying the new offence in practice. The combination of new threats and new laws mean Sweden cannot demonstrate a long track record of cases in this area, but nevertheless seems to have a substantial level of effectiveness.

16. Sweden's implementation of targeted financial sanctions (TFS) against terrorist financing is ineffective, mainly because of serious technical deficiencies that are inherent within the framework of applicable EU regulations, and Sweden's failure to use either mechanism to propose or make designations. Sweden has no mechanism to use targeted financial sanctions at a national level in response to terrorist threats affecting Sweden, has never on its own proposed a designation to the UN or to the EU, and has no mechanism to make its own designations. Sweden also suffers excessive delays in the transposition of UN sanctions, and gaps in the ability to sanction EU internal terrorists. This appears to weaken authorities' ability to prevent terrorist financing flows.

17. Sweden has a solid and effective framework of measures to prevent the misuse of NPOs. While there is limited formal oversight or supervision, there are strong self-regulatory initiatives and voluntary engagement with government agencies. Rigorous self-regulatory measures apply to NPOs which account for a significant portion of the financial resources under control of the sector, and additional oversight by the Swedish International Development Agency (SIDA) applies to those which represent a substantial share of the sector's international activities.

18. Sweden implements targeted financial sanctions (TFS) regarding the financing of proliferation of weapons of mass destruction, through EU measures. TFS relating to proliferation are in a technical sense not implemented without delay, owing to the time taken to transpose UN designations into EU regulations. However, in the case of Iran, sanctions were implemented without delay as a result of the more extensive EU sanctions regime, and in the case of the DPRK, the risk posed by delays is largely mitigated by the negligible trade and financial links between Sweden and the DPRK. Overall, persons and entities designated by the United Nations Security Council Resolutions (UNSCRs) on proliferation of weapons of mass destruction (WMDs) are identified, deprived of resources, and prevented from raising, moving, and using funds or other assets for the financing of proliferation.

#### *C.4 Preventive measures (Chapter 5; IO.4; R.9–23)*

19. Financial institutions' and DNFBPs' compliance with their obligations is generally adequate. Large banks, especially those that have been subject to enforcement actions by the FSA, have made significant efforts in enhancing AML/CFT compliance and in strengthening their compliance resources. The larger banks and large MVTs providers are generally aware of their obligations and are also in frequent contact with the authorities. As a result, their level of risk understanding is stronger, and consequently they have applied additional risk-mitigating measures where necessary. Smaller FIs and DNFBPs are aware of their obligations and apply those in accordance with the law. But their knowledge of their ML/TF risks is limited to only what is in the NRAs and other reports, and they receive little additional guidance on risk from the authorities. The application of additional measures to address specific risks by these sectors is very limited.

20. Financial institutions and DNFBPs generally conduct adequate CDD and monitoring of their customers. However, the measures taken with regard to beneficial ownership are not commensurate with the risks. Financial institutions and DNFBPs also seem over-reliant on information in held in company registers when identifying and verifying the identity of beneficial owners.

21. The authorities report that the quality of the Suspicious Transaction Reports (STRs) has improved over the past two years, particularly for those filed by larger institutions. However, most DNFBP sectors (such as Trust and Company Services Providers (TCSPs), lawyers, and real estate agents) are filing very few STRs, despite the risks identified in those areas. Supervisory authorities have been trying to improve the ability to recognise suspicious activity and the number and quality of STRs by focusing on suspicious activities and reporting requirements in their inspections. However, this will be difficult as there is very limited guidance on typologies, red flags and indicators, insufficient information shared by the FIU and LEAs, and as most DNFBPs have little or no interaction with the relevant supervisor.

#### *C.5 Supervision (Chapter 6; IO.3; R.26–28, 34, 35)*

22. The supervisory AML/CFT system in Sweden covers all obliged entities. All fundamental elements of an AML/CFT supervisory system are in place, but there are weaknesses in applying risk-based supervision. Supervisors' understanding of ML/TF risks is based on the 2013-2014 NRAs, which do not provide a comprehensive picture and analysis of Sweden's risks. The FSA has made

efforts to understand the TF risks by commissioning additional research and is updating its knowledge from external sources as the media and international fora. Most of the other supervisors have not assessed any additional ML/TF risks that may occur in their sectors. The current methods of assessing the ML/TF risks of most types of supervised entities are basic and do not allow for effective risk-based supervision.

23. Sweden is a significant financial centre. More supervisory resources need to be allocated in order for the Swedish FSA to undertake appropriate onsite and offsite supervisory actions commensurate with the risk and the size of Sweden's financial and DNFBP sectors.

24. Most supervisory authorities have in their activities identified deficiencies in the implementation of AML/CFT control measures by reporting entities and have taken actions to improve their compliance, including enforcement actions which have been published. The FSA has revoked the licence of a large credit market company in one case, and in another case used the highest monetary fine available to it – however at that time, the maximum available fine was low relative to the size of the bank. Sweden has since changed its laws in August 2014 to increase the maximum fine from an absolute figure to a percentage of turnover. The FSA has applied lower levels of sanctions in other cases. All supervisors have issued AML/CFT regulations and some authorities (the FSA, the CABs, the SBA, the FMI) have issued additional guidance. However, the level of understanding by the private sector is uneven, which may be due to some of the guidance provided not giving sufficient detail in terms of AML/CFT obligations.

#### *C.6 Transparency and beneficial ownership (Chapter 7; IO.5; R.24, 25)*

25. Legal ownership and control is highly transparent in Sweden, due to a strong tradition in the transparency of information, including the public availability of information held in the company registers, as well as corporate and personal information (e.g. tax returns of individual companies and natural persons). Hence, complex legal structures established in Sweden and their legal owners can easily be traced, with the exception of some legal entities such as non-profit associations and some types of foundations that are not obliged to register, and foundations that have yet to comply with their requirement to register. However, the misuse of legal persons is a vulnerability identified by Sweden. Sweden has yet to perform a full assessment of the ML/TF risks associated with all types of legal entities. The use of false identities, corporate structures, and straw persons (i.e. where legal owners or directors are not the actual beneficial owners/controllers) are identified by the authorities as regularly used in criminal schemes which can affect the reliability of the information collected. Some beneficial ownership information is available from company registers (for simple ownership structures) or from financial institutions and DNFBPs (from CDD measures). Although this does not make beneficial ownership information available in all cases, beneficial owners may be identified by competent authorities through investigative measures using other sources of information.

26. Swedish law does not provide for the creation of trusts or other legal arrangements, and Sweden is not a party to the Hague Trust Convention. But there is no prohibition on trust activities being conducted, and banks do have trustees as clients (although this is not common), and some trust service providers operate in Sweden. Information on trust-relevant parties is therefore only

available from CDD information collected by the FIs and DNFBPs, and through investigative measures by competent authorities.

### *C.7 International cooperation (Chapter 8; IO.2; R.36–40)*

27. Sweden prioritises international cooperation and has established highly effective mechanisms for providing it. Sweden exchanges and seeks appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets. Cooperation is very close with the Nordic and Baltic regions, but extensive cooperation also takes place with EU members and other countries worldwide. Sweden provides timely mutual legal assistance and extradition/surrender to countries using direct European mechanisms (e.g. European arrest warrants, Eurojust), and through dedicated international chambers of public prosecutors and a central authority at the Ministry of Justice.

28. Law enforcement cooperation is a particular strength, particularly thanks to the well-resourced Single Point of Operative Contact (SPOC) which receives, actions, and follows-up on requests for cooperation. Sweden also uses a network of liaison officers to facilitate cooperation, including both Swedish liaisons and shared Nordic liaison officers. Investigators and prosecutors make effective use of joint investigative teams to investigate ML and recover the proceeds of crime. FIU to FIU cooperation takes place through shared platforms and appears to currently be prioritised effectively by the FIU. Sweden's FSA collaborates closely with foreign supervisors when supervising Swedish financial institutions which operate in other countries, through supervisory colleges and joint on-site inspections, as well as coordination on investigations and sanctions cases.

29. Sweden actively seeks international cooperation when intelligence or evidence is needed from foreign partners, including tracing money abroad and authorities have successfully prosecuted some cases involving international criminal networks through cooperation with foreign counterparts. Sweden is able to provide available beneficial ownership information on legal persons to requesting states though there are certain limitations concerning the identification of beneficial owners particularly when foreign legal persons are involved.

### **D. Priority Actions**

30. The prioritised recommended actions for Sweden, based on these findings, are:

- Sweden should urgently introduce legal powers which will enable authorities to apply targeted financial sanctions relating to terrorism or proliferation, as a bridging measure; to EU internal terrorists; or on a national basis, together with a body or mechanism responsible for developing proposals for designation.
- Sweden should establish a national mechanism to ensure adequate cooperation and coordination at policy level between ministries and operational agencies. Clear policies/instructions on division of labour; procedures for cross-agency case handling; and forums for sharing of risk information should be established, particularly between the FIU and LEAs and the supervisors.

- Sweden should increase the access to and use of financial intelligence to identify complex cases of money laundering as well as professional money laundering, based on improved IT systems at the FIU and by developing its strategic analysis capacity.
- Supervisors should improve their understanding of risks in their specific sector(s), supported by better tools and inter-agency communication, and use this understanding to implement a risk-based approach towards supervising the reporting entities. Sweden should increase the capacity of the FSA's AML unit in order for it to undertake appropriate AML/CFT on-site and off-site supervisory actions, commensurate with the risk and size of Sweden's financial sector.
- Sweden should take forward its plans to establish a central register of beneficial ownership (as required by the EU Fourth Anti-Money Laundering Directive). Sweden should also conduct a full risk assessment of the misuse of all the legal persons for ML/TF, and develop measures to mitigate the use of straw-men and corporate structures.
- Authorities should build experience and establish precedents for prosecution and sentencing under the recently revised ML and TF offences.

## Effectiveness & Technical Compliance Ratings

### Effectiveness Ratings (High, Substantial, Moderate, Low)

<b>IO.1</b> - Risk, policy and coordination	<b>IO.2</b> - International cooperation	<b>IO.3</b> - Supervision	<b>IO.4</b> - Preventive measures	<b>IO.5</b> - Legal persons and arrangements	<b>IO.6</b> - Financial intelligence
<b>Moderate</b>	<b>High</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>
<b>IO.7</b> - ML investigation & prosecution	<b>IO.8</b> - Confiscation	<b>IO.9</b> - TF investigation & prosecution	<b>IO.10</b> - TF preventive measures & financial sanctions	<b>IO.11</b> - PF financial sanctions	
<b>Substantial</b>	<b>Substantial</b>	<b>Substantial</b>	<b>Moderate</b>	<b>Substantial</b>	

### Technical Compliance Ratings

(C - compliant, LC – largely compliant, PC – partially compliant, NC – non compliant)

<b>R.1</b> - assessing risk & applying risk-based approach	<b>R.2</b> - national cooperation and coordination	<b>R.3</b> - money laundering offence	<b>R.4</b> - confiscation & provisional measures	<b>R.5</b> - terrorist financing offence	<b>R.6</b> - targeted financial sanctions – terrorism & terrorist financing
<b>LC</b>	<b>PC</b>	<b>LC</b>	<b>LC</b>	<b>LC</b>	<b>PC</b>
<b>R.7</b> - targeted financial sanctions - proliferation	<b>R.8</b> - non-profit organisations	<b>R.9</b> - financial institution secrecy laws	<b>R.10</b> - Customer due diligence	<b>R.11</b> - Record keeping	<b>R.12</b> - Politically exposed persons
<b>PC</b>	<b>LC</b>	<b>LC</b>	<b>LC</b>	<b>C</b>	<b>LC</b>
<b>R.13</b> - Correspondent banking	<b>R.14</b> - Money or value transfer services	<b>R.15</b> - New technologies	<b>R.16</b> - Wire transfers	<b>R.17</b> - Reliance on third parties	<b>R.18</b> - Internal controls and foreign branches and subsidiaries
<b>LC</b>	<b>C</b>	<b>C</b>	<b>PC</b>	<b>PC</b>	<b>PC</b>
<b>R.19</b> - Higher-risk countries	<b>R.20</b> - Reporting of suspicious transactions	<b>R.21</b> - Tipping-off and confidentiality	<b>R.22</b> - DNFBPs: Customer due diligence	<b>R.23</b> - DNFBPs: Other measures	<b>R.24</b> - Transparency & BO of legal persons
<b>LC</b>	<b>C</b>	<b>C</b>	<b>LC</b>	<b>LC</b>	<b>PC</b>
<b>R.25</b> - Transparency & BO of legal arrangements	<b>R.26</b> - Regulation and supervision of financial institutions	<b>R.27</b> - Powers of supervision	<b>R.28</b> - Regulation and supervision of DNFBPs	<b>R.29</b> - Financial intelligence units	<b>R.30</b> - Responsibilities of law enforcement and investigative authorities
<b>PC</b>	<b>PC</b>	<b>LC</b>	<b>LC</b>	<b>LC</b>	<b>C</b>
<b>R.31</b> - Powers of law enforcement and investigative authorities	<b>R.32</b> - Cash couriers	<b>R.33</b> - Statistics	<b>R.34</b> - Guidance and feedback	<b>R.35</b> - Sanctions	<b>R.36</b> - International instruments
<b>LC</b>	<b>PC</b>	<b>LC</b>	<b>LC</b>	<b>LC</b>	<b>C</b>
<b>R.37</b> - Mutual legal assistance	<b>R.38</b> - Mutual legal assistance: freezing and confiscation	<b>R.39</b> - Extradition	<b>R.40</b> - Other forms of international cooperation		
<b>LC</b>	<b>LC</b>	<b>C</b>	<b>C</b>		