

FATF



Anti-money laundering and
counter-terrorist financing
measures

Norway

Follow-up assessment

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Table of contents

| | |
|--|----|
| 5th Year Follow-Up Assessment Report of Norway | 2 |
| 1. INTRODUCTION | 2 |
| 2. EFFECTIVENESS AND COMPLIANCE RATINGS | 3 |
| 3. ML/TF RISKS AND CONTEXT | 4 |
| 4. OVERVIEW OF PROGRESS TO IMPROVE EFFECTIVENESS | 10 |
| 5. CONCLUSION | 69 |
| Glossary of Acronyms | 71 |

5th Year Follow-Up Assessment Report of Norway

1. INTRODUCTION

1. The mutual evaluation report (MER) of Norway was adopted on 23 October 2014¹ and Norway was placed under the enhanced follow-up process. Norway subsequently presented four follow-up reports (FUR)², two of which had Technical Compliance (TC) re-ratings requests. As a result, Norway received a re-rating on 20 Recommendations (see Table 2). The first three FURs also provided effectiveness updates for information on all Immediate Outcomes (IOs).

2. The follow-up assessment (FUA) aims at providing a targeted and comprehensive update on the progress made by Norway to strengthen the effectiveness of its anti-money laundering / counter terrorist financing (AML/CFT) system. This FUA report (FUAR) provides a targeted and comprehensive update of such progress, focusing on the following Immediate Outcomes (IOs) rated Moderate, in areas of higher risk and materiality. The IOs identified in the scope of the Norway FUA are IO.1, IO.3, IO.6, IO.8 and IO.11. As agreed in the *Practical Implementation of the First Six 5th Year Follow-up Assessments*³, the FUA focuses on the country's progress to address the Priority Actions (PAs) and Recommended Actions (RAs) related to those scoped IOs.

3. This FUAR is based on the 2012 FATF Recommendations and prepared in line with the FATF Procedures (paras. 101-102) and the 2013 Methodology. The assessment team took into account the changes to the FATF Methodology. This report is based on information provided by Norway (e.g. effectiveness update, FUA submission since April 2019). The evaluation team also gathered additional information during the discussions with competent authorities and the private sector during the on-site visit to Norway from 3-7 June 2019.

4. The evaluation team is composed of :

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¹ FATF-ME(2014)1

² 1st FUR (FATF/PLEN(2016)17); 2nd FUR (FATF/PLEN(2017)14); 3rd FUR with TC re-ratings (FATF/PLEN(2018)9/REV2) and 4th FUR with TC re-ratings (FATF/PLEN(2019)8/REV2)

³ FATF/ECCG/WD(2019)2 (February 2019)

2. EFFECTIVENESS AND COMPLIANCE RATINGS

5. The table below presents Norway's effectiveness ratings (as of 2014 MER) and TC ratings (as last re-rated in February 2019) :

Table 1. Norway's effectiveness ratings (as of 2014 MER)

| | | | | | | | | | | |
|------|------|------|------|------|------|------|------|------|-------|-------|
| IO.1 | IO.2 | IO.3 | IO.4 | IO.5 | IO.6 | IO.7 | IO.8 | IO.9 | IO.10 | IO.11 |
| ME | SE | ME | ME | ME | ME | ME | ME | SE | ME | ME |

Table 2. Norway's TC ratings (as of 2014 MER)

| | | | | | | | | | |
|------|------|------|------|------|------|------|------|------|------|
| R.1 | R.2 | R.3 | R.4 | R.5 | R.6 | R.7 | R.8 | R.9 | R.10 |
| LC* | LC* | C | C* | C* | PC | C* | LC | C* | LC* |
| R.11 | R.12 | R.13 | R.14 | R.15 | R.16 | R.17 | R.18 | R.19 | R.20 |
| C* | C* | PC | C* | C* | PC | LC* | LC* | LC | C |
| R.21 | R.22 | R.23 | R.24 | R.25 | R.26 | R.27 | R.28 | R.29 | R.30 |
| C* | LC* | LC | PC | C* | C* | C* | C* | LC | C |
| R.31 | R.32 | R.33 | R.34 | R.35 | R.36 | R.37 | R.38 | R.39 | R.40 |
| LC | C | PC | LC | C* | C | LC | LC | LC | LC |

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC) and non-compliant (NC). In rare cases, a Recommendation may be not applicable (N/A). Ratings marked with an asterisk (*) were re-rated after the MER was adopted and in the course of the follow-up process.

Source:

- Norway Mutual Evaluation Report, December 2014
www.fatf-gafi.org/media/fatf/documents/reports/mer4/Mutual-Evaluation-Report-Norway-2014.pdf
- Norway 3rd Enhanced Follow-up Report, March 2018
www.fatf-gafi.org/media/fatf/documents/reports/mer4/FUR-Norway-March-2018.pdf
- Norway 4th Enhanced Follow-up Report, March 2019
www.fatf-gafi.org/media/fatf/documents/reports/fur/Follow-Up-Report-Norway-2019.pdf

3. ML/TF RISKS AND CONTEXT

6. Norway's general situation, materiality (meaning its size, territorial makeup, population, GDP and constitutional structure) and context did not substantially change since 2014. Please refer to Chapter 1 of the 2014 MER for more information.

7. Some changes occurred in relation to Norway's legal and institutional framework. There are also a few updates in relation to the size and makeup of financial and DNFBP sectors and the country's ML/TF risks. This Section provides a brief update on these aspects as they are of particular relevance to all the IOs within the scope of this FUAR.

3.1. Overview of ML/TF Risks

8. The major sources for proceeds of crime remain generally the same as in 2014, that is: organised crime, tax crimes and fraud. The 2018 National Risk Assessment (NRA) links these illegal proceeds to the misuse of Norwegian business structures, especially abroad (i.e. tax evasion schemes, corruption). The NRA also notes that in recent years, proceeds generated from fraud are linked to the use of digital technology, including social media and internet-based payment platforms. Since 2014, Norway has increasingly focused on the phenomenon of work-related crimes.

9. Acting on the deficiencies noted in the 2014 MER, the subsequent NRAs conducted by Norway provided authorities with a clearer picture of the country's ML threats and vulnerabilities. For instance, the 2018 NRA identifies the following areas as general vulnerability for ML/TF:

- The identification of *beneficial owners* (e.g. FIs challenges in identifying and verifying BO information, misuse of complex and international ownership structures and nominee arrangements);
- The misuse of reporting entities (REs), especially *banks* and *money or value transfer services (MVTs)* for ML/TF purposes. Norway also considers that *e-money institutions*⁴ are particularly vulnerable; especially transactions carried out in Norway using foreign prepaid payment cards.

10. *Banks* are exposed to a high risk of being exploited for ML, in particular the largest banks which have a broader product range than smaller savings banks. New operators and technologies that are used represent a greater ML risk than established banking services. *MVTs providers (26) and their agents (529)* are another high-risk sector. Among the 26 MVTs providers, funds moved abroad via the 13 hawala MVTs providers are identified as presenting the highest ML/TF risks. Among the other 13 non-hawala MVTs providers, two are classified as high risk, seven as medium and four as low risk (see para 21). Customer due diligence has been identified as not thorough and money transfer is a particularly common method used in ML cases that can be assumed to be linked to illegal drug sales and prostitution.

11. The 2018 NRA identified that there is a moderate risk associated with the following sectors:

⁴ E-money institutions can issue electronic money and perform payment services. At the end of 2017, Norway had seven registered enterprises as e-money institutions.

- The ML risk associated with *real estate agents and real estate brokering* is generally moderate considering the nature of transactions and profile of clients.
- The NRA recognises that *lawyers*, their expertise, advisory role and client accounts are being used by criminals to launder funds. While this sector as a whole is considered to be moderately suited for ML, the NRA also identifies that law firms engaging in real estate activities are generally exposed to a higher ML/TF risk.
- *Finance enterprises* are exposed to medium-risk when controls of the origin of the customer's funds are inadequate.
- *E-money institutions* are also exposed to medium-risk as the user is largely anonymous and that amounts can easily be transferred domestically or internationally. Increased smuggling of prepaid cards shows that money laundering using e-money institutions is also a genuine risk in Norway.
- Considering the overall product ranges and the size of the insurance companies, overall there is a moderate risk of money laundering in the *insurance sector*.

12. The *gaming sector* has been assessed as medium-low. Norwegian gambling market is dominated by two state-operated lotteries (representing approx. 90% of market shares) with the monopoly for gambling and horse racing activities.

13. Due to their limited product range⁵, *credit institutions* are less exposed and represent a lower risk. Because the FSA does not consider the *securities sector* to be inherently at risk of ML, the sector as a whole is in the low risk category. This classification is however nuanced in the 2018 NRA, which recognises that there are different risks within each of the securities actors, which derive from their specific threats and vulnerabilities. Similarly, the risks associated with *auditors* and *accountants* are generally classified as low (for example, due to the absence of cash flows involved). The FSA's 2019 risk assessment, however, recognises that there are some higher risk factors associated to the advisory role of these categories, but also concludes that the risk remains rather negligible in view of the services generally provided by these sectors. Despite the identified increased use of auditors and accountants, the FSA does not consider this use to be widespread, which also contributes to this sector being placed as a whole at a lower risk level.

14. These ML/TF risks are particularly relevant to the IOs falling within the scope of this FUAR, namely IOs 1, 3, and 6.

3.2. Country's risk assessment

15. The MER noted that Norway did not adequately identify and assess its risks. Since 2014, Norway took a number of action to address these shortcomings. As a result, the FUAR of Norway includes the re-assessment of IO.1. Thus, to avoid duplication, information on progress made by Norway in relation to its assessments of risks is presented under Section 4.1 below.

⁵ Most Norwegian credit institutions are institutions issuing covered bonds and typically provide long term loans for specific purposes to companies; they do not provide products and services with a higher ML/TF risk such as payment services, private banking services or receive deposits.

3.3. Materiality

16. **The size and general makeup of the economy did not substantially change since the MER.** Norway remains a small and open economy, with a few major export industries. The use of cash in Norway is steadily declining - in 2018 cash represented only about 2,3 % of the total means of payment. The number of transactions using cards (both debit and credit) continues to rise. The makeup of the financial and DNFBP sectors has not substantially changed since 2014.

17. The continuing economic and political stability makes Norway an increasingly attractive location for foreign placement of assets - both of legal and illegal origins.⁶⁷ The economy has a large service sector, including major international companies and with close foreign connections. For instance, many of the largest Norwegian companies are established in developing countries, which further increases the threat of serious economic crimes, such as corruption and tax evasion

3.4. Structural Elements & Other Contextual Factors

18. The main structural elements required for an effective AML/CFT system have not substantially changed since the MER. Norway still has an independent judiciary, strong institutions and rule of law. There is strong political commitment to the fight illicit financial flows, including ML and TF. Freedom of the press combined with a strong civil society contribute to the system's overall effectiveness and resilience. This is particularly relevant due to high transparency expectations in both the central and local governments. A number of international indicators still confirm this picture (e.g. Transparency International ranked Norway 8th in the 2018 Corruption Perceptions Index).

3.5. Legal and Institutional Framework

19. The legal and institutional framework of Norway as it relates to the IOs falling within the scope of the FUAR has substantially changed since the MER –

Institutional framework

- i. In October 2014, Norway established a national co-ordination mechanism, the *Contact Forum for AML/CFT*, to identify ML/TF threats and trends, coordinate work to develop AML/CFT strategies and oversee development of Norway's NRA. The Contact Forum is headed by the Ministry of Justice and Public Security, and has members from the following government agencies and institutions: Ministry of Finance (MoF), Ministry of Foreign Affairs (MFA), Director of Public Prosecutions (DPP), National Police Directorate (POD), Financial Supervisory Authority (FSA), financial intelligence unit (FIU), the Norwegian Police Security Service (PST) and the Police University College. Representatives for the private (financial) sector are invited to attend the meetings, when deemed appropriate (relevant to IO.1).
- ii. In 2016, Norway established the *National interagency analysis and intelligence Centre* (NTAES), to develop and implement more targeted and effective

⁶ E.g. investment firms, fund management companies and securities registers

⁷ ØKOKRIM's Threat Assessment 2015–2016

actions to combat financial crime, including work-related crime” (relevant to IO.1).

- iii. Between 2015-2017, Norway also established *interagency work-related crimes centres* in seven of the police districts to prevent and combat work-related crime via co-ordination between the police and other government agencies. Since 2019, the National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) has been training staff on the use of intelligence, including FIU’s financial intelligence. These centres carry-out joint regional work-related crime controls (onsite activity) and conduct analysis (relevant to IO.1, IO.6 and IO.8).
- iv. The *2016 Police Reform*: introduced the use of police projects, which aims to strengthen co-operation among law enforcement authorities (LEAs) and the FIU and improve use of financial intelligence by LEAs (relevant to IO.6 and IO.11).
- v. *This Reform* also reduced the number of police districts from 27 to 12. All 12 districts are responsible for investigating economic crimes and environmental crimes. The reform is intended to enhance each district’s ability to both prevent and combat crime (relevant to IO.8). Since 2014 the police received an approx. 30% increase in financial resources.
- vi. FSA continues to supervise financial institutions (FIs) and most DNFBPs (other than legal practitioners); *Supervisory Council for Legal Practice* (the Supervisory Council) continues to supervise legal practitioners in Norway. As a result of the amendments to the AML Act in October 2018 (see below), the *Norwegian Gaming Authority* (NGA), now supervises compliance with AML/CFT obligations, in addition to compliance with the gaming-specific laws and obligations (relevant to IO.3).

Legal framework

- a) Norway’s AML/CFT supervisory regime (*relevant to IO.3*):
 - i. Entry into force of amendments to the AML Act in October 2018 and the issuance of the AML Regulation on 14 September 2018 (which led to the re-rating of Recommendations 9, 10, 11, 12, 15, 17, 19, 22, 23, 25, 27, 28, 35);
 - ii. Since July 2017, *dealers in precious metals and stones (DPMS)* are no longer covered by the AML/CFT Act. Norway restricts cash payments to NOK 40 000 (EUR 4 000), which apply regardless of whether the payment is made in one or more transactions;
 - iii. All *trust and company services providers (TCSPs)* must now be authorised by FSA in order to operate in Norway. From a supervision point of view, the Supervisory Council is the competent authority for supervising lawyers providing trust and company services, while FSA supervises accountants and other legal and natural persons that provide trust and company services.
- b) Statistics (*relevant to IO.1 and IO.8*): Norway’s new Penal Code came into force on 1 October 2015, breaking down ML offences by type into different sections and introducing new statistical codes.

- c) Amendments to Iran and DPRK Regulations (*relevant to IO.11*): designations are transposed automatically into Norwegian law to ensure that targeted financial sanctions for proliferation financing (PF) are implemented without delay.
- d) Other specific legislative changes were adopted to improve inter-agencies co-operation and co-ordination in the area of work-related crime. This includes general rules to ease information-sharing (December 2018), as well as rules governing the NTAES' register for preparing intelligence analysis reports (June 2018).

3.6. Financial sector and DNFBPs

20. Norway's financial sector remain relatively small, still generally domestically orientated. Most sectors are relatively small (see Table 3 – *importance level*).

Table 3. Size, importance and risk level, relevant supervisory authorities for entities under AML/CFT supervision

| REs by sector | No. of entities (as of 7 June 2019) | Norway's assessment of importance level ⁸ | Supervisory authority/self- regulatory body | Risk level ⁹ |
|--|--|---|--|-------------------------|
| Banks | 146 | Most important | FSA | High |
| Credit institutions | 32 | Moderately important | FSA | Low |
| Financing institutions | 29 | Less important | FSA | Moderate |
| MVTS: Hawala MVTS and payment institutions ¹⁰ | 26 | Less important | FSA | High |
| MVTS: Agents for foreign payment institutions | 529 | Less important | Respective home supervisor & FSA | |
| Real estate | 503 agencies 4163 agents (must operate through agencies) 954 lawyers with a licence to operate as agents | Moderately important | FSA | Moderate |
| Lawyers (as of 31 December 2018) | 8 075 | Moderately important | SCLP (but FSA when conducting real estate brokering) | Moderate |
| e-money institutions | 6 | Less important | FSA | Moderate |
| Insurance companies & mediation | 11 Life 55 Non-life 101 Insurance mediation companies | Moderately important | FSA | Moderate |

⁸ As per FATF Methodology (p.99), financial and DNFBP sectors are to be weighted as being most important, moderately important or less important in relations to the issues of materiality.

⁹ In accordance with the 2018 NRA chapter 6.1

¹⁰ See para 21

| REs by sector | No. of entities (as of 7 June 2019) | Norway's assessment of importance level ⁸ | Supervisory authority/self- regulatory body | Risk level ⁹ |
|--|---|---|---|---------------------------------|
| Auditors | 8009 - authorised auditors 459 Licenced audit firms | Moderately important | FSA | Low |
| Accountants | 11.694 -Authorised accountants 2784 Authorised accounting firms | Moderately important | FSA | Low |
| Investment firms | - 96 & 29 Management companies for securities funds & 39 Managers of alternative investment funds | Moderately important | FSA | Low |
| TCSP | 1 | Less important | FSA | N/A |
| Virtual Asset Service Providers | 6 | Less important | FSA | High |
| DPMS | Approx. 1 350 | Less important | Tax authority | Moderate |
| Gaming Industry | | | NGA | |
| State lottery | Norsk Tipping Norsk Rikstoto | Important level | | Sports betting – Moderate |
| Horse betting through government-controlled foundation | Stiftelsen | Less important | | Game Terminals – Moderate |
| Bingo concessions covering bingo halls | 259 covering 241 | Less important | | Bingo – Low |
| Charity bingo | 222 | Less important | | Lottery – Low |
| Active large lotteries (turnover between NOK 200k and 100 mill.) | 129 | Less important | | Ship based casino – Moderate |
| License to hold the Norwegian Championship in poker | 1 | Less important | | Poker – Low |
| Active concessions for authorised entrepreneurs | 58 | Less important | | |

21. The MVTs sector is composed of 26 payment institutions and of 529 agents of foreign payment institutions. Of these 26, 13 are hawala MVTs (i.e. providing cross-border services). The other 13 are payment institutions servicing the domestic market. Hawala MVTs providers are at the highest ML/TF risk (see para 10). The value of transactions for hawala MVTs providers is smaller (NOK 943 million) than for non-hawala MVTs providers (NOK 79 040 million).

4. OVERVIEW OF PROGRESS TO IMPROVE EFFECTIVENESS

22. Norway made progress to address the Priority and Recommended Actions (PAs/RAs) identified in the 2014 MER in relation to Immediate Outcomes 1, 3, 6, 8 and 11 (all originally rated Moderate).

23. Based on the review of this progress, Norway is re-rated on the IO.1, 6 and 11 to a Substantial level of effectiveness.

24. The FATF welcomes the steps taken by Norway to improve its level of effectiveness with IO.3 and 8; however Norway needs to make further progress to justify a re-rating.

4.1. Risk, policy and co-ordination (Immediate Outcome 1) originally rated Moderate

25. The 2014 MER noted that Norway did not sufficiently identify and assess ML risks, and did not have a sufficient understanding of ML risks. AML activities were found to not be sufficiently based on ML risk, and there lacked national AML/CFT policies and effective co-ordination and co-operation mechanisms at the policy and operational levels. **IO.1 was the subject of 3 Priority Actions and 10 Recommended Actions.**

26. Norway submitted a number of documents relevant to the re-assessment of this IO, most notably: the 2018 NRA, the 2017 National AML/CFT Strategy and the 2015 Strategy for combating work-related crime. Authorities also provided information on the inter-agency co-operation to prevent and combat economic crime, work-related crime and the Contact Forum. In addition to the material provided in writing, the assessment team also met with the ministries and agencies that are part of the Contact Forum (see para. 19 – *institutional framework*), as well as several LEAs, including some of the regional police districts, the FIU and other authorities (e.g. Tax and Customs Authorities).

4.1.1. Progress in developing a robust process for the assessment of ML/TF risks [MER p.11, PA1 and p.50, RA a)]

Priority Action from the 2014 assessment

- Commence work as soon as possible on a more robust NRA, with full engagement by all relevant stakeholders, to comprehensively assess ML/TF risks, and disseminate the findings within government and the private sector.

Recommended Actions from the 2014 assessment

- Commence work as soon as possible on a more robust NRA (process, methodology and inputs) including by i) Considering quantitative and qualitative data on the risks facing Norway and the operation of AML/CFT measures; ii) Assessing and reflecting on the findings of various agency-level assessments on threat, vulnerability & consequence; and iii) Consulting with all relevant stakeholders

27. The Priority Action aims at addressing shortcomings relating to the process that Norway used in 2014 to assess and develop its understanding of ML/TF risks, while the Recommended Action provides more details relating to process, methodology and inputs. Therefore, actions taken by Norway to address these two items are presented jointly below.

NRA process and robustness

28. Since the 2014 assessment, Norway published its third NRA in 2018, which is an update to the second NRA conducted in 2016. The 2016 NRA and the 2018 NRA update processes were much more robust than the 2014 process. Discussions with authorities and the content of the NRA confirmed that the process was more effective, that it was better resourced and that sufficient time was provided for the conduct of the work.

29. The analysis throughout the 2018 NRA is generally much stronger than it was in 2014. For example, the 2018 NRA includes a detailed analysis of inherent vulnerabilities of important sectors of Norway's economy. It also discusses thoroughly key threats and profit-generating crimes such as tax crime, corruption, different types of fraud and other crimes, and it includes some general vulnerabilities in the ML/TF regime of Norway. The NRA also provides a risk assessment of both inherent and residual risk of a large number of reporting entities sectors and non-reporting sectors. It includes a good TF assessment. More details are provided in paras. 33-34.

Engagement of Relevant Stakeholders

30. Unlike the 2014 NRA (where Government stakeholder engagement was limited and the private sector was not involved), the 2016 and 2018 NRAs involved several agencies and the private sector. The NRA was developed by a working group led by the FIU. Its members included: police representatives from National Criminal Investigation Service (KRIPOS/NCIS), POD, Police University College, several police districts, PST, FSA, Finance Norway, the Customs Directorate and Tax authorities. The

group was also assisted by ØKOKRIM for the ML component and by PST for the TF component. Most of the members of the Contact Forum participated in the NRA workshops (all however were involved in the process itself). NTAES was also consulted as part of the process. Authorities sent a questionnaire to members of the working group and to REs (see para. 31). They also held workshops with several competent authorities and representatives from Finance Norway, which represents FIs. Authorities indicated that the input from the private sector was very useful.

Quantitative and Qualitative Data Sources

31. In 2014, the NRA was mainly based on STRs data from a 2011 trend report, with some other limited STR data. The drafters of the 2018 NRA used a much broader range of sources to collect data and other information in the development of the revised NRA, which has had a significant impact on the improvement of the quality of the NRA. All stakeholders provided information based on their respective understanding and assessments of risk. An important source of information in this regard was the stakeholders risk or threat assessments, including those of ØKOKRIM, KRIPOS/NCIS, PST, NTAES and FSA, and which are all based on comprehensive data and information collection. Stakeholders also provided input based on their operational experience and actual cases. In addition, as indicated in the previous section, a questionnaire was disseminated to all the stakeholders. This questionnaire was specifically tailored for the various stakeholders in order to obtain sector specific information. All agencies were requested to update the information provided to the 2016 NRA for the 2018 NRA, thus securing that the scope and structure remained the same and was updated.

32. The development of the 2018 NRA also benefited significantly from an increasing quantity of operational data such as STRs, as STRs increased by 80% between 2014 and 2018. In addition, it considered information from EUROPOL's Serious and Organised Crime Threat Assessment and other EUROPOL reports. However, Norway has not yet analysed information that is found in its currency register, which includes cross-border transactions. Norway should ensure that this information feeds into future NRAs. Norway should also ensure that it includes future findings of supervisory activities, as those activities continue to increase and generate useful information, as well as any additional statistics that it develops (see information on Priority Action 3 below).

Comprehensive Assessment of ML/TF risks

33. The NRA and the different agencies threat assessments provide a good basis for the understanding of ML/TF risks in Norway. The 2018 NRA's analysis of threat, vulnerability and consequence is much broader than in the 2014 NRA. The 2018 NRA addresses several gaps in the assessment of threats that were identified in the 2014 MER. The NRA considers trends in proceeds generating predicate offences, sources of proceeds of crime and provides information on the volume of proceeds of crime uncovered by the authorities for the main predicate offences. The NRA also includes a risk assessment of all RE sectors as well as non-reporting sectors, and considers the residual risks. Where Norway was missing information, it leaned on theoretical risks, on other countries' experience, as well as on identifying knowledge gaps. This was useful to improve its general understanding of risk as well as the gaps that need to be addressed.

34. Although the definitions of threat, vulnerability and consequence are much improved in the current NRA, the NRA Methodology is still weak. The analysis of the

inherent ML risks of individual sectors could also be more detailed and could focus on more complex ML schemes. Despite a good quality NRA, some very good threat assessments and a good understanding of ML risks within the individual agencies, the *Contact Forum* itself did not demonstrate that it had a strong overall view of the ML risks in the country.

Dissemination of Findings

35. The NRA was disseminated to all authorities in the AML/CFT regime, as well as FIs and DNFBPs. FIs and DNFBPs generally indicated that the NRA was useful and provided a good basis for the understanding of ML/TF risks. For example, FIU and FSA reported that they used the NRA to develop their risk-based approach (RBA).

36. **Conclusion** - The understanding of ML risks, while good within the individual operational agencies appears to be more limited at the country level within the *Contact Forum*. The understanding of TF risks continues to be strong, particularly within the PST. The Contact Forum was specifically mandated to identify ML/TF threats and trends. As such, the Contact Forum oversaw the development of the 2016 and 2018 NRAs and is currently coordinating the development of a new NRA, set for completion in 2020. **These Priority and Recommended Actions are largely addressed.**

4.1.2. Progress in developing risk-based AML/CFT policies and improving domestic co-ordination [MER p.11, PA2 and p.50, RA b) and RA c) i)]

Priority Action from the 2014 assessment

- Norway should then develop national AML/CFT policies based on ML/TF risks, and improve co-ordination, including by establishing a strategic level national co-ordination platform.

Recommended Action from the 2014 assessment

- Norway should improve co-ordination, in the AML-CFT policy making level, including by establishing a strategic level national co-ordination / co-operation platform for regular inter-agency policy-level review of AML/CFT initiatives (preventive and criminal justice).

37. Norway was asked to address shortcomings relating to the lack of AML/CFT policies. Actions taken by Norway to address the relevant priority and recommended actions are presented jointly below.

Strategic National Co-ordination / Co-operation

38. Since 2014, Norway placed an increased focus on combating economic crime, including ML/TF. A national co-ordination mechanism, the *Contact Forum* for AML/CFT, was established in 2015 to co-ordinate actions to assess risks and includes a wide range of AML/CFT regime stakeholders. The *Contact Forum* is specifically mandated to identify ML/TF threats and trends, coordinate work to develop AML/CFT strategies and oversee development of Norway's 2nd NRA which was

published in 2016. The *Contact Forum* also coordinated the work for the NRA 2018, as well as the process to develop the new NRA, set for completion in 2020.

39. As a result, co-operation and co-ordination among government agencies also improved significantly at the national level. The *Contact Forum* is chaired by the MoJ, brings together nine agencies, including MoF, MFA, DPP, PST, POD, FSA, the FIU as well as the Norwegian Police College, and has invited observers from time to time, such as Finance Norway, which represents financial institutions.

40. The *Contact Forum* meets at least four times per year and ensures the co-ordination and prioritization of NRA work and the national strategy. The *Contact Forum* seems to constitute a good forum for exchange of information such as providing updates on policy work which is being conducted both domestically and internationally and leading the work on the NRA and the AML/CFT Strategy. However, it could probably be used to a larger extent to bring a broader perspective on the establishment of priorities for strengthening further Norway's AML/CFT regime and for the identification of required resources. To this end, the *Contact Forum* should consider inviting more frequently non-members such as the tax authorities, NTAES and the private sector.

41. In addition there is co-operation at a strategic level within the agencies, for example, the Central Co-operation Forum, with the Directors from relevant police and control agencies meeting on a regular basis to discuss common challenges and efforts towards economic crime and to develop a cross-agency operational plan.

National AML/CFT Risk-Based Policies

42. Norway also adopted in January 2017 the first *National Strategy to combat ML, TF and PF* (national strategy). This national strategy creates a good starting point for the development of national policies for AML/CFT based on risk. It broadly covers the following areas: i) risk and knowledge development, ii) preventive measures, supervision and reporting, iii) financial intelligence, investigations and confiscation, iv) terrorist and proliferation financing, and v) international co-operation. It provides 18 general policy actions in priority areas where gaps were identified in the 2014 MER. Norway identified these priority actions based notably on the prior identification of threats, vulnerabilities and risks. The national strategy also includes the responsible agencies and timelines for the majority of these activities. Most of these measures were due for completion by end of 2017, although some took longer to achieve (such as the development of statistics on international co-operation in criminal cases). Authorities are now in the process of updating this strategy.

43. Although some of the priority actions aim at mitigating the identified ML/TF risks (such as addressing the risk related to the identification of beneficial owners and misuse of company structures, and increasing collaboration with other supervisory authorities to address the risks related to agents of MVTs conducting transactions in Norway), several priority actions aim at addressing knowledge gaps in the regime (such as prioritizing the improvement of statistics on seizures, freezing and confiscation of assets).

National Policies on the Use of Financial Intelligence and Operational Co-operation

44. With respect to national AML/CFT policies on the use of financial intelligence, the POD issued guidelines to all police districts on the use of financial intelligence from the FIU. Police districts use financial intelligence to a greater extent than in 2014. LEAs and the FIU also conducted a number of joint intelligence operations. The Co-

ordination Body¹¹ was also used to support police efforts to combat serious crime and provide funding to priority investigations. The authorities provided 5 case studies regarding operations that had an element of ML.

45. Co-operation at the operational level has improved significantly since 2014. Norwegian Authorities have taken several measures to improve performance in combating financial crime and to improve co-operation and co-ordination among agencies at the operational level. Co-operation among operational agencies has become a very strong feature of Norway's AML/CFT regime since the 2014 MER. This seems to be mainly due to the Police Reform that began after 2014, which included the creation of Police Projects and more integrated investigative tools. Police Projects have proven very useful for co-operation between LEAs with the FIU and Tax Authorities.

Box 1. Case Study : Police Project (Dishwasher Project-Operation Zalo)

Context - This project began in 2015 with the FIU's analysis of STRs; which informed the Co-ordination Body that they had a case of work-related crime in the Oslo area (in the restaurant and cleaner industries).

Relevance to IO 1: KRIPOS/ NCIS prioritised this project. The FIU worked closely with KRIPOS to identify the main targets of this investigation's networks, involved businesses and assets. The project was launched by the police in collaboration with the tax authorities and the Norwegian Labour and Welfare Administration (NAV). The police were represented by officers from KRIPOS/NCIS, ØKOKRIM and the Police Immigration Service. The investigation was headed by the KRIPOS/NCIS.

Outcome: The investigation led to convictions in 2019 in both the district court and the court of appeals. Five persons were sentenced to imprisonment ranging from two years and three months to six years. Approximately NOK 6 million (EUR 600 000) were ordered to be confiscated. The defendants was also ordered to pay restitution of more than NOK 20 million (EUR 2 million).

46. Co-operation is facilitated by the use of LEAs' national IT system called *Indicia*, which all LEAs and the FIU use as their main tool for co-operation and sharing information related to investigations and financial intelligence. LEAs authorities including police districts, include their investigation information into the system, and the FIU can access this information and add its own information into the system because the FIU system is connected to *Indicia*. Authorities also created different fora (for example a multi-agency *Forum on New Payment Services*) and opportunities for co-operation among agencies, such as the development of lists of ML indicators for each reporting sector, which have been developed by the NTAES in collaboration with the FIU and the FSA, and which REs repeatedly highlighted as being very useful. In addition, authorities have extended the mandate of ØKOKRIM in advising the central government, supervisors and police districts in combating financial and environmental crime. ØKOKRIM also has more responsibility in investigating large and/or complex cases.

47. Co-operation between the FIU and the FSA has also been formalized through the signing of an MOU and the two agencies have started exchanging information before and after FSA inspections (see also Section 4.5 - IO.11). The FSA receives reports from the FIU before inspections that cover general impression of the RE,

¹¹ The Coordination Body (CB) was set up on 1 June 2010. Its remit is to support police efforts to combat serious crime, particularly organised and transnational crime.

statistics on reporting (quantitative, types of predicates), quality of reporting, and conclusions on what challenges the RE faces, based on the FIU's impressions. The FSA feeds back general and specific findings and trends, and information on REs to enable the FIU to identify under-reporting by business area.

48. As FSA steps up its conduct of inspections, authorities should enhance their use of this tool to ensure that it is used to its full potential. FIU also has an agreement with PST, which seems to be put to good use for exchanging information on TF.

49. Although this is outside of the scope of this 5th year FUA, co-operation between PST, FIU and police districts also continues to increase in relation to TF.

50. **Conclusion** - Since 2014, Norway placed an increased focus on combating economic crime, including ML/TF. Norway established a national co-ordination mechanism, the Contact Forum for AML/CFT, to co-ordinate actions to assess risks. The Contact Forum includes a wide range of AML/CFT regime stakeholders. Among other things, the Contact Forum is specifically mandated to coordinate work on the development of AML/CFT strategies. Norway developed its National AML/CFT Strategy, which included a series of priority measures, as well as national policies on the use of financial intelligence through the issuance of guidelines and co-operation activities. **These Priority and Recommendations Actions are addressed.**

4.1.3. Progress in maintaining comprehensive statistics on AML issues [MER p.11, PA3 and p.50, RA d]

Priority Action from the 2014 assessment

- Norway should maintain comprehensive statistics on AML issues to inform the risk assessment and support evidence-based policy-making.

Recommended Action from the 2014 assessment

- Norway should maintain comprehensive statistics on AML issues to inform the risk assessment and support evidence-based policy making, particularly for areas not currently covered including ML investigations and prosecutions, confiscations and international co-operation

51. In 2014, the MER noted that Norway did not maintain comprehensive statistics regarding ML investigations, prosecutions and convictions; property frozen; seized and confiscated; and MLA, extradition and other international requests for co-operation made and received by LEAs and supervisors (MER p. 42, para 2.12). Norway was asked to address that shortcoming in one of the Priority Action. More detailed requirements are set out in one of the IO.1 Recommended Action. Actions taken by Norway are presented jointly below.

52. Following the reform of the Penal Code in 2015, authorities can now provide statistical information on the number of ML cases reported to the police ("registered cases") prosecutions and convictions, including on the charging decisions, as well as the (3rd FUR, see para.43). See Table 4. This has contributed to informing further the assessment of risks in Norway and helped support evidence-based policy-making.

Table 4. ML cases reported to the police (“registered cases”), prosecutions and convictions

| | 2015 | 2016 | 2017 | 2018 |
|----------------------|------|------|------|------|
| ML registered cases* | 96 | 141 | 134 | 103 |
| ML prosecutions | 60 | 69 | 72 | 55 |
| ML convictions | 84 | 63 | 79 | 73 |

Note: *Registered cases refer to the number of reports that are referred to police for investigation. Each case is assessed to determine whether it should be further investigated.

Source: FIU, POD

53. Norway improved to a more limited extent its statistics related to confiscation, where major deficiencies still exist. Statistics on international co-operation requests are kept by the FSA and FIU. On TF, the PST also keeps statistics on international co-operation¹².

54. Once a new system is developed and fully in place, these statistics will provide a good basis to support evidence-based policy-making in those areas. The statistics will also assist the authorities to mitigate further the ML/TF risks by providing additional information on the impact of confiscation on disruption activities, and to complement international co-operation data that is currently available, which will further contribute to improved identification of trends.

55. **Conclusion** - Norway now keeps statistics in several areas where deficiencies had been highlighted in the 2014 MER. Major deficiencies still exist in relation to confiscations and MLA. **These Priority and Recommended Actions are partly addressed.**

4.1.4. Progress in strengthening feedback between agencies [MER p.50, RA c) ii]

Recommended Action from the 2014 assessment

- Norway should improve co-ordination, at the AML/CFT policy making level, including by strengthening feedback between agencies to judge the effectiveness of implementation in order to adjust strategies and their implementation (e.g., risk information, level or quality of STR reporting, information on unlicensed remitters or information that might lead to supervisory authorities to target specific institutions for review or support outreach efforts).

56. Feedback between agencies improved since 2014, but it remains uneven. As indicated above, FSA and FIU have signed an MOU to provide each other with feedback, including on the quality and quantity of STRs, before and after inspections. This tool, which seems very useful, should be used more often in the future as inspection numbers increase. Norway has also created a requirement for LEAs to provide feedback to the FIU on financial intelligence. Nine police districts and KRIPOS/NCIS have provided general feedback to the FIU, indicating that the

¹² A project, led by POD, is underway to develop better statistics in the areas of confiscation and MLA. The report is expected to be produced by the end of 2019.

information was useful. The FIU also provides general feedback to high risk FIs on the use of STRs and presents useful general ML patterns and typologies at the annual AML/CFT conference, but medium risk and low risk FIs as well as DNFBPs indicated that they have not received feedback from the FIU nor the FSA. Please refer to progress made on *National Policies on the Use of Financial Intelligence and Operational Co-operation* for further information (paras. 46-50 above). **This Recommended Action is largely addressed.**

4.1.5. Progress in raising awareness of ML/TF risks among FIs and DNFBPs [MER p.50, RA e)]

Recommended Action from the 2014 assessment

- Norway should prioritise efforts to raise awareness of ML/TF risks among financial institutions and DNFBPs, including by:
 - i. Providing regular and consistent guidance to the private sector on risk and their conduct of enterprise level risk assessments, and
 - ii. Feeding financial institutions' and DNFBPs' findings of risk into the NRA process.

Raising awareness of ML/TF risks among FIs and DNFBPs

57. As indicated in sub-section 4.11 (*dissemination of findings* – see para. 35), authorities shared the 2016 and 2018 NRAs with the private sector. FIs and DNFBPs generally indicated that the NRA was useful and provided a good basis for their understanding of ML/TF risks.

Risk guidance to private sector

58. The FSA issued a long and detailed Risk Assessment for REs in early 2019, which REs find very useful. This Risk Assessment used the findings of other important reports such as ØKOKRIM's Threat Assessment Report, NTAES' Work-related Crime Report and European Commission Risk Assessment. The FSA also issued a large guidance document at the end of May 2019, just before the on-site visit. This guidance document aimed at replacing a 2016 general guidance document that the private sector found to be lacking sufficient details.

59. In 2017, the NTAES published a list of ML/TF risk indicators for lawyers, the securities sector, the MVTs sector, the real estate sector, financial institutions, and insurance companies, dealers in high value goods, and auditors and accountants. Several FIs and DNFBPs mentioned that these indicators are very useful for identifying and reporting suspicious transactions, and conducting their AML/CFT work, including assessing risks of ML/TF.

60. Since 2004, FSA, ØKOKRIM and Finance Norway have been holding an Annual Conference on AML/CFT, which brings together a large number of members and representatives of the private and public sector. FIs and DNFBPs have indicated that this Conference is usually very useful to learn more about the risks and patterns in the area of ML/TF.

61. However, although the risk understanding in the high-risk sectors is generally good and has improved since the 2014 MER, it seems to be varied or limited in medium and low-risk sectors such as the insurance and DPMS sectors.

FIs and DNFBPs risk findings contribution to the NRA

62. As indicated in *Engagement of Relevant Stakeholders* (para.30 above), the risk findings of the banking sector, which represents one of the two high risk sectors in Norway and represents the most important sector due to its size, fed into the NRA. Authorities sent a specifically tailored questionnaire to REs in that sector and also held workshops with representatives from Finance Norway, which represents financial institutions. Authorities indicated that this input was very useful. However, the MVTS sector, which represents the other high risk sector, although of smaller size, was not consulted. This was mainly due to the fact that the MVTS sector is not represented by an association. DNFBPs, which have either a moderate or low level of risk, were not consulted either.

63. As such, authorities did not yet consult with some of the REs that have a strong understanding of ML/TF risk, such as large banks, large MVTS with an international presence, and large gambling entities. **This Recommended Action is largely addressed.**

4.1.6. Progress in applying risk-based approach to exemptions and enhanced measures [MER p.50, RA f)]

Recommended Action from the 2014 assessment

- Norway should use the findings of future ML/TF risk assessments to justify exemptions, and apply enhanced measures for higher risk scenarios and simplified measures for lower risk

64. Norway applies limited exemptions. The 2018 amendments to the AML Act removed a substantial number of exemptions. The recently proposed exemptions from the AML Act for charity bingo and charity lotteries, which have not yet been approved by the MoF, seem to be justified and based on the NGA Risk Assessment, which has identified those two areas as low risk. This information should feed into the upcoming revised NRA. **This Recommended Action is addressed.**

Conclusion on Risk, policy and co-ordination (IO.1)

Norway demonstrated a good improvement in its understanding of ML/TF risks, developed a national AML/CFT strategy, and improved co-ordination, including through the establishment of the Contact Forum. Operational co-operation became a very strong feature of the country's AML/CFT regime. Norway also made important improvements to its statistics on ML investigations, prosecutions and convictions, although major deficiencies still exist in two specific areas (confiscations and MLA). Norway also prioritised the awareness raising of ML/TF risk in high-risk sectors (e.g. banking and payment institutions). There is a limited number of exemptions, but all of them are based on a proven low risk.

Based on this progress, IO.1 is re-rated to substantial rating.

Remaining elements of Priority/Recommended Actions:

- a) Norway should consider further refining its NRA methodology, including deepening its analysis of inherent ML risks and matching vulnerabilities of specific sectors, increasing its focus on more complex ML schemes and improving its use of quantitative data. Norway should also continue to improve its statistics.
- b) Norway should also consider involving a larger part of the private sector stakeholders when preparing future NRAs, in particular reporting entities that have a strong understanding of risk, such as large banks, large MVTs with an international presence, and large gambling entities.
- c) Norway should consider how to further improve national co-ordination and policy development, both through reviewing the membership of, or the inputs to, the Contact Forum, as well as considering measures to increase its focus on broader priorities across different authorities, e.g. when updating the National Strategy for AML/CFT.

4.2. Supervision (Immediate Outcome 3) originally rated *Moderate*

65. The 2014 MER noted that the FSA conducted limited AML/CFT supervision, mostly in the context of prudential and business conduct supervision. The frequency, scope and intensity of supervision were not sufficiently ML/TF risk-based. Supervision was focusing on technical compliance checklists rather than on the effectiveness and robustness of the preventive measures implemented. The limited supervision of REs for compliance with the targeted financial sanctions (TFS) was also highlighted. While serious breaches of basic compliance had been identified, supervisors did not have a wide enough range of powers to sanction, including no power to impose administrative fines, and no sanctions other than written warnings had been applied to financial institutions. **IO.3 was the subject of two Priority Actions and 13 Recommended Actions.**

66. For the re-assessment of this IO, authorities submitted most notably: the FSA and the Supervisory Council Strategies, the 2019 FSA Risk Assessment and 2019 FSA Guidance, 2019 NGA Risk Assessment, a number of sectoral AML/CFT modules and case examples. The team also met with various FSA departments, as well as NGA, Supervisory Council, and the private sector.

4.2.1. Progress in designating relevant competent authorities for AML/CFT monitoring and supervision [MER p.111, RA a)]

Recommended Action from the 2014 assessment

- Norway should designate supervisors for dealers in precious metals and stones, TCSPs and casino gaming activities.

Dealers in precious metals and stones (DPMS)

67. Norway addressed this deficiency in its 3rd follow-up report. Since July 2017, DPMS are no longer covered by the AML Act and Regulations. Instead, Norway introduced a restriction on payments in cash on any dealer to NOK 40 000 (approx. EUR 4 000), which applies regardless of whether the payment is made in one or more transactions. The Norwegian Tax Administration (NTA) is the competent authority for supervising compliance with this cash limit.

68. NTA considers that most DPMS are compliant tax payers and does not supervise them unless there are strong indications of non-compliance behaviour. Consequently, Norway does not have concrete information to ascertain whether DPMS comply with the restriction on cash payments.

Trust and company service providers (TCSPs)

69. Since July 2017, TCSPs are under the supervision of the FSA. TCSPs must be authorised by FSA in order to operate in Norway. In January 2018, FSA published a communication on its website regarding the rules and requirements (e.g. fit and proper) to seek this authorisation. Legal and natural persons that are subject to the AML Act due to other licensing requirements (such as lawyers and accountants) do not need a separate authorisation as TCSP to provide trust and company services in Norway.

70. As of June 2019, FSA provided the authorisation to operate in Norway to one TCSP. No specific supervisory actions had been taken in relation to this entity as of the time of the onsite. This, however, appears reasonable given the short time since the authorisation process of the TCSP occurred in March 2019.

Casino gaming activities

71. There are no land-based casino in Norway, but one license was granted to offer cruise ship casino (subject to strict rules). The provisions of the new AML Act now apply to all providers of gaming activities subject to licensing requirements. For more information on legal and institutional framework, please refer to sub-section 3.1.4.

72. Since October 2018, NGA is responsible for the supervision of the gaming sector's compliance with the AML Act and Regulations. At the time of the on-site, NGA

did not yet conduct any AML/CFT inspections¹³. NGA however conducted nearly 250 'fit and proper' tests of key persons in the management and beneficial owners of providers of gaming activities. **This Recommended Action is addressed.**

4.2.2. Progress in undertaking comprehensive sectoral risk assessments and maintaining them up-to-date [MER p.111; RA b)]

Recommended Action from the 2014 assessment

- As part of the NRA, Norway should undertake comprehensive sectoral risk assessments to ensure that the ML/TF risks are adequately identified and understood by supervisors. These should be periodically reviewed to ensure they remain up-to-date.

73. The 2018 NRA is Norway's third risk assessment of ML/TF threats, vulnerabilities and risks, and includes sectoral risk assessments. Supervisors used the results of this NRA as a source of information for the identification and understanding of ML/TF risks in their respective sectors. However as noted in sub-section 4.1.1, the analysis of inherent ML risks of individual sectors in the NRA could still be more detailed and focus on more complex ML schemes (see 33-34 above). Supervisors also took actions to further assess ML/TF risks of their respective sectors.

Financial Supervisory Authority

74. FSA conducted its first ML/TF risk assessment in 2016, later updated in 2018 and 2019. The 2019 risk assessment provides the FSA with an overall picture of the ML/TF risks in the sectors it supervises. Overall, it is indicative that the FSA has a good knowledge and understanding of ML/TF risks.

75. The 2019 risk assessment used a new and more comprehensive methodology. Unlike previous assessments, FSA applied the new methodology more consistently across all sectors, following the same structure. For each sector, the risk is considered as a function of the threats (i.e. modus operandi, crime analysis) and vulnerabilities identified (i.e. products and services, geographical factors, compliance and supervision issues). Sources of information include the: 2018 NRA, 2018 ØKOKRIM Threat Assessment Report, 2018 NTAES Report on work-related crime, 2018 NTAES Report on newer payment methods, 2017 European Commission's Supranational Risk Assessment Report, 2017 European supervisory authorities' Joint Opinion on the risks of ML/TF affecting the Union's financial sector, and various FATF reports (guidance, typologies, and list of high risk jurisdictions). The FSA also used its supervisory experience for assessing vulnerabilities in terms of compliance with the AML legislation within each sector.

Supervisory Council for Legal Practice

76. The Supervisory Council has been working since 2016 on the identification of legal professions presenting risks and vulnerabilities in terms of compliance with the AML legislation. It also has prioritised the supervision of those legal professions (e.g. newly started and large law firms, and firms engaged in real estate brokering).

¹³ The first inspection is intended for the end of 2019.

77. The identification of ML/TF risks is not captured in any formal ML/TF risk assessment document. This assessment is however – to some extent – covered in its December 2018 *Internal Strategy*, and January 2019 *Guide to compliance with the AML regulations in legal practices and legal aid activities*. The Supervisory Council's identification of risks is based on the 2013 FATF Report on ML/TF Vulnerabilities of Legal Professionals, a 2014 *Lawyer's Guide to Detecting and Preventing Money Laundering*¹⁴, NRAs, ØKOKRIM and FSA's risk assessments.

78. The Internal Strategy displays a rather incomplete risk picture and very limited appreciation of risks. On the other hand, the 2019 Guide provides a more comprehensive analysis, identifying areas that are particularly vulnerable to abuse by criminals (e.g. use of client accounts, buying and selling real estate, false lawsuits, establishment or operation of companies, charitable organisations and trusts). The guide also identifies general and specific risks (e.g. geographical, clients and assignments related risks) and provides in its appendix a detailed list of risk factors that law firms could consider when analysing the risks at various level of their business (e.g. entity-, client- and assignment level). The information included in this guide is indicative that the Supervisory Council has made progress in identifying and understanding better the risks faced by the sector.

Norwegian Gaming Authority

79. NGA concluded its very first ML/TF risk assessment in February 2019, in collaboration with an external consultancy firm. The risk assessment covers all gaming services provided in Norway under the NGA's supervisory remit¹⁵. It is comprehensive and provides the NGA with a good picture of ML/TF risks in the gaming sector. Overall, it is indicative that NGA has a good knowledge and understanding of ML/TF risks.

80. In addition to the 2018 NRA, NGA used various sources of information available, including risk-assessments conducted by other competent authorities in Europe (e.g. Sweden), 2017 European Commission's Supranational Risk Assessment Report and the 2008 FATF guidance on the Risk-Based Approach for Casinos.

81. In 2019, NGA also conducted a specific risk-assessment on certain gaming services (making use of the same sources of information). Based on this assessment, NGA proposed the introduction of an exemption to the AML Act for charity bingo and charity lotteries on the basis of a proven low-risk¹⁶.

82. **Conclusion** - Authorities generally have a good knowledge and understanding of ML/TF risks. All three supervisors based their risk assessments on the findings of the 2018 NRA. FSA and NGA have also developed their own comprehensive sector specific ML/TF risk assessment. The identification and assessment of ML/TF risks by the Supervisory Council is only captured to some extent in its 2018 Strategy and more specifically in the 2019 guidance document. FSA's risk assessment has been periodically reviewed and is up-to-date. Because most of the actions undertaken by NGA and the Supervisory Council to conduct/formalise their ML/TF risk assessments

¹⁴ *Lawyer's Guide to Detecting and Preventing Money Laundering* is a collaborative publication of the International Bar Association, the American Bar Association and the Council of Bars and Law Societies of Europe, October 2014.

¹⁵ Casino gaming services provided online by foreign gaming service providers fall outside Norwegian regulations and are therefore not supervised by the NGA.

¹⁶ The proposal is currently with the Ministry of Finance for consideration.

are very recent (late 2018/ early 2019), these have not yet had the need to be updated. **This Recommended Action is addressed.**

4.2.3. Progress in enhancing AML/CFT supervision based on ML/TF risks [MER p.12; para.26, PA10 and p.111, RA c)]

Priority Action from the 2014 assessment

- Norway should enhance its AML/CFT supervision and ensure its future supervision is undertaken on the basis of ML/TF risk.

Recommended Action from the 2014 assessment

- On the basis of the risk assessment, Norway should ensure its future supervision is sufficiently ML/TF risk sensitive. Norway should ensure a greater level of integration of AML/CFT supervision into its broader framework of prudential and market conduct supervision.

83. Norway's AML/CFT supervision was found to be limited in 2014 and not based on identified ML/TF risks. The MER subsequently identified a number of detailed IO.3 Recommended Actions with more specific actions items.

Enhanced risk-based AML/CFT supervision

84. Since the 2014 MER, Norway developed supervisory tools to ensure that its supervision is based on identified ML/TF risks. Supervisors participated in a number of initiatives aimed at identifying ML/TF risks in their sectors, which overall impacted on their capacity to undertake risk-based AML/CFT supervision. However, the intensity, scope and frequency of the supervision for some sectors appear to be insufficiently commensurate to the level of risk of these sectors. This is particularly the case for the MVTs sector, which while identified as one of the two high-risk sectors in Norway, has been subject to very limited supervision since 2014 (see Table 5 and for further breakdown in Table 6).

85. FSA implemented its efforts to enhance AML/CFT supervision and progressively ensured a greater level of integration of AML/CFT into its broader framework of prudential and business conduct supervision. Before 2016, AML/CFT supervision was one of the several areas in prudential supervision, complemented by occasional theme based and off-site inspections. Today, the AML/CFT component is included in all standard inspections and has been expanded. In addition, since 2016, the FSA is conducting specialised AML/CFT inspections to increase the scope and intensity of inspections for high-risk institutions. The Supervisory Council also increased the number of inspections covering AML.

Table 5. Number of on-site inspections covering AML/CFT (standards and specialised)

| Industry sector | 2014 (MER) | 2015 | 2016 | 2017 | 2018 | 2019 (* 7 June) |
|--------------------------------------|---------------|------|-------|------|------|--------------------|
| Banks | 10 | 14 | 16 | 10 | 20 | 10 |
| Credit institutions | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing institutions | 0 | 0 | 0 | 1 | 0 | 0 |
| MVTS | 0 | 0 | 2 | 0 | 1 | 1 |
| Real estate agents | 16 | 16 | 25 | 23 | 15 | 5 |
| E-money institutions | 0 | 0 | 1 | 0 | 1 | 0 |
| Insurance | 10 | 9 | 9 | 10 | 8 | 3 |
| Securities | 13 | 15 | 9 | 7 | 11 | 4 |
| Auditors and accountants | 79 | 83 | 72 | 98 | 79 | 40 |
| TCSPs* | N/A | N/A | N/A | N/A | N/A | 0 |
| Lawyers | 54 | 61 | 68 | 72 | 72 | 22 |
| (covering a total of lawyers) | | 490 | 1 133 | 561 | 664 | 120 |
| Casinos/ Gaming service providers ** | N/A | N/A | N/A | N/A | N/A | 0 |

Note: * See Section 4.2.1: the first TCPS was licenced in March 2019. ** See footnote 15.
Source: FSA, SCLP, NGA

Financial Supervisory Authority

86. Since 2014, FSA undertook a number of risk assessments (2016, 2018 and 2019 - see para 80-81 above), which in principle now form the basis of its risk-based supervision. FSA uses these assessments to inform its risk classification models and supervisory manuals (referred to below as ‘supervisory modules’). However, in some cases, these risk assessments have not been sufficiently taken into account to prioritise the allocation of resources and supervision (i.e. MVTS sector).

87. Before 1 April 2019, FSA’s AML/CTF supervision was based on a decentralised supervisory model. As a consequence, a different approach to AML/CFT supervision was applied across units of FSA that have responsibilities for AML/CFT, although some similarities did exist. From 1 April 2019, a new Section for AML/CFT has been established to allow the FSA to shift towards a more centralised approach.

88. In 2016, FSA established and implemented risk classification models and supervisory modules to support its AML/CFT supervision. In June 2019, FSA had risk classification models and supervisory modules for most of the sectors under its supervision. There is currently no risk classification models for insurance companies and intermediaries, auditors and accountants, and payment institutions. FSA is also working on a risk classification model for payment institutions and agents of foreign payment institutions. [See details in sub-section 4.2.6].

89. Using these risk models, FSA can rank FIs and DNFBPs based on both prudential and ML/TF risk factors. FSA then uses the risks models to select entities for inspections. The selection also takes into account information received from other sections of FSA, FIU, LEAs, other competent authorities and media reports. FSA uses its supervisory modules to guide each of its sections (with responsibilities for AML/CFT) on issues such as information collection, risk assessment and prioritisation of supervisory actions, thus ensuring a coherent implementation of its RBA.

90. FSA has gradually increased its focus on AML/CFT. The AML/CFT component – now included in the scope of all standard inspections – has been expanded. In addition, since 2016, FSA started conducting a number of specialised AML/CFT inspections in higher risk institutions. In doing so, FSA ensures a greater level of integration of AML/CFT matters into the broader framework of prudential and business conduct supervision. At the time of the on-site, FSA had concluded 4 inspections conducted on the basis of the new AML Act and regulations.

91. Although FSA has taken actions to ensure that its supervision is based on identified ML/TF risk, the scope, intensity and frequency of its supervision is not always commensurate to the level of risk identified. This is especially the case for the MVTs sector – identified as one of the two high-risk sectors in Norway – which has been subject to very limited supervision since 2014 [see paras. 116-120 below].

Supervisory Council for Legal Practice

92. The Supervisory Council recently formalised its risk assessment of legal professionals (see paras. 82-84). However, prior to that, it was already applying a risk-based approach to its AML/CFT supervision, based on thematic inspections. The Secretariat of the Supervisory Council selects these themes among risk areas identified in the NRA or international risk assessments available. The Board then approves the proposed themes.

93. Since 2016, thematic inspections have been conducted on firms which the Supervisory Council assumed to have a higher risk of being used for ML/TF: newly-started and large legal practices, firms with a high number of transactions in customer accounts, firms assisting with the creation/management of corporate structures and firms engaging in real estate brokering.

94. On the basis of the findings and conclusions of these thematic inspections, the Supervisory Council developed a risk classification tool. The Supervisory Council is assisted in this task by a consultancy firm, which also conducts on-site inspections on its behalf. The Supervisory Council uses this tool to place law firms into different risk categories based on their level of compliance with AML obligations. The level of compliance is determined during thematic inspections through a questionnaire relating to firms' policies and procedures, internal controls and training. The Supervisory Council intends to use the risk classification tool to select entities for future inspections and has defined a selection process which – while random in nature (i.e. drawing lots) – is designed to ensure that entities with a lower level of AML/CFT compliance will have a higher probability of being selected for inspections over a given period. However, based on the information provided, and given that the risk classification tool is still to be used for the selection of entities for future inspections, it is difficult to assess the reliability and effectiveness of this approach.

95. Finally, in 2018, the Supervisory Council developed, in co-operation with *Altinn*¹⁷, an electronic self-declaration tool to enable law firms to submit their annual self-declaration form regarding their operations electronically and added to it another four questions relating to the law firms' compliance with the AML Act and Regulations¹⁸. In the period from 2019 to 2022, the Supervisory Council will assess

¹⁷ Altinn is the Norwegian public internet portal for providing electronic forms to public authorities.

¹⁸ All law firms must confirm that they: (1) conducted a risk-assessment; (2) established and implement AML/CFT procedures; (3) have internal controls in place; and (4) organise training for their employees. In the case where a law firm has not implemented these procedures, it must provide the Supervisory Council with a written explanation.

the information received to create a separate risk classification system, in addition to the risk classification tool.

Norwegian Gaming Authority

96. NGA is at an early stage of developing a RBA to AML/CFT supervision. The February 2019 ML/TF risk assessment [see paras. 85-86 above] will form the basis of NGA's RBA supervision going forward. NGA plans to conduct its first on-site inspections at the end of 2019.

97. **Conclusion** - Norway took a gradual approach to ensuring a greater level of integration of a RBA AML/CFT supervision into its broader framework of prudential and market conduct supervision. Supervisors participated in a number of initiatives aimed at identifying ML/TF risks in their sectors and developed supervisory tools to enable a risk-based supervision. However, in practice, the scope, intensity and frequency of FSA's supervision is mostly, but not always, commensurate to the level of ML/TF risk identified. The discrepancy is especially the case for the MVTs sector – identified as one of the two high-risk sectors in Norway – which has been subject to very limited supervision since 2014. The Supervisory Council has progressively put in place a framework that will enable it to implement a more granular risk-based supervision in the future. The NGA is at an early stage of developing a RBA to AML/CFT supervision. **This Recommended Action is partly addressed.**

4.2.4. Progress in setting risk based supervisory priorities, including by adapting the frequency, scope and intensity of supervision [MER p.111; RA d)]

Recommended Action from the 2014 assessment

The MER identified one Recommended Action related to this IO.3 issue:

- Norway should set supervisory priorities based on risk which address resources and capacity of supervisors, increase the intensity, duration and frequency of off/on-site supervision to commensurate with risk. The FSA should:
 - i. Continue to use a combination of off-site and on-site supervision but adapt the frequency, scope and intensity of supervision to the ML/TF risks.
 - ii. Ensure higher risk sectors (such as MVTs and banking sectors) are adequately supervised, including more intense, wider scope reviews, and sampling of high risk operations, such as correspondent banking, wire transfers and targeted financial sanctions.
 - iii. Focus on the effectiveness and robustness of the AML/CFT measures, rather than on technical compliance e.g., validating whether monitoring systems are effective and whether the FI understands the objectives or key performance indicators.

98. The 2017 *National Strategy* identifies a number of measures to be implemented by supervisors (e.g. risk assessments of REs, strategic analysis, co-

operation between relevant authorities, and co-operation in relation to the supervision of agents operating for foreign payment institutions). Since the 2014 MER, Norway generally demonstrated the high-level focus on AML/CFT supervision through the issuance of *annual allocation letters* from the MoF (to the FSA) and MoJ (to the Supervisory Council). Both supervisors have since been planning their activities in line with the priorities set out in these annual allocation letters. See analysis below.

FSA's risk-based supervision

99. As mentioned in para. 91, until 2016, AML/CFT supervision was one of the FSA's several areas in prudential supervision, and was complemented by occasional theme based and off-site inspections. Since 2016, the AML/CFT component is included in all *standard* inspections and has been expanded. In addition, since 2016, FSA is also conducting *specialised* AML/CFT inspections with the objective to increase the scope, frequency and intensity of inspection for high-risk institutions. See Table 6 below.

Table 6. Standard and specific AML/CFT on-site inspections (2014 - 2019)

| Industry sector | Type of inspection | 2014 (MER) | 2015 | 2016 | 2017 | 2018 | 2019 * 7 June | Total |
|--|--------------------|------------|------|------|------|------|---------------|-------|
| Banks, Credit & Financing institutions | Standard | 10 | 14 | 15 | 11 | 16 | 8 | 74 |
| | Specialised | / | / | 1 | 0 | 4 | 2 | 7 |
| MVTS | Standard | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| | Specialised | / | / | 2 | 0 | 0 | 1 | 3 |
| Real estate | Standard | 16 | 16 | 16 | 23 | 7 | 5 | 83 |
| | Specialised | / | / | 0 | 0 | 8 | 0 | 8 |
| E-money | Standard | 0 | 0 | 1 | 0 | 1 | 0 | 2 |
| | Specialised | / | / | 0 | 0 | 0 | 0 | 0 |
| Insurance | Standard | 10 | 9 | 9 | 10 | 6 | 3 | 47 |
| | Specialised | / | / | 0 | 0 | 2 | 0 | 2 |
| Securities | Standard | 13 | 15 | 9 | 7 | 6 | 3 | 53 |
| | Specialised | / | / | 0 | 0 | 5 | 1 | 6 |
| Auditors and accountants | Standard | 79 | 83 | 72 | 98 | 79 | 40 | 451 |
| | Specialised | / | / | 0 | 0 | 0 | 0 | 0 |

Source: FSA

100. In December 2018, FSA adopted its *2019-2022 Strategy*; the 'fight against crime' is one of the six operational goals and it lists AML/CFT supervision as priority. This Strategy now forms the basis for the prioritisation and management of FSA's activities. FSA's annual plan refers to these priorities to ensure their concrete implementation at the operational level.

101. FSA's RBA is based on a comprehensive assessment of ML/TF risk across all sectors under its supervision; which later (i) informs FSA's risk classification models (ii) forms the basis for the selection of entities for inspections and (iii) defines the scope of individual inspections. This, in principle, allows FSA to adapt the scope, frequency and intensity of supervision to the ML/TF risks. However, the risk assessment has not been sufficiently taken into account to prioritise the allocation of resources and supervision of all sectors under its supervision (i.e the MVTS sector).

102. To a varying degree in relation to the intensity, both standard- and specialised AML/CFT inspections will usually include in their scope an assessment of the policies and procedures, the risk assessment, governance and organisation, the customer due diligence and ongoing due diligence measures, suspicious transactions reporting; and sample testing in order to test the effectiveness and robustness of AML/CFT measures, rather than focusing on technical compliance.

FSA's supervision of higher risk areas

Banks

103. The banking sector in Norway is composed of banks, credit institutions and financing institutions. Only banks have been identified as high risk to ML/TF. Therefore, even though the supervisory framework is identical among the banking sector, this section focuses more specifically on the supervision of banks.

104. Both the 2018 NRA and FSA's ML/TF risk assessment identify banks as high risk to ML/TF. However, the level of risk varies among the 146 banks active in Norway (including branches of foreign banks) depending on their size, activities (e.g. private banking and correspondent banking) and the market they operate in. Based on the FSA's risk classification model, banks and branches of foreign banks are categorised into four risk categories (see Table 7):

Table 7. FSA Risk classification of banks and branches of foreign banks in Norway

| Risk level rating | Banks | Branches of foreign banks | Total |
|-------------------|------------|---------------------------|------------|
| High | 9 | 4 | 13 |
| Medium-High | 18 | 3 | 21 |
| Medium-Low | 59 | 3 | 62 |
| Low | 40 | 10 | 50 |
| Total | 126 | 20 | 146 |

Source: FSA

105. In 2018, the FSA conducted standard and specialised AML/CFT inspections in 10 of its 13 high risk banks and branches of foreign banks, and another 4 as of the onsite¹⁹. These specialised inspections focus more on higher risk areas such as private banking, correspondent banking, wire transfers and TFS. See Table 8. As of the time of the onsite, two AML/CFT special inspections had been conducted, and three were underway. This is a positive indication that overall the FSA has been prioritising its supervision in areas of higher ML/TF risks, as identified in its risk assessments.

¹⁹ FSA indicated that an additional 2 specialised and 1 standard inspections were planned in high risk level banks in 2019, as well as 6 standard inspections in medium-low risk banks.

Table 8. AML/CFT supervision of banks and branches of foreign banks in Norway (2018 to June 2019) – with risk classification

| Type of inspection | High | | Medium-High | | Medium-Low | | Low | | Total 2018/Jun2019 |
|--------------------|------|---------|-------------|---------|------------|---------|------|---------|-----------------------|
| | 2018 | Jun2019 | 2018 | Jun2019 | 2018 | Jun2019 | 2018 | Jun2019 | |
| Standard | 6 | 2 | 2 | 0 | 4 | 5 | 4 | 1 | 16/8 |
| Specialised | 4 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 4/2 |

Source: FSA

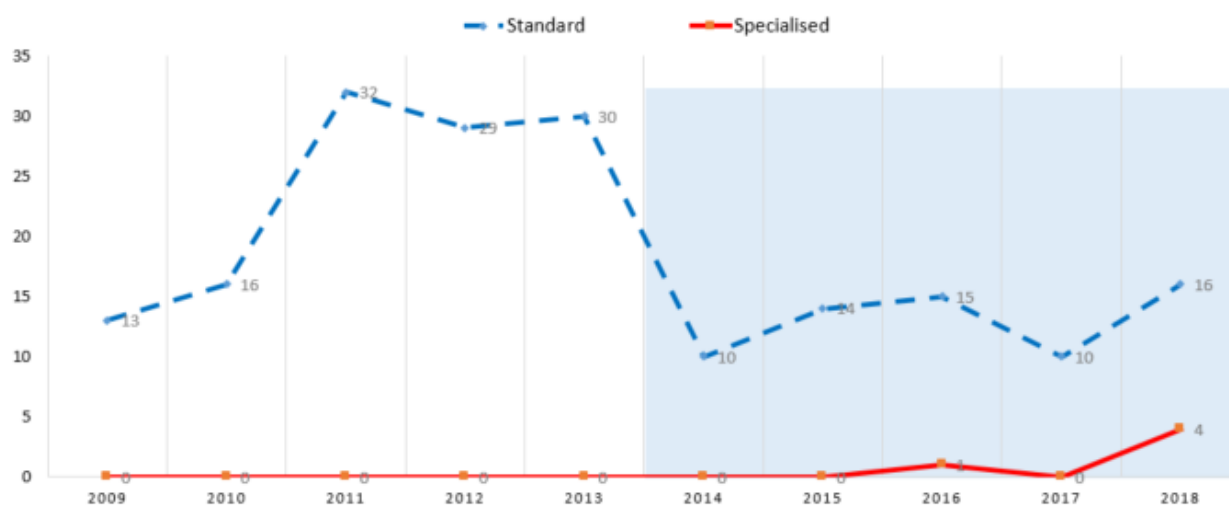
106. FSA's supervision is based on (i) an overall (prudential) *risk assessment* of large banks or a simplified assessment for smaller ones; (ii) a *sophisticated risk classification model* (developed in 2018 and first used in 2019) to rank institutions based on ML/FT risks; and (iii) a *risk matrix* that determines the level of frequency, scope and intensity of supervisory activities. The scope of inspections also varies depending on the business activities. In addition, the FSA developed a specific supervisory module that provides guidance and a detailed form for carrying out inspections, which always includes sample testing.

107. In 2016, FSA enhanced its AML/CFT supervision of banks by conducting specialised AML/CFT inspections. The first one took place in 2016 at one of the largest banks. The inspection focused on private banking and correspondent banking, two high-risk activities of that bank.

108. Although FSA has taken actions towards enhancing its AML/CFT supervision, the actual number of inspections conducted annually did not increase in relation to the number of inspections conducted annually before the 2014 MER (see Chart below). However, the FSA has increased the intensity of its AML/CFT supervision by expanding the AML/CFT component included in all standard inspections and by progressively increasing the number of AML/CFT specialised inspections. Generally, FSA's supervision process lasts on average from 6 to 9 months. The on-site visit of larger banks can take from 2 to 3 days and involve 5 to 6 FSA staff. It will include interviews and discussion of the material that would have been submitted a couple of months in advance. For smaller banks, the average length of the on-site ranges from one to two days and will involve up to 3 FSA staff. For special inspections, the onsite programme includes standard list of questions, but also specific risk factors (e.g. large volume of transactions to high risk jurisdictions, provision of certain services such as private banking) as well as feedback from the FIU. As per practice, high risk entities are inspected every two to three years. This is however not formalised in any written policy.

109. In relation to *off-site inspections* – Norway continues to operate a document based (questionnaire) off-site supervision of all its 146 banks and branches of foreign banks. FSA conducted one of such off-site inspection in 2014 and 2018.

Figure 1. AML/CFT on-site (standard and specialised) inspections of banks (2009-2013 and 2014-2018)



Source: FSA

MVTS sector

110. The MVTS sector is the other sector identified as high risk to ML/TF in the 2018 NRA and FSA risk assessment. The MVTS sector is composed of 26 payment institutions and of 529 agents of foreign payment institutions. However, it is important to note that the FSA has only been recently entrusted with the supervision of agents of foreign payment institutions (since 15 October 2018). Of the 26 payment institutions, 13 are hawala MVTS providers with cross border transactions, while the other 13 are MVTS providers servicing the domestic market, such as mobile payment services. Among the 13 non-hawala MVTS providers, two institutions are classified as high-risk, seven are classified as medium risk and four are classified as low risk.

111. The supervision of MVTS providers for AML/CFT compliance is not formalised in any document and fully relies on FSA's knowledge of the different MVTS providers. This knowledge is based on information received during the licensing process, information from the activity reports MVTS providers have to submit twice a year and from the report of the MVTS providers' external auditor. FSA also bases its selection process on reports received from ØKOKRIM.

112. Before October 2018, due to the low number of MVTS providers under its supervision (i.e. 26), the FSA did not consider the need to establish and implement a risk classification model or a supervisory module to support effective AML/CFT supervision. The FSA is now in the process of developing a risk classification model (a draft was presented during the on-site visit). FSA is also still working on a similar risk classification model for agents of foreign MVTS providers.

113. Despite MVTS being a high-risk sector, FSA did not prioritise the supervision of this sector and thus the number of AML/CFT inspections has been very limited in the past five years (see Table 9 below). For the MVTS sector, the FSA has considered a strict licencing regime as the most important tool, with approx. 85-90 % of applications being rejected, mostly on the basis of inadequate AML/CFT measures.

The FSA has identified the limited supervision of the sector as a concern, and has hence placed this responsibility with the new AML section²⁰.

Table 9. Number of AML/CFT inspections in the MVTS sector from 2014 to 2019

| | 2014 (MER) | 2015 | 2016 | 2017 | 2018 | 2019 (7 June) |
|------------------------------------|---------------|----------|----------|----------|----------|------------------|
| Standard inspections incl. AML/CFT | 0 | 0 | 0 | 0 | 1 | 0 |
| Specialised AML/CFT inspections | 0 | 0 | 2 | 0 | 0 | 1 |
| Total | 0 | 0 | 2 | 0 | 1 | 1 |

Source: FSA

114. On the supervision of agents of foreign MVTS providers - to date, FSA did not yet conduct any inspections of this sector. Since FSA was entrusted with this supervisory role in October 2018, it has been working its future supervision plan (including requirements to establish national contact points, participation to supervisory colleges, and protocol for exchange of information with foreign competent authorities).

FSA's supervision of high-risk operations (i.e. TFS)

115. Since 2014, FSA progressively enhanced its supervision of compliance in relation to targeted financial sanctions (TFS) requirements and sanctions monitoring systems. In 2016, the FSA carried out four on-site inspections (one bank, one e-money institution and two payment institutions) with a focus on the use of electronic monitoring systems and on the compliance with the regulations regarding TF/PF. In addition, FSA conducted desk-based supervision on the FIs' implementation of the UN and EU sanctions lists.

116. In 2017, the MoF's annual allocation letter to FSA highlighted the need to supervise the compliance with the TFS requirements. Consequently, FSA included the supervision of compliance with TFS requirements in the 16 standard- and four specialised AML/CFT inspections carried out in banks in 2018. During these inspections, FSA reviewed their risk-assessment, their policies, procedures, and their sanctions monitoring systems.

117. The assessment of the sanctions monitoring systems is conducted on the basis of the *supervisory module on electronic monitoring systems* developed by FSA in 2018. The module provides guidance for the assessment of systems for classification of customers, transactions monitoring, and checks against sanctions lists.

Supervisory Council for Legal Practice

118. Since the 2014 MER, AML/CFT supervision is one of the Supervisory Council's priorities. However, it is only recently (December 2018) that the Supervisory Council developed a specific internal strategy for its AML/CFT supervision. The strategy includes an action plan and a list of measures for the period 2019-2022. The objective of the strategy is to strengthen the Supervisory Council's RBA to supervision and to ensure a high level of supervision for legal professionals that are exposed to higher risks.

²⁰ Four inspections of higher risk MVTS are planned for 2019.

119. The Supervisory Council's RBA to AML/CFT supervision is based on thematic inspections. The themes are selected by the secretariat of the Supervisory Council among risk areas identified and approved by the Board. Since 2014, thematic inspections have been conducted on firms which the Supervisory Council assumes to have a higher risk of being use for money laundering: newly-started and large legal practices, firms with a high number of transactions in customer accounts, firms assisting with the creation/management of corporate structures and firms engaging in real estate brokering. In addition to the thematic inspections, the Supervisory Council also conducts inspections in law firms where there is specific suspicion of culpable actions, based on information received from clients, public authorities or other external parties.

120. Since 2014, the Supervisory Council has been conducting an average of 65-70 on-site inspections covering AML/CFT each year, which is considered quite large (see Table 10).

Table 10. Number of AML/CFT on-site inspections covering AML/CFT in law firms (2014 to June 2019)

| | 2014 (MER) | 2015 | 2016 | 2017 | 2018 | 2019 (as of 7 June) |
|--|---------------|------|------|------|------|------------------------|
| On-site inspections incl. AML/CFT (standard and specialised) | 54 | 61 | 68 | 72 | 72 | 19 |

Source: SCLP

121. Since 2016, the Supervisory Council has increased its AML/CFT activities and conducted a higher number of on-site inspections covering AML/CFT, including specialised AML/CFT inspections aimed at entities that are believed to be particularly at risk. Inspections covering AML/CFT include an assessment of the knowledge of the AML-legislation, the application of a risk-based approach, policies and procedures and their implementation, and the handling of clients' funds.

122. In order to test the effectiveness and robustness of the AML/CFT measures, rather than focusing on technical compliance, the consultancy firm assesses their implementation by doing random sample testing in the assignment portfolio of the law firms during the on-site inspections conducted on behalf of the Supervisory Council.

123. As for the gaming sector, NGA did not yet conduct any AML/CFT inspection at the time of the on-site²¹.

124. **Conclusion** - Norway progressively enhanced its AML/CFT supervision. Before 2016, AML/CFT supervision was one of the several areas in prudential supervision, and was complemented by occasional theme-based and off-site inspections. Since 2016, AML/CFT supervision is included in all standard inspections and FSA has been also conducting specialised AML/CFT inspections. Overall, the frequency and intensity of supervision appear insufficient for banks and branches of foreign banks. Most importantly, Norway did not ensure the adequate supervision of the MVTs sector – one of its two high-risk sectors– which remains a concern.

²¹ See para. 77 (footnote 15).

125. The Supervisory Council maintained a large number of inspections covering AML/CFT. Both the FSA and the Supervisory Council increased their focus on the effectiveness of AML/CFT measures and on the robustness of their monitoring systems by including sample testing in all inspections. **This Recommended Action is largely addressed.**

4.2.5. Progress in ensuring that supervisory actions lead to dissuasive, proportionate and effective sanctions [MER p.12; PA11 and p.111, RA g)]

Priority Action from the 2014 assessment

- Supervisors, in particular FSA, should ensure that AML/CFT deficiencies identified during examinations lead to supervisory actions that are dissuasive, proportionate and effective.

Recommended Action from the 2014 assessment

- FSA should extend the ability to apply administrative sanctions to all provisions of the MLA, and give consideration to developing processes and procedures on what constitutes a serious breach of these requirements, and the actions that would be taken pursuant to that breach. Regulations on the amount of fines under the MLA should be issued

126. Norway was required to ensure the dissuasiveness, proportionality and effectiveness of its sanctions. The relevant IO.3 Recommended Action also in particular touches upon the need to have a wider range of powers to sanction. Information on actions taken by Norway to address these two action items, especially the FSA, is presented below.

127. The most notable change occurred with the entry into force of the new AML Act in October 2018. Norway can now impose administrative sanctions for breaches of the fundamental requirements of the AML Act. The new AML Act also introduced an expansion of criminal liability. Supervisors can now impose a ban on persons holding a management function, regardless of which of the AML Act provisions has been breached.

128. The 2018 AML Act and Regulations determines the maximum amount of administrative fines that can be imposed on REs, as well as the circumstances that should be taken into account in assessing whether to impose an administrative fine or a prohibition against holding a management function (e.g. gravity and duration of the breach; degree of responsibility of person held responsible; financial strength of the person held responsible; benefit derived from the breach; losses to third parties caused by the breach). However, the AML Act and Regulations remain silent with regard to the amount of coercive fines.

Financial Supervisory Authority

129. Before October 2018, FSA was responding to identified deficiencies by issuing warnings in final inspection reports, also called “red letters”. These warnings are also published on FSA’s website. Where serious breaches were identified, administrative measures available under the previous AML Act have been used, mostly in the form

of orders to cease and desist with warnings of coercive fines. Nevertheless, no coercive fines have ever been imposed, as the REs so far have managed to comply with the orders by the set dates. In severe instances, the FSA has withdrawn licences.

130. At the time of the onsite, Norway had not made use of administrative sanctions. Nine sanctioning cases have been brought forward by the FSA during 2019. In eight cases, a decision to sanction was decided, but not made public nor imposed at the time of the on-site.²²

131. The FSA has developed general internal policies of how to assess and conclude whether findings are in a category that suggests that sanctions should be given.

Supervisory Council for Legal Practice

132. Before October 2018, the Supervisory Council's response to identified deficiencies was usually through formal reprimands or – in more severe cases – warnings in the inspection reports. In some instances, where severe breaches had been identified, the Council submitted a proposal to the Lawyers Licensing Board regarding the suspension or revocation of the lawyer's license. The Lawyers Licensing Board follows the recommendation in an estimated 90 per cent of the cases. Coercive fines have never been imposed.

133. No administrative sanctions have been imposed since administrative sanctions became available to the Supervisory Council in October 2018.

Norwegian Gaming Authority

134. Since the entry into force of the new AML Act, the NGA revoked one licence to provide bingo services as a result of non-compliance with the fit-and-proper requirements. Further, NGA issued five written warnings to providers who were late in filling fit-and-proper information, or initially failed to provide sufficient documentation to support the fit-and-proper assessment by the NGA.

135. **Conclusion** – Overall, Norway has continued to respond to identified deficiencies in the same way as before the 2014 MER, mainly by issuing warnings in final inspection reports and, in the case of serious breaches, by imposing orders to cease and desist with warnings of coercive fines. In severe instances, authorities have withdrawn licences. Administrative sanctions were not available before October 2018 and have not been imposed. However, nine sanctioning cases have been brought forward by the FSA during 2019. In eight cases, a decision to sanction was decided but not made public nor imposed, at the time of the on-site. Therefore, the effectiveness of the new sanctioning powers has not been tested yet. **This IO.3 Recommended action is partly addressed.**

²² As required by law, the REs must first be notified about the FSAs intention to sanction, to allow for contradiction and due process. All nine sanctioned entities have had the decisions published after the onsite.

4.2.6. Progress in establishing and implementing manuals and procedures [MER p.111; RA e]

Recommended Action from the 2014 assessment

- Norway should establish and implement procedures, systems and manuals to support effective AML/CFT supervision by FSA and Supervisory Council

Financial Supervisory Authority

136. Since 2014, FSA developed risk classification models and supervisory manuals (referred to below as '*supervisory modules*') to support its AML/CFT supervision. Namely, FSA developed *risk classification models*²³ for banks, mortgage companies and finance companies, investment firms, and real estate agencies- but not for the MVTs sector, despite that sector being identified as one of the two high risk sectors in Norway. FSA uses these models to rank FIs and DNFBPs on the basis of prudential and ML/TF risk factors, and subsequently to select entities for inspections.

137. In 2016, FSA developed *supervisory modules* for banks, mortgage companies and finance companies, insurance companies, investment firms, auditors and accountants, and real estate agencies. These modules contribute to the implementation of a RBA to AML/CFT supervision. However, at the time of the on-site visit, several of the modules were not up-to-date (e.g. modules for banks, insurance, auditors and accountants were last revised in September 2017).

Supervisory Council for Legal Practice

138. Since 2015, the Supervisory Council has developed procedures, systems and manuals to support its AML/CFT supervision, namely:

- *Risk classification tool* developed with the help of the consultancy firm, which allows the Supervisory Council to rank law firms on the basis of their level of compliance with the AML obligations and is used for selecting entities for inspections.
- *Work programme* for inspections developed in 2017 by a consultancy firm in collaboration with the Supervisory Council. The work programme establishes standards for assessing compliance with the AML Act and Regulations during on-site inspections. It has been used for all inspections carried out by the consultancy firm since May 2017, and will be used for all inspections scheduled for 2019-2022.
- In 2018, the Supervisory Council developed, in co-operation with *Altinn*, an electronic self-declaration tool to enable law firms to submit their annual self-declaration form regarding their operations electronically and added four questions relating to the law firms' compliance with the AML Act and Regulations²⁴. In the period from 2019 to 2022, the Supervisory Council will

²³ There are no risk classification models for insurance companies and intermediaries, auditors and accountants, and payment institutions. The FSA is working on a risk classification model for payment institutions and agents of foreign payment institutions.

²⁴ All law firms must confirm that they: (1) have conducted a risk-assessment of their business; (2) have established and implemented AML procedures and routines adapted to the risk they are exposed to; (3) have established and implemented internal control routines to verify compliance

assess the information received to create a separate risk classification system, in addition to the risk classification tool.

Norwegian Gaming Authority

139. At the time of the 2014 MER, NGA was not a supervisory authority for AML/CFT purposes, thus NGA was not reflected in the scope of IO.3 recommended action e). This changed with the entry into force of the new AML Act in October 2018 (see Chapter 1). The analysis below illustrates the actions taken by NGA since then to address this recommended action.

140. NGA is at an early stage of developing a RBA to AML/CFT supervision. In January 2019, in co-operation with the FSA, NGA developed a specific assessment form to support its 'fit and proper' tests, and subsequently conducted its first supervisory action in relation to key persons in the management and beneficial owners of licensed gaming service providers in Norway. However, due to the recentness of this new supervisory function, NGA did not yet established and / or implemented procedures, systems and manuals to support its AML/CFT supervision of the gaming sector.

141. **Conclusion** - Both FSA and the Supervisory Council established procedures, systems and manuals to support their AML/CFT supervision. However, at the time of the on-site, some of these tools (e.g. supervisory modules) still needed to be updated to be in line with the new AML Act and Regulations. **IO.3 Recommended Action e) is largely addressed.**

4.2.7. Progress in ensuring adequacy of resources allocated to AML/CFT supervision [MER p111, RA f)]

Recommended Action from the 2014 assessment

- Norway should ensure sufficiency of resources, to support both on-site supervision and co-operation with domestic and international authorities responsible for performing AML/CFT supervision:

Financial Supervisory Authority

142. Since the 2014 MER, FSA gradually increased its resources dedicated to AML/CFT, from approx. 5 full time equivalents (FTEs) in 2014 to 10,5 by the end of 2018, and – more recently (April 2019) – to 13,5 FTEs to accompany the establishment of a new centralised and dedicated AML and Payment Institutions section under the Department for Banking and Insurance Supervision. The new section is composed of 10 FTEs, although one FTE works primarily on issues relating to payment institutions that do not directly include AML/CFT. Before April 2019, FSA's approach to AML/CFT supervision was based on a decentralised model and lacked dedicated resources.

with money laundering procedures; and (4) organise training activities for their employees. In the case where a law firm has not implemented such routines, it must provide the Supervisory Council with a written explanation.

143. The new AML and Payment Institutions section is operational as of 1 April 2019. Its functions include:

- Leading the AML/CFT supervision of banks, credit institutions, financing institutions, payment institutions (incl. MVTs), agents of foreign payment institutions, e-money institutions, insurance undertakings, and virtual currency service providers;
- Licencing of payment institutions, e-money institutions and virtual currency service providers;
- Co-ordination and assistance to FSA's Department for Capital Market Supervision on AML/CFT matters;
- Handling FSA's international AML/CFT portfolio (including attendance to international events such as FATF and the European Union European Supervisory Authorities), national regulations and guidance.

Table 11. Breakdown of the time spent on AML/CFT works by staff (across all sections)

| Sections of the FSA | Estimate of FTEs |
|---|------------------|
| AML & Payment Institutions (incl. MVTs) | 10* |
| Banking Supervision | 0.5 |
| Insurance Supervision | 0.75 - 1 |
| Investment firms | 1.25 |
| Estate Agencies and Debt Collection Firms | 0,5 - 1 |
| IT & payment services | 0.5 |
| Audit and External Accounting | 1 |
| Total FSA | 13.5 |

Note: * 1 FTE work primarily on issues relating to Payment Institutions that do not directly include AML/CFT.

Source: FSA

144. Since 2014, FSA also increased the specialisation and training of its employees through internal training with varying level for staff and coordinators), international training (e.g. training by the European Supervisory Authorities), cross-agency workshops on ML risks and trends (with the FIU), on TF and PF (with MFA and PST) and on virtual currencies (with KRIPOS/NCIS), as well as through their larger participation in the annual AML/CFT Conference. In addition, some employees have attended specialised courses at the BI Business School and four staff have graduated the specialised training for cross-agency action against economic crimes at Police University College.

145. All seven sections with AML/CFT responsibilities has a designated person for AML/CFT issues, who participate in the internal AML-forum of the FSA. FSA also participates in supervisory colleges.

Supervisory Council for Legal Practice

146. Since 2014, the Supervisory Council increased its human resources–dedicated to AML/CFT –to approximately 2.5-3 FTEs in June 2019. This is an estimate of the time spent by the 14 staff of the Supervisory Council, of which eight have a law degree.

Over the same period the Supervisory Council's budget has increased by 43.7 %, covering *inter alia* an increase in the staffing.

147. The Supervisory Council continues to outsource its on-site inspections to a consultancy firm. The consultancy firm (whose contract was renewed for a third time in 2018 for another 4-year) put together a special AML/CFT team made of 2.5 - 3 FTEs. This is an estimate of the time spent by four members of staff. Hence, the 2019 estimate of resources allocated to AML/CFT supervisory activities is 5 - 6 FTEs.

148. Since 2014, the Supervisory Council also dedicated resources to raising the level of competence and awareness of its employees. All employees who participate in AML/CFT supervisory activities have attended a training course organized by the Norwegian Lawyers Academy. During 2015 and 2016, the eight legal officers attended AML courses, and all new employees will be encouraged to attend similar courses. In addition, the Supervisory Council appointed a person from its secretariat with the responsibility for following-up on AML/CFT activities and for ensuring that other employees participate in AML/CFT courses and trainings.

Norwegian Gaming Authority

149. At the time of the on-site visit, NGA had 2.5 to 3 FTEs allocated to AML/CFT supervisory activities²⁵.

150. **Conclusion** - Since 2014, supervisors have increased their resources dedicated to AML/CFT supervision and have organised training for their employees. More emphasis has been placed on domestic and international co-operation (through supervisory colleges, most significantly with other Nordic supervisors (see para 120). However, for the FSA, the organisational changes and associated increase in resources are very recent and their impact is not possible to assess at this time. **IO.3 Recommended Action f) is largely addressed.**

4.2.8. Progress in ensuring adequate private sector engagement [MER p.111, RA h)]

Recommended Action from the 2014 assessment

- The supervisory authorities should ensure adequate on-going private sector engagement for example, through seminars, guidance or best practices) that supports the effective implementation of preventive measures.

Financial Supervisory Authority

151. Since 2014, FSA established and formalised a closer co-operation with the private sector associations (e.g. the FSA and Finance Norway have established a forum for discussion on issues related to AML/CFT). FSA collaborated with the respective private sector associations in the development of numerous guidance papers on

²⁵ NGA intends to hire one additional FTEs to work on AML/CFT supervision. Another staff is expected to join in September 2019. NGA intends to provide training to the employees allocated to AML/CFT supervisory activities to ensure sufficient specialised supervisory resources in support of its AML/CFT supervision.

AML/CFT and in the development of the Finance Norway Q&A regarding the implementation of the new AML Act.

152. FSA also published a number of guidance documents, including a:

- general guidance on AML/CFT addressed to credit institutions, insurance companies, investment firms, MVTs providers and e-money institutions (2016 and last edition on 31 May 2019);
- sector-specific guidance for the real estate sector (12 April 2016); for auditors (2017) and for accountants (2017);
- guidance on targeted financial sanctions (co-published in 2016 with the Ministry of Foreign Affairs).

153. At the end of 2016, FSA updated its general guidance on AML/CFT. The private sector considered that this guidance was lacking sufficient detailed needed for the adequate implementation of preventive measures. As a result, FSA updated the guidance in co-operation with the private sector associations and published it on 31 May 2019. The new general guidance applies to all REs under the FSA's supervision except to real estate agents, lawyers involved in real estate brokering, auditors and accountants, and provides guidance on the implementation of the requirements of the new AML Act and Regulations. The new guidance will assist financial institutions in applying AML/CFT measures and in detecting and reporting suspicious transactions.

154. FSA has put AML/CFT on the front page of its website for easy access by financial institutions. This includes links to the relevant documents published by FSA, such as the ML/TF risk assessment, guidance papers, interpretative statements, inspection reports.

155. Since 2004, FSA, ØKOKRIM and Finance Norway have been organising the Annual Conference on AML/CFT, which brings together a large number of members and representatives of the private and public sector. In addition, FSA also participates in numerous conferences and seminars on AML/CFT matters.

156. FSA publishes its inspection report on its website, with findings and comments, for the benefit of both the recipient and for other REs. The sector considers this practice useful to identify and address potential gaps in their AML/CFT measures.

Supervisory Council for Legal Practice

157. Since 2014, the Supervisory Council took actions to provide guidance and feedback to support the implementation of preventive measures by legal professionals. In 2018, the Supervisory Council published on its website a guide on AML compliance addressed to entities under its supervision (see para. 83). The purpose of the guide is to clarify the scope of the new AML Act, provide information on the ML/TF risk faced by legal professionals, and provide guidance on the Supervisory Council's expectations for the lawyers when it comes to compliance with the AML Act and Regulations. The guide also provides guidance on risk assessments and on the implementation of a risk-based approach. The guide contains two appendices. The first appendix is a questionnaire that allows legal professionals to determine if their business complies with the AML Act. The second appendix provides a list of risk factors that legal professionals should consider in their business-wide risk assessment, and in the assessment of risk associated with their customers and assignments. The guide was updated in January 2019 in line with the new AML Act and Regulations.

158. The Supervisory Council also provides guidance and feedback during inspections. When an inspection is closed, the Supervisory Council formulates recommendations that are later sent to legal professionals. In some cases, the Supervisory Council hold meetings with an individual entity to respond to their questions and provide guidance on the implementation of their AML/CFT measures.

159. The Supervisory Council also publishes news and information on its website and in the monthly Norwegian Bar Association Magazine. This is considered by the sector as a good practice to raise and maintain awareness among legal professionals. While not a permanent attendee to the *AML Annual Conference*, the Supervisory Council attended this event in 2017 and 2018. Finally, the Supervisory Council holds a number of courses every year in Norway and participates in numerous debates and lectures.

Norwegian Gaming Authority

160. Since the new AML Act came into effect, NGA already provided guidance to support the implementation of preventive measures in the gaming sector. Early 2019, NGA published a guidance on AML/CFT obligations that apply to gaming service providers. In addition, in response to a request from small gaming service providers following the entry into force of the new AML Act, NGA published a checklist overview of the new AML/CFT requirements. NGA also published its first ML/TF risk assessment and a guidance on 'fit and proper' tests (see sub-sections 4.2.2 and 4.2.6).

161. **Conclusion.** The supervisory authorities have participated in numerous initiatives to ensure adequate on-going private sector engagement that supports the effective implementation of preventive measures. **This Recommended Action is addressed.**

Conclusion on Supervision (IO. 3)

- Norway has taken actions to address the numerous priority and recommended actions identified in the 2014 MER. These actions fully reflect Norway's increased focus towards developing an AML/CFT supervision based on identified ML/TF risks. While there has been improvements in that regard, some of these actions are very recent – notably because of the enactment of the new AML/CFT Act in October 2018. Therefore it is difficult to ascertain whether these enhancements, which appear mostly satisfactory in their design and intent, are producing the expected results in terms of effectiveness.
- FSA's AML/CFT supervision was until April 2019 based on decentralised supervisory model, which in practice means that its AML/CFT supervision has varied across all the units of the FSA that have responsibility for AML/CFT. This should be mitigated with the setting-up last April of a new AML/CFT unit, which is expected to strengthen FSA's workforce dedicated to AML/CFT specialised supervision. The Supervisory Council has progressively put in place a framework that will enable it to implement a more granular risk-based supervision in the future. The NGA is at an early stage of developing a RBA to AML/CFT supervision.
- While better understood, identified ML/TF risks are not always a determinant factor in supervision. Specifically, supervisory activities are not proportionate to the level of ML/TF risks in branches of foreign banks and MVTs sector, which are identified as high risk areas. While it appears that specialised inspections are more intense for higher risk banks (e.g. supervisory examinations last longer or have more resources attributed to them), their frequency is not determined in a policy or supervision manual, and appears to take place in practice every two to three years.
- Administrative sanctions (which were not legally available before October 2018) have not yet been imposed by supervisors. A total of nine cases has been brought forward for sanctioning by the FSA in 2019. For eight of them, the Board of the FSA made the decision to sanction, but this was not made public or imposed at the time of the on-site. As a result, the effectiveness of the new sanctioning powers has not been tested yet.
- Based on this progress, IO.3 is not re-rated to substantial rating

Remaining elements of Priority / Recommended Actions:

- a) Given the recentness of the ML/TF risk assessments conducted by the NGA and the Supervisory Council, Norway should ensure that the understanding of ML/TF risks is uniform and up-to-date across all supervisory authorities.
- b) In relation to MVTs - more resources should be allocated to the supervision of this sector, due to its inherent ML/TF risks.
- c) FSA should continue to develop supervisory methodology and resources to further enhance supervision.
- d) Norway should ensure that all supervisors effectively take actions to address identified breaches of the fundamental requirements of the AML Act, including by making use of the newly granted sanctioning powers.
- e) FSA should ensure that supervisory modules are reviewed and updated to be aligned with the requirements of the new AML Act and Regulations.
- f) As newly designated AML/CFT supervisor, NGA should:
 - Ensure its future supervision is undertaken on the basis of identified ML/TF risks;
 - Establish and implement procedures, systems and manuals to support its AML/CFT supervision of the gaming sector.

4.3. Financial Intelligence (Immediate Outcome 6) originally rated *Moderate*

162. The 2014 MER identified a number of deficiencies: (i) low numbers of received STRs hampering the FIU's analytical capability; (ii) the lack of strategic analysis undermining the ability of authorities to identify emerging threats and significant variation in the use of financial intelligence between competent authorities. **IO.6 was the subject of one Priority Action and three Recommended Actions.**

163. For the re-assessment of IO.6, authorities submitted a number of case examples, instructions on the use of financial intelligence, intelligence products and examples of police projects. The team also met with the FIU, ØKOKRIM and several police districts, as well as with representatives from the private sector.

4.3.1. Progress in increasing the use of financial intelligence [MER p. 11 PA5 and p. 67, RA b)]

Priority Action (*in italics*) and Recommended Action from the 2014 assessment

- The police districts and KRIPOS/NAST should enhance their use of financial intelligence, *particularly the disseminations by the FIU.*

164. Both these Priority and Recommended Actions recommend that Norwegian LEAs increase the use of financial intelligence, especially FIU's disseminations.

Information on the actions taken by Norway to address these two items is presented jointly below.

165. DPP and POD issued an instruction in 2018 to police districts on the use of financial intelligence from the FIU. The instruction provides useful direction to police districts on expectations, procedures and responsibilities for the use of information provided by the FIU. It includes a requirement for police districts to systematically check whether the FIU has information that can be used in local criminal investigations and/or general intelligence. It also provides an overview of FIU products (operational and strategic intelligence produced) and feedback requirements.

166. The issue of police use of FIU information is also included in DPP's regular inspections of police districts. These inspections demonstrated that police districts have systems in place for the use of FIU information and that they use the information in criminal investigations.

167. These guidelines issued to police districts have had a positive effect on the use of financial intelligence by police districts and some police districts also indicated that they proactively seek financial intelligence from the FIU for all of their investigations.

168. Since 2014, KRIPOS/NCIS and police districts have enhanced their use of financial intelligence from the FIU. As indicated in Section 4.1, LEAs and the FIU use it as their main tool for co-operation in a system called *Indicia*. *Indicia* is the police's main IT database, which registers all serious crimes occurring in Norway. All LEAs, including KRIPOS/NCIS and the Police Districts include information about their investigations in *Indicia* and the FIU system is also connected to *Indicia*. The FIU therefore has access to the police work and can flag to LEAs directly on the system that it has further information for LEAs to use. For example, by the end of 2018, FIU had disseminated 22,348 objects (investigation information on accounts for example) on *Indicia*. LEAs can then make a formal request to FIU for intelligence to support a particular investigation. *Indicia* is also an intelligence tool: FIU disseminates intelligence reports to *Indicia* and LEAs and FIU can work together on those projects. Finally, *Indicia* generates data on the use and usefulness of the information uploaded.

169. Authorities provided statistics on the number of those reports that were included in police projects and how many of those reports related to investigations. The number of intelligence reports used by LEAs in their projects increased from 50 in 2015 to 134 in 2018 (125 of those projects related to investigations). Authorities were not able to provide a breakdown per LEA, but they provided instead several case studies that demonstrated successful use of financial intelligence by KRIPOS/NCIS and police districts.

170. FIU received 2154 requests for information from the police between 2013 and 2018. FIU indicated that these requests are of improved quality and that LEAs are clearly more aware now of the type of information that FIU can provide in support of their investigations.

171. The Police Reform that began after 2014 led to the use of specific thematic police projects, which have contributed to enhancing co-operation among LEAs and the FIU, and to improved use of financial intelligence by LEAs (see para.45). Authorities provided examples of projects to which the FIU participated. Those projects included operations on human trafficking, child sexual abuse and a project on strategically chosen subjects. The FIU also cooperated with the tax authorities on national tax projects and disseminated information on international transactions for

several projects, including in relation to the Panama Papers and work-related crime. Tax authorities make good use of intelligence reports received from the FIU.

Box 2. Case Study on Child Sexual Exploitation (Police Project led by KRIPOS/NCIS)

Context: This was a KRIPOS/NCIS-led investigation, which began in 2016.

Relevance to IO.6: KRIPOS/NCIS had limited information at the beginning of the investigation, and turned to the FIU to gather additional information. The FIU conducted some analysis of the information in its database and identified destinations at risk, financial transactions to country X and country Y, as well as other transactions using payment platforms. The Norwegian FIU cooperated with the platform owners and foreign FIUs and identified targets.

Results: There has been one conviction for sexual exploitation of children (both in the offenders' home country and by the use of internet in another country) in relation to this investigation so far. The conviction has been appealed, so the case is not yet final. Other cases in relation to this investigation are still being prosecuted.

Source: KRIPOS/NCIS

Box 3. Case Study - Organized Money Laundering Network (For IO6 and IO8)

Context - This was an Oslo Police District led investigation, which began in 2014. The investigation, involved a criminal turnover of NOK 70 million in Oslo.

Relevance to IO6 and IO8: The case began with limited information on an Eastern European organized crime group which was operating in the Oslo construction industry. The Oslo police district used financial intelligence from the FIU to help begin the investigation. FIU financial intelligence was used to identify the proper targets as this organized crime group was operating 10-12 shell companies, which were difficult to identify, and to find property. The project targeted the users and operators of fictitious subcontractors and money launderers in the construction industry. The project also aimed at confiscating proceeds of crime, including major assets in country X. Finally, the project wanted to identify currency smuggling routes, so that appropriate measures could be taken. There was reason to suspect that proceeds of criminal business activities were being funnelled through the same channels as proceeds from prostitution and drug trafficking.

Results: There were several ML convictions. One individual was sentenced to 5.5 years imprisonment. Three ML networks with a total turnover of about NOK 62 million (EUR 6.3 million) were dismantled. The court issued a final and enforceable confiscation order for NOK 19 million (EUR 1.9 million), of which NOK 0.2 million had been identified and frozen.

Source: Oslo Police District

Box 4. Case Study on Tax Evasion from the East District Police

Context - The case was initiated in 2014. It is a tax evasion case, led by the East District Police.

Case summary - Banks reported a series of suspicious cash withdrawals and account transactions performed from business accounts and private accounts to the FIU (all owned by one person). The FIU then notified the police and the Norwegian Tax Administration of these suspicious transactions. Subsequently, the FIU identified these suspicious transactions as potential ML activities.

The suspect had withdrawn NOK 15 million in cash from ATMs over a 2-year period. These funds were used to pay workers' salaries in cash to avoid paying taxes. The criminal charge contained information about the suspect's connection with Norway, his registered employment, his roles in various companies, his property, his tax matters and his accounts. The police uncovered ML activities amounting to NOK 15-20 million (EUR 1.5 – 2 million). The FIU notification led to the initiation of police work.

Results -In 2017, the suspect was sentenced to three years and four months of imprisonment. The judgement deprived the suspect from running his own business and of the right to be chairman of a board and general manager for a period of 3 years. He was also sentenced to pay compensation to the tax administration amounting NOK 3.6 million (EUR 367 000). The court also issued a confiscation order amounting NOK 3 080 000, but this amount has not yet been recovered (see Section 4.4).

Relevance to IO6 (use of FIU financial intelligence) - The East Police District indicated that if the FIU had not been involved in the case, the charges would have been limited to an administrative offence such as lack of bookkeeping.

Source: East Police District

172. Authorities also indicated that the FIU contributes to educating investigators on the use of financial intelligence through the Police University College, which has courses that focus on organized crime, financial crime and environmental crime. FIU has also been more active at promoting its work with Police Districts. LEAs have indicated that it is very easy to get access to FIU intelligence and other information as FIU focuses on providing the most useful information to make their search on Indicia easier.

173. Nine police districts and KRIPOS/NCIS have provided feedback to the FIU so far and the feedback is positive in 89% of cases. Authorities are currently developing a system that will allow for electronic tracing and documentation of the use of financial intelligence from the FIU.

174. Although this information is outside of the scope of this FUA, ØKOKRIM and PST continued to use FIU's financial intelligence and also increased their co-operation with the FIU. **These Priority and Recommended Actions are addressed.**

4.3.2. Progress in enhancing the FIU's strategic analysis function [MER p.67, RA a)]

Recommended Action from the 2014 assessment

- The FIU should enhance its strategic analysis function.

175. Since 2014, there was a change in the department that the FIU is part of, but no notable change in its staffing. The FIU still employs a total of 17 staff - 9 of these 17 are working as analysts in the Operational Analysis section. Although the FIU had a strategic analyst position in 2014, the position had not been filled for 18 months and no strategic analysis had been conducted since 2011. The FIU now has one analyst dedicated to strategic analysis. That position is split in two: one-half is dedicated to FIU strategic analysis, the other half to strategic analysis for ØKOKRIM (the FIU being part of ØKOKRIM).

176. While FIU's strategic analysis is still limited, the FIU led the development of the three NRAs produced so far and contributed to these exercises with significant information. The analyst also recently contributed to the development of an annual intelligence summary of ML/TF, which is based on an analysis of STRs, and is of very good quality and was considered useful by other authorities. The analyst also contributed to several threat assessments, including ØKOKRIM's threat assessment, to the National Threat Assessment of the police, and also provided assistance to NTAES in the development of its ML indicators for several reporting sectors (the usefulness of which was noted by most REs met during the FUA on-site). The FIU also has one staff seconded to the NTAES who contributes to strategic analysis products.

177. The analyst also recently conducted an analysis of all STRs related to virtual currency, and associated trends, which later fed into police strategic intelligence reports. The report was shared on *Indicia* (see previous section for more information on *Indicia*) and also presented at the inter-agency forum on new payment services (which gathers police and tax authorities every quarter). For confidentiality reasons, the FIU did not share the analysis with other FIUs and REs.

178. An important factor both in the operational and strategic analyses by the FIU is the STRs received and these have improved. The number of STRs received by the FIU increased by 80% since 2014. The majority of STRs are submitted by banks and money transfer services, but the real estate agents sector has seen the highest increase in STR reporting (from 38 in 2014 to 555 in 2018). Lawyers and investment firms continue to submit the lowest numbers of STRs. See Table 12 below.

179. The number of STRs related to TF also increased significantly between 2014 and 2018. The number of STRs received seems to be in line with the expectations for a country of the size and characteristics of Norway and is sufficient for the FIU to be conducting good strategic analysis.

180. As the number of STRs continues to increase and is likely to require more analysis resources, increasing the strategic analysis function would help Norway monitor trends and vulnerabilities in the long term.

Table 12. Number of STRs Received by the FIU between 2014 and 2018

| REs | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------|--------------|--------------|--------------|--------------|---------------|
| Banks | 3 971 | 3 391 | 6 261 | 5 598 | 6 884 |
| Money transfer entities | 1 518 | 976 | 2 013 | 2 442 | 2 932 |
| Insurance companies | 51 | 52 | 68 | 77 | 108 |
| Real Estate | 38 | 45 | 134 | 424 | 574 |
| E-money | 2 | 1 | | 1 | 7 |
| Insurance | 51 | 52 | 68 | 77 | 108 |
| Securities | 6 | 10 | 9 | 5 | 4 |
| Auditors and accountants | 97 | 95 | 119 | 117 | 103 |
| Lawyers | 10 | 6 | 12 | 10 | 13 |
| DPMS* | 54 | 95 | 62 | 60 | / |
| Others | 102 | 139 | 164 | 252 | 145 |
| TOTAL | 5 795 | 4 715 | 8 780 | 8 926 | 10 770 |

Note: Since July 2017, DPMS are no longer covered by the AML/CFT Act. DPMS are not allowed to accept cash payments above NOK 40 000 (approx. EUR 4 000). See Section 3.1.4, *Legal Framework*
Source: FIU

181. The quality of STRs has improved. However, some of the REs seem to focus on simple transactions and have difficulty detecting more complex transactions. The FIU provides feedback to REs on STRs received. An automatic message is sent by the STR reporting software to the REs for all STRs to inform REs that the STR is being analysed by FIU.

182. FIU has 2 positions for compliance officers, one of which was created after the 2014 MER. FIU has made some improvements in this area since the MER. The compliance officers use a risk-based approach. They focus on the number and quality of STRs, and provide feedback and information to high-risk REs. The officers are in contact with the private sector through the homepage of ØKOKRIM; meetings with REs and other stakeholders in the private sector; compliance hot-line; conferences; newsletters among other mechanisms. The officers also assist the supervisory authorities by providing information concerning the REs and their duties in accordance with the AML act. All REs also receive automatic generated feedback when a submitted STR is analysed.

183. While the work of the compliance function is commendable, the FIU and FSA should continue to enhance their interactions with the private sector to continue to help improve STR reporting and provide further assistance and guidance on how to detect more complex transactions. **This Recommended Action is largely addressed.**

4.3.3. Progress in defining the powers of the Supervisory Board [MER p.67, RA c)]

Recommended Action from the 2014 assessment

- Norwegian authorities should more clearly delineate the powers of the Supervisory Board in relation to data which the FIU receives and processes, including the extent to which the Board can require access to live operational data.

184. The Supervisory Board was abolished with the entry into force of the new AML Act on 15 October 2018. The Norwegian Data Protection Authority, which now oversees compliance with data protection requirements, does not have access to live operational data. **This Recommended Action is addressed.**

Conclusion on Financial Intelligence (IO.6)

- Authorities demonstrated a good improvement in the use of FIU financial intelligence by KRIPOS/NCIS and police districts. FIU's strategic analysis is developing well, is of good quality, and is supported by larger quantity and better quality STRs, and the FIU contributes to other strategic products developed by other agencies and LEAs. However, as the number of STRs continues to increase, the strategic analysis needs are likely to require more resources.
- **Based on this progress, IO.6 is re-rated to substantial.**

Remaining elements of Priority and Recommended Actions:

- a) The FIU should further increase the work of its strategic analysis function to continue enhancing Norway's understanding of how money is laundered, moved and concealed. This includes strategic analysis of FIU data.

4.4. Confiscation (Immediate Outcome 8) originally rated *Moderate*

185. The 2014 MER identified limited confiscation results being achieved, and a shortage of reliable and comprehensive statistics being maintained, both of which made it difficult to determine the overall effectiveness of the confiscation system. **IO.8 was the subject of one Priority Action and two Recommended Actions.**

186. For the re-assessment of IO.8, authorities submitted updated statistics in several areas, a number of relevant letters, circulars, and guidelines provided to LEAs, various internal reports and assessments, and case examples. The team also met with a number of authorities, including POD, ØKOKRIM, DPP, NCA, tax administration and several police districts.

4.4.1. Progress in improving the overall effectiveness of Norway's confiscation regime [MER p.11, PA 6) and p. 68, RA h)]

Priority Action (*in italics*) and Recommended Action from the 2014 assessment

- *Norwegian police and prosecution authorities should continue to prioritise the confiscation of proceeds of crime and examine the complete chain of action to determine why actions to confiscate and recover criminal proceeds are not effective, including any legislative or institutional framework issues.*

187. Both Priority Action and IO.8 Recommended Action of the 2014 MER recommend that Norway improves the overall effectiveness of its confiscation regime (including through legislative or institutional framework issues). Information on actions taken by Norway to address these two action items is presented jointly below.

Prioritising confiscation of proceeds of crime

188. Depriving criminals of the proceeds of crime via confiscation remains a priority policy objective for Norway. The *2017 AML/CFT Strategy* tasks the National Police Directorate to provide statistics on number and amount of confiscations. In 2019, Norway issued a number of directives emphasising this point: a 22 February 2019 annual priority directive from the DPP instructs the police districts and the regional public prosecution offices to prioritise confiscation; the DPP's circular on the quality of criminal procedures, revised in February 2019, emphasises the need to conduct investigations with a view to confiscation; and the 2019 National Budget presented to the Parliament (Prop. 1 S (2018-2019)) emphasised the importance of confiscation of proceeds from crime as an important measure to combat work-related crime. A high-level commitment to this policy objective was further confirmed by authorities during the June 2019 onsite.

189. In response to the 2014 MER, as well as internal concerns expressed by various agencies, on 18 April 2017, Norway established a working group (comprised of representatives of the POD, ØKOKRIM, DPP, Oslo Police District, Advisory Council on Bankruptcy and tax administration) tasked with proposing measures to improve

Norway's effort towards combating financial crime, including confiscation.²⁶ Known as "Project Eco", the working group was established by POD and the DPP on the basis that combating financial crime must be prioritised, acknowledging that while key directives have mandated this for some time, the results thus far had been unsatisfactory.²⁷ The report produced by the working group on 19 February 2019 found that LEAs have not yet met expectations in this area.²⁸ Authorities, including POD, concur with this finding and confirmed during onsite meetings that even though the confiscation results have somewhat improved since 2014, they are still not satisfactory. The report sets out local challenges identified in two earlier reports, and suggests various measures to address the identified challenges, thereby constituting a framework for continued work within the districts. Authorities acknowledge that it will take time for new measures being put into place to produce an impact.

Confiscation and recovery actions

190. Improvements have been made since 2014. However, several weaknesses identified in the MER remain. One of the most important shortcomings noted in 2014 was the lack of consistent, reliable and comprehensive statistics, in combination with a lack of substantive qualitative information (including sufficient case examples upon which to judge effectiveness). At that time, POD was responsible for keeping a central register of statistics regarding confiscation efforts throughout Norway. These statistics only provided information regarding the number of enforceable confiscation orders as well as the amounts and values named in those orders. There was no data provided on the number of cases from which those orders were derived (there could be multiple orders per case) or the value of property actually recovered pursuant to the executed orders (MER para. 3.54). Seized property subject to confiscation was often sold without the funds being transferred to the National Collection Agency (NCA), which is responsible for the actual enforcement of orders and recovery of assets. Thus, the value of liquidated confiscated property, as opposed to money recovered as a civil debt by the NCA, was not reflected in the NCA statistics or anywhere else. (MER para. 3.57). There was no data available on the value of property or assets that had been seized, charged or frozen (MER paras. 3.51 & 3.52). Essentially, paper judgments were counted, but total amounts recovered were not, and assets subject to provisional measures were not tracked.

191. With regards to assets that were recovered by NCA, the MER found the value to be significantly lower than the value of assets subject to confiscation orders. This was due in part to lengthy and/or unsuccessful collection processes (i.e. over time assets had been dissipated or were hidden). There was also a clear downward trend in the value of the confiscation orders made overall, even though the number of orders remained relatively consistent (para. 3.52). The MER also noted a significant fluctuation in the number of confiscation orders obtained between the various police districts, and from year to year. Taken together, these issues implied a lack of resources and expertise in the local police districts and indicated that Norwegian authorities were not adequately taking action, through the seizure, freezing, or charging of assets to secure assets prior to confiscation.

²⁶ Working Group on Measures to Strengthen the Combating of Financial Crime – Phase 3 Report, Page 4, 19 Feb. 2019.

²⁷ Phase 3 Report, Page 5.

²⁸ Phase 3 Report, Page 13.

Confiscation data

192. Norway has made progress towards addressing several of these shortcomings. Since August 2018, ØKOKRIM is acting as the country's national expert and facilitator for the seizing and confiscation in financial investigations. Authorities provided numerous case examples, and statistical data (see Tables 13 and 14 below). For the purpose of facilitating the analysis of this chapter, Norway's confiscation regime notably includes: *criminal confiscation of proceeds*, *extended confiscation* (i.e. assets belonging to the offender that have not been proven to be lawfully acquired)²⁹, and *objects confiscation* (i.e. property which is the product of, has been the subject of, or has been used or intended for use in a criminal act, or all or part of the value thereof). Norway could not provide estimated value for objects subject to confiscation.

193. As an alternative to confiscation and restitution claims, prosecutors will seek to apply criminal fines as a way to recover assets from criminal activity. While fines are a penal reaction, and not confiscation per se, in practice criminal fines contribute to depriving criminals of proceeds, often in combination with confiscation and/or restitution (See Table 13). As another alternative to criminal confiscation, Norway has also been confiscating the value of illegally fished fish through administrative procedures. The large volume of administrative confiscations for breaches of fishing law also demonstrates Norway's effort to confiscate in line with its identified ML/TF risks. However, this data is not considered for the purpose of re-assessing IO.8, as not relevant to criminal confiscation figures.

Table 13. Cases where confiscation, victim restitution, and/or a criminal fine, formed part of a final enforceable order (2014-2018)

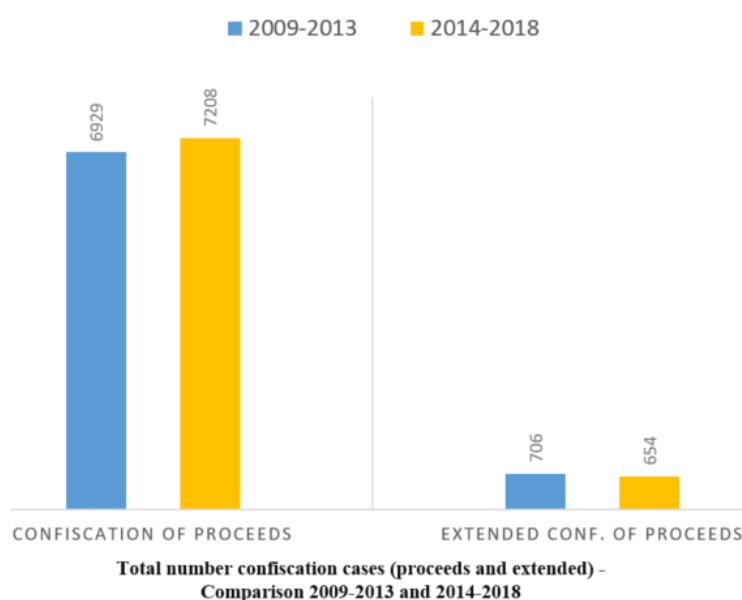
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-----------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Nb cases (final and enforceable) | | 22 770 | 22 605 | 26 839 | 25 027 | 23 847 |
| Victim restitution cases (Percentage) | | 1 130 (5%) | 1 082 (5%) | 1 164 (4%) | 996 (4%) | 934 (4%) |
| Value | (NOK MLN) | 1 368, 8 | 244 700 000 | 198 800 000 | 296 900 000 | 280 200 000 |
| | (EUR MLN) | 139, 72 | 24 979 000 | 20 293 000 | 28 799 000 | 28 603 000 |
| Confiscation cases (percentage) | | 1 702 (7%) | 1 644 (7%) | 1 570 (6%) | 1 414 (6%) | 1 294 (5%) |
| Value | (NOK) | 138 700 000 | 259 200 000 | 57 600 000 | 114 800 00 | 70 000 000 |
| | (EUR) | 14 158 000 | 26 459 000 | 5 880 000 | 11 719 000 | 7 145 000 |
| Nb of single cases with fine (Percentage) | | 4 790 (21%) | 4 739 (21%) | 6 556 (24%) | 5 840 (23%) | 5 262 (22%) |
| Value | (NOK) | 359 700 000 | 67 900 000 | 60 000 000 | 140 300 000 | 58 100 000 |
| | (EUR) | 36 718 000 | 6 931 000 | 6 125 000 | 14 321 000 | 5 931 000 |

Note: * Data provided by Norway shows number of cases and number of claims/orders; numbers can therefore be different from other tables provided in which number of claims are represented. Furthermore, one case can include claims for confiscation, restitution, fine, or some combination of each.
Source: POD

²⁹ Authorities can use extended confiscation in cases (a) which have a penalty of 6 or more years or the type of offence may result in a considerable gain, and (b) the offender was convicted within the previous five years of an offence resulting in a considerable gain [2014 MER, page 53, para 3.5].

194. Overall, the total of the number of confiscation cases between the MER five-year reporting period (2009-2013) and the FUA process (2014-2018) remains globally the same - both in relation to criminal proceeds and extended confiscation. See Figure 2 below.

Figure 2. Total number of confiscation cases - Comparison 2009-2013 and 2014-2018



Source: POD

Table 14. Number of and value of all final confiscation orders - 2014-2018

| | | 2014 | 2015 | 2016 | 2017 | 2018 | Total | Average |
|--|-------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------------|
| Confiscation of proceeds | | 2 044 | 1 374 | 1 198 | 1 484 | 1 108 | 7 208 | 1 442 |
| Extended confiscation of proceeds | | 92 | 300 | 98 | 88 | 76 | 654 | 131 |
| Confiscation of objects | | 6 653 | 6 785 | 6 417 | 6 518 | 6 984 | 33,357 | 6 671 |
| Total confiscation | | 8 789 | 8 459 | 7 713 | 8 090 | 8 168 | 41 219 | 8 244 |
| Total value (without confiscated objects)* | (NOK) | 211 900 000 | 323 700 000 | 163 200 000 | 198 200 000 | 112 900 000 | 1 009,9 mill | 201 980 000 |
| | (EUR) | 21 631 000 | 33 043 000 | 16 659 000 | 20 232 000 | 11 525 000 | 103 090 000 | 20 618 000 |
| Remaining** | (NOK) | 40 000 000 | 99 900 000 | 90 500 000 | 121 300 000 | 61 200 000 | 412 900 000 | 82 580 000 |
| | (EUR) | 4 083 000 | 10 198 000 | 9 238 000 | 12 382 000 | 6 247 000 | 42 148 000 | 8 429 600 |
| Remaining (percentage) *** | | 19% | 31% | 55% | 61% | 54% | | 44% |

Note:

* Value (NOK): Value = amount ordered confiscated for proceeds and extended confiscation. This value does NOT include the value for the confiscated products, subjects or instrumentalities of a criminal act (i.e. "objects"). Norway is still developing the statistics to systematically maintain the value of these objects.

** Remaining (mill NOK): Remaining = amounts ordered confiscated that have not yet been collected. Includes both claims under active collection and pending claims. Pending claims include cases where debtor is expatriated, under bankruptcy proceedings, dead but awaiting the decedent estate to close, is granted debt settlement by law and when there is considered as not likely to collect the money after a longer period of time without finding assets.

*** Remaining number of total: percentage that is still uncollected (i.e., for 2018 only 46% of ordered confiscation value has been realised).

Source: POD

195. The improvements in relevant quantitative and qualitative information since 2014 are commendable. However, they fail to fully address the lack of comprehensive statistics and other shortcomings noted in the MER. Several important gaps still remain. First, the value of *objects* subject to confiscation³⁰ is not adequately recorded, as Norway does not register the value of such unless it is seized Norwegian currency. For example, a person facing four confiscation claims (e.g. for NOK 500 000, 900 Bitcoins, a mobile phone and a computer), only the value of the Norwegian currency would be captured in the statistics currently collected.

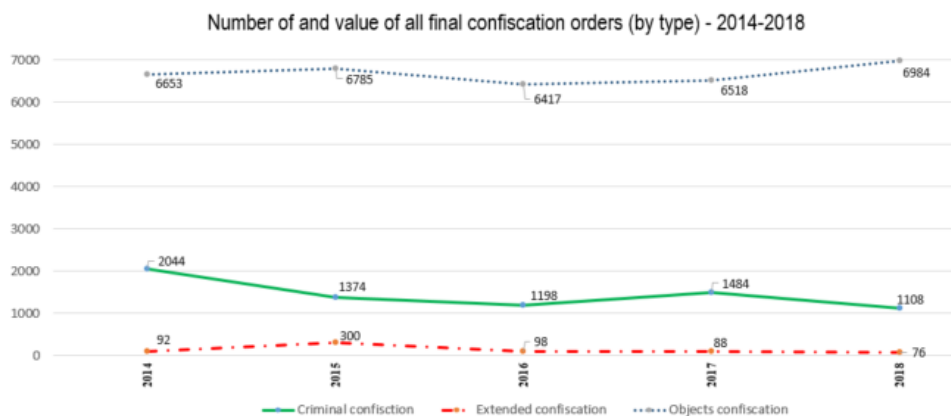
Between 2014 and 2018, over 97% of object confiscations occurred with no registration of their value. See Table 15. Such registration is not required in Norway. However, as a result, this still contributes to an accounting gap, which is deficiency from a technical point of view and is especially problematic given that object confiscation represent Norway's highest confiscation activity and the area wherein the greatest improvements appear to have been made in the past years (i.e. objects confiscation orders roughly represent 80% of the total annual number of confiscation orders). See Table 14 and Figure 3. It also remains unclear to what extent seized or frozen property subject to confiscation is being sold in a way that bypasses the NCA or other recording mechanisms. The combination of these factors make it difficult to assess to what extent Norway is successfully confiscating the proceeds and instrumentalities of crime.

Table 15. Objects confiscation (incl. percentage without registration of value) – 2014-2018

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------|-------|-------|-------|-------|
| Objects confiscation (e.g. product, subject or instrumentality of a criminal act) | 6 653 | 6 785 | 6 417 | 6 518 | 6 984 |
| Percentage - <i>without</i> registration of values | 98% | 98% | 98% | 97% | 97% |

Source: POD

Figure 3. Number of and value of all final confiscation orders (by type) - 2014-2018



Note: Value in mill NOK. See Table 14.

Source: POD

³⁰ i.e. movable or immovable property such as real property, personal property, vessels, vehicles, etc., representing the product, subject or instrumentality of a criminal act, cf Penal Code section 69

196. Second, statistics regarding the value of assets that have been seized, charged or frozen are still not systematically kept, and authorities could not provide any quantitative information regarding the use of provisional measures to secure assets prior to confiscation. This complete lack of statistical information related to provisional measures makes it difficult to assess how well and to what extent law enforcement authorities are identifying and preserving the proceeds and instrumentalities of crime in order to prevent the flight or dissipation of assets. The case examples provided demonstrated that provisional measures are being used to some extent, and also indicated that Norway had a good interagency co-ordination and co-operation with foreign LEA counterparts. However, most of these cases are still ongoing (with very few completed ones), and were thus of limited use in showing a strong correlation between use of provisional measures and successful recovery of assets pursuant to final and enforceable confiscation orders

197. One case in particular, in fact, highlighted the limitations inherent to Norway's existing non-conviction based confiscation authority, which currently requires proof beyond a reasonable doubt that the proceeds are from a criminal act. Norway notes that proposed civil asset forfeiture legislation is currently under consideration by the MOJ.

Box 5. Case Study on Seized Assets

Status: Ongoing case

Summary: This case is led by ØKOKRIM and relates to seizure of assets in Norway based on reasonable grounds to believe that assets are the proceeds of crime committed outside of Norway.

Case: In June 2014, FIU Norway froze approximately NOK 70 million (8 million euros) on three Norwegian bank accounts held by a citizen of country X. ØKOKRIM seized the assets held on the accounts on suspicion of money laundering/the assets being the proceeds of crime. There were red flags indicating money laundering, but no apparent predicate offence. The payments came mainly from two offshore companies, and were marked "for legal consultation", but the accountholder does not live, work or run any business in Norway. All evidence regarding the assets' origins had to be collected abroad. Most of the payments came from two offshore companies with accounts in multiple jurisdictions. Evidence collected indicates that the beneficial owner of both of the offshore companies is involved in a business currently under investigation in country X.

Results: Authorities offered the case as an illustration of the need for civil asset forfeiture (in rem) in Norway: There are plentiful red flags indicating money laundering, the accountholder has done little to document the origins of the assets, yet proving beyond a reasonable doubt that the assets are the proceeds of crime has been quite challenging since all evidence regarding the origins needs to be collected abroad. Assets were seized in 2014, and the following years have been spent tracking transactions. Backtracking the source of funds by multiple letters rogatory is quite time consuming.

Ultimate disposition of the frozen assets remains uncertain.

Source: ØKOKRIM

198. Third, significant gaps remain in Norway's ability to track proceeds and instrumentalities of crime recovered through restitution. The NCA is responsible for collecting fines, confiscated assets, court fees and legal costs on behalf of the police, and compensation on behalf of certain aggrieved parties. When NCA is collecting a claim, it can provide relevant statistics. However, the NCA can only collect money on behalf of third parties—such as victims of crime ordered to receive restitution—under certain conditions, including that the party wants the NCA's help in collecting the claim. Generally, the NCA does not assist companies, many of which are legally required to pursue their own recoveries. Since the NCA does not collect these claims, and the third party involved has no obligation to report the amount collected, if any, these restitution numbers are not captured by the NCA's statistics.

199. There are likely instances where LEAs have facilitated asset recovery for victims, without being captured in the confiscation statistics. A relevant case study was presented to the team, but the exact nature of LEA's efforts, or how often such recoveries occur, is unknown. During the onsite, Norway showcased an investigation by the Oslo police district. In "OP Jackpot," an international company with offices in both Norway and other parts of Europe was defrauded into paying USD 65 million through CEO-fraud over a period of one week in 2016. After establishing a good cooperation with the victim and its lawyers, the police contributed to the recovery of USD 52 million. This was not reflected in the police's statistics. Given the various gaps, the true amount of proceeds of crime recovered through restitution from criminals cannot be systemically assessed. However, it is likely higher than Norway can currently account for.

200. Fourth, authorities provided information from tax authorities on the number of cases and amounts *ordered* to be recovered with regard to re-assessed taxes and imposed penal/heightened taxes, related to tax fraud, tax evasion and related crimes for 2015-2018, in line with footnote 85 in the FATF Methodology.³¹ However, tax authorities could not provide any information as to amounts actually *recovered* pursuant to these orders. This is because the tax authorities do not separately track amounts recovered pursuant to such orders from amounts received via routine tax collection. As a result, tax authorities have no way to ascertain to what extent the unpaid taxes, and imposed penal/heightened taxes, ordered to be collected have been realised. This is especially concerning given that a significant generator of proceeds in Norway is tax evasion linked to Norwegian business structures, including concealment of assets abroad. It is reasonable to assume that Norway is recovering some percentage of these orders. Unfortunately, because Norway does not currently track amounts recovered as opposed to amounts merely ordered to be collected and which may relate to regular tax liability, the information provided is of limited use in assessing the tax system's contribution to effectiveness under IO.8.

201. Fifth, no information was provided relating to proceeds and instrumentalities confiscated from domestic versus foreign predicate offences, nor was there statistical information available on the number of cases or values shared with or repatriated from foreign jurisdictions³². Two case examples of instances where assets have been successfully repatriated to a foreign jurisdiction were provided

³¹ For purposes of assessing effectiveness of IO8, credit can now be given for amounts *recovered* using tax assessment procedures *relating to proceeds and instrumentalities of crime*. This is a change from the methodology in use at the time of Norway's 2014 MER.

202. With regards to assets that have been recovered by NCA, the value is still significantly lower than the value of assets subject to confiscation orders. The collection rate has in fact decreased of late, as it is less than 50% in the past three years, as opposed to 81% in 2014 and 69% in 2015. See Table 14. These fluctuations in the annual collection rate may be due to a number of factors, including: the debtor having little to no income due to being in prison, the time taken for collection, unsuccessful collections due to dissipated or hidden assets, or claims being “low priority” under enforced collection procedures (e.g. in a bankruptcy proceeding where other claims would have priority). However, the low correspondence between amounts confiscated on paper and orders ultimately fulfilled also indicate a lack of resources and expertise in the local police districts, which coupled with the failure to track provisional measures suggests Norwegian authorities are still not adequately taking action, through the seizure, freezing, or charging of assets, to secure assets prior to confiscation. Norway’s own internal assessment supports this conclusion.³³ (See discussion on Project Eco findings – paras 221-223 above)

203. POD and DPP noted during the onsite that when assessing confiscation numbers, consideration should be given to the fact that the number of prosecutions, and thus the number of cases where confiscation can be pursued, has reduced since 2014. This is attributed to recent systemic changes to the national law enforcement structure following the 2016 police reform (as discussed under IOs 1 and 6), which, due in part to the increased resources required by law enforcement authorities pursuant to the reform, resulted in a lower number of cases across the board, and thus a lower number of cases in which confiscation was pursued. The assessors considered, however, not the number of prosecutions, but the frequency with which confiscation (or restitution) was pursued within those criminal cases and the quality thereof.

204. Despite fewer criminal proceedings since 2014, the overall value of confiscation orders over the last five years slightly increased since 2014, namely from an annual average of NOK 129 million (13 million EUR) for 2009-2013 to an annual average of NOK 202 million (21 million EUR) for 2014-2018. These values fluctuate dramatically from year to year, reflecting the fact that, due to the overall low value of confiscation orders, the largest cases still have an outsized impact on statistics. Another noted trend in the last five years is the significant increase in the value of the largest confiscation orders issued each year; however, the value of other confiscation orders remained effectively flat.

205. The picture for 2014-2018 regarding restitution amounts ordered and recovered is generally positive. While the authorities cannot confirm with certainty that the entire difference between the balance and the total amount has actually been paid, and some amount of restitution is likely not being recorded (see para.213) it does appear that claims for restitution are being recovered at a significant rate, and that Norway, to a large extent, is effectively using restitution as a way of depriving criminals of their proceeds.³⁴

Ongoing efforts to improve legislative and institutional framework

206. In 2017, the DPP and the POD launched Project Eco, a three-year project, supported by a dedicated working group, aimed at improving performance by police

³³ Phase 3 Report, Pages 13, 14, 21, 23.

³⁴ The high number of restitution in 2014 is due to one very large and complex fraud case, in which the restitution order was close to 1.2 billion NOK.

districts in combatting financial crime, including through confiscation. As noted above (see para 201), this working group submitted in February 2019 a national report (the “Phase 3 Report”), meant to serve as guidance and a framework for future efforts aimed at improving performance nationally. The report identified various challenges faced by police districts relevant to addressing deficiencies noted by the 2014 MER. One of these challenges is a continued lack of resources and expertise. Specifically, the Phase 3 Report found that “many police districts lack sufficient expertise to investigate and prosecute financial crime” and “there are insufficient resources to handle the load of incoming cases in an acceptable manner and in line with centrally issued directives and priorities.”³⁵

207. Other key findings identified in this report³⁶ include, *inter alia*:

- A lack of focus on confiscation, including freezing of assets, in day-to-day law enforcement activities. Securing confiscation often comes at the end of the criminal proceeding, possibly indicative of confiscation being a lower priority and/or insufficient expertise.
- Several police districts face severe case backlogs. Many districts have limited capacity to take on new cases, and cases are dropped as a result. The report strongly recommends that the police be provided with additional resources.
- A general and persistent need to ensure training for police and judicial authorities on confiscation. Many financial crime section employees are recent hires with little work experience. Districts often do not organise training for new staff in this field.

208. The Project Eco report includes a number of recommendations and measures for improvement. The most notable is the need to have a designated expert on proceeds and confiscation in all police districts. A number of other short and long term recommended measures³⁷ include, *inter alia*:

- Mandatory training programmes for recently hired investigators and prosecutors affiliated with the financial crime sections should occur, to supplement the general training provided by police districts. Police districts should consider whether to offer the programme to other staff as well.
- A review of police’s performance indicators should be carried out. The effectiveness of financial crime investigation in police districts is currently measured using traditional indicators such as case handling time, case backlog and conviction rates. The report suggests that the police also takes into account confiscation and joint interagency goals to boost the quality and efficiency of financial crime investigations.

209. The DPP and POD have decided that the suggested measures in the Report shall be carried out in all the police districts, supervised by the project group in collaboration with the local police leadership and the regional prosecution office. This has so far been started in Oslo, Vest and Finnmark police districts. The implementation in the remaining districts will take place in 2019-2020.

210. Apart from Project Eco, Norway has established several other initiatives aimed at improving confiscation results. ØKOKRIM is currently carrying out work to

³⁵ Phase 3 Report, Page 21.

³⁶ *Id.* Page 13, 14, 19-20, 23

³⁷ *Id.* Page 23, 31

improve statistics regarding freezing, seizing and confiscation of assets, in order to enable law enforcement to eventually track all assets secured by police through seizure and charge on property, track how secured assets are disposed of during the course of an investigation, and improve statistics on realised confiscation and/or restitution amounts post-conviction. The implementation of this project is ongoing, and will include an update of work routines for seizure of assets to cover confiscation claims and claims for restitution.

211. In 2015, in order to increase recovery of unsecured confiscation and compensation orders, POD entered into a pilot project with the NCA to allow certain police districts access to NCA's web-based services, in order to directly look up unpaid claims related to criminal proceedings and court fees. As of the onsite, Oslo and Nordland police districts, ØKOKRIM, and KRIPOS/NCIS had access to this online portal (www.sismo.no). Only the Oslo PD, however, appears to be systematically using the portal. Access and signing of agreements between NCA and the rest of the police districts were not yet finalised. Based on the experience from the initial pilot program, which ran from October 2015 to June 2016, the pilot project group recommended that procedures be established for reporting all seized assets to the NCA, in order to allow the NCA to attach liens to secure settlement of unpaid dues before the police returned the goods to the person charged. According to NCA, such systematic reporting has not yet occurred.

212. In 2018, ØKOKRIM updated its 2012 manual on confiscation, with articles from the new Penal Code and a new chapter regarding multi-agency co-operation and information on what instruments and legal remedies are available to other national agencies, such as Tax and Customs Authorities. Additionally, in 2018 DPP issued a circular on ML investigation and prosecution to the police and public prosecutors, which provides guidelines on investigation to ensure confiscation. Furthermore, since early 2019, ØKOKRIM is also acting as a national expert and facilitator in the area of collecting and analysing financial information in criminal cases with an emphasis on tracing, freezing, seizing and confiscating assets. ØKOKRIM can lead a group of experts with the view to develop best practices in collecting and analysing financial information, including operational to-do lists for all levels in the police force. The most recent initiative is an action plan submitted by ØKOKRIM on 6 May 2019 based on a mandate from the DPP and POD, after which ØKOKRIM will be assigned a national responsibility for combating financial crime. One of the measures envisioned by the plan is establishing a national centre in ØKOKRIM with competence in seizing and confiscation, intended to raise the level of knowledge and expertise in the police districts.

213. Finally, an assessment on the current practice of civil asset forfeiture is currently under consideration at the MoJ. While the Penal Code allows confiscation of proceeds even when a person is not convicted, there are several preconditions which make the section difficult to use in practice, including a criminal burden of proof of beyond a reasonable doubt.

214. **Conclusion.** Norway has undertaken significant introspection to pinpoint the weaknesses in its confiscation regime and propose what appear to be helpful measures to correct them and strengthen the system. As a general statement, these institutional and legislative improvements fall into a number of broad categories: additional resources, including human resources; training both existing and new experts; legal reform; increasing interagency co-operation and allocating responsibility for confiscation among agencies, to include oversight roles. The

challenges are well-analysed and the solutions have been planned, and, to some extent are in preliminary phases of execution. While the priority and recommended actions could be viewed as “soft” recommendations, in the assessors’ opinion they are better viewed as envisioning an examination that then leads to measurable changes and results. Unfortunately, the assessors do not find that sufficient, concrete actions have been implemented to date that address Norway’s acknowledged challenges to effectiveness (and proving effectiveness) in confiscation. **These Priority and Recommended Actions are partly addressed.**

4.4.2. Progress in establishing and implementing procedures and processes for the management of frozen or charged property [MER p. 68]

Recommended Action from the 2014 assessment

- Norway should establish and implement procedures and processes for the management of frozen or charged property before and/or after confiscation.

215. Norway was rated LC for R.4 in the 2014 MER because there was no mechanism to manage property that had been seized, whether before or after a confiscation order had been made. This technical deficiency was addressed in Norway’s 3rd FUR, which found that a combination of existing laws and regulations outline adequate options for management or disposal. As a result, R.4 was re-rated Compliant.

216. Frozen property is managed in each police district. Norway has developed a manual and other relevant rules and regulations for this purpose. **This Recommended Action is addressed.**

Conclusion

- Immediate Outcome 8 is achieved to some extent. However, major improvements are still needed. A number of important statistics are still not collected or recorded, making it difficult to re-assess how effective Norway is at confiscating the proceeds and instrumentalities of crime. Despite accounting for roughly 75-85% of the total number of confiscation orders made annually, the value of “objects” subject to confiscation (i.e. movable or immovable property representing the product, subject or instrumentality of a criminal act) is not adequately recorded. Authorities could not provide any quantitative information regarding the use of provisional measures to secure assets prior to confiscation, as this information is still not tracked. While tax authorities provided information on the number of cases and amounts ordered to be recovered with regard to re-assessed taxes and imposed penal/heightened taxes, they could not provide any information as to amounts actually recovered pursuant to these orders because this information is not tracked separately from regular tax collection. The information which was provided could not be broken down by domestic versus foreign predicate offences, nor was there statistical information available on the number of cases or value of proceeds of crime shared with or repatriated to foreign jurisdictions. Although gaps remain in Norway’s ability to track proceeds and instrumentalities of crime recovered as restitution, the information available suggests Norway is more effectively using restitution as a way of depriving criminals of their proceeds. However, the systemic lack of other quantitative information, as well as limited or inconclusive case studies provided, makes it difficult to assess how well Norway is confiscating the proceeds and instrumentalities of crime overall.
- Based on information that is available, however, it appears that the actions taken and the results achieved are still not adequate and are only moderately effective. While the value of confiscation orders over the last five years has slightly increased since 2014, total values are low, and still fluctuate dramatically from year to year since the largest cases have an outsized impact on statistics. With regards to assets that have been recovered by NCA, the value is still significantly lower than the value of assets subject to confiscation orders. Coupled with the failure to track some basic and fundamental statistics, the available information indicates Norwegian authorities are still not adequately taking action, through the seizure, freezing, or charging of assets, to secure assets prior to confiscation, and implies a lack of resources and expertise in the local police districts. This is confirmed by Norway’s own findings in the Project Eco report, which determined that the focus on confiscation has not been fully successful to date, and noted numerous challenges stemming from a continued lack of resources and expertise within the police districts.
- Norway has undertaken initiatives which should help improve its confiscation results in the future, including, *inter alia*, Project Eco, an ØKOKRIM project aimed at improving future statistics regarding freezing, seizing and confiscation of assets, the 2018 update to a handbook on

confiscation, the DPP Guidelines on cases concerning the receipt of the proceeds of crime, money laundering and self-laundering and an assessment on civil asset forfeiture within MOJ. While these efforts are commendable, they have not yet produced the results necessary to merit a re-rating of IO.8.

- **Based on this progress, IO.8 is not re-rated to substantial.**

Remaining elements of Priority/Recommend Actions:

- Norway should ensure that comprehensive statistics related to freezing, seizing, and confiscation of assets are systematically maintained. Norway should specifically track and maintain information on provisional measures taken, value of property seized and subject to object confiscation orders, and value of assets subject to confiscation and restitution orders actually recovered.
- In line with footnote 85 of the revised Methodology, Tax authorities should separately track to what extent orders regarding unpaid taxes, and imposed penal/heightened taxes, relating to criminal proceeds/instrumentalities, have been realised.
- Norway should ensure adequate training, resources, and expertise are in place to enable local police districts to identify, safeguard, and confiscate the proceeds and instrumentalities of crime. Norway should also take into account and consider implementing where appropriate other recommendations identified by the Working Group on Measures to Strengthen the Combating of Financial Crime –Project Eco.
- Norway should consider further exploring the possibilities of introducing civil asset forfeiture.

4.5. Proliferation Financing financial sanctions (Immediate Outcome 11) originally rated *Moderate*

217. The 2014 MER identified issues relating to delays in transposition of designations into Norwegian law and a lack of supervision of the sanctions implementation by REs. **IO.11 was the subject of two Priority Actions and three Recommended Actions.**

218. For the re-assessment of IO.11, authorities submitted the 2018 Guidance on Financial sanctions, and a written update of their progress since 2014. The team also met with the MFA, PST, FIU, Export Control Authority, FSA, NGA, SCLP, as well as with representatives from the private sector.

4.5.1. Progress in removing delays in transposition of designations for PF [MER p.11, PA 7, bullet 2 and p. 82, RA e]

Priority Action

- Norway should develop national policies to use targeted financial sanctions to combat PF including by removing delays in transposition of designations for PF sanctions into Norwegian law.

Recommended Action

- Norway should ensure that designations are transposed quickly into Norwegian law under the Iran and DPRK Regulations to ensure that TFS for PF are implemented without delay.

219. Norway was rated partially compliant for R.7 in its 2014 MER in part because designations under the relevant UNSCRs were not implemented without delay. Previously, designation lists were annexed to Norway's DPRK and Iran Regulations and were required to be updated whenever changes were made, a process that took anywhere from 1 to 8 weeks.

220. Since 2014, Norway amended its Iran and DPRK Regulations. The amended regulations now include a hyperlink to the relevant United Nations Sanctions Committee's list of designated persons and entities. With this system in place, any new designation by the Security Council is automatically in force in Norway. See detailed analysis in Norway's 3rd Follow-Up Report. As a result, R.7 was re-rated to compliant in 2018. **These Priority and Recommended Actions are addressed.**

4.5.2. Progress in undertaking monitoring of reporting entities for compliance with PF TFS [MER p.11, PA 7, bullet 3]

Priority Action

- Norway should develop national policies to use targeted financial sanctions to combat PF including by undertaking monitoring of reporting entities for compliance with the targeted financial sanctions

221. The FSA is responsible for monitoring compliance of TFS obligations by FIs and some DNFBPs (e.g. auditors and accountants, real estate agencies and TCSPs), while the Supervisory Council is responsible for compliance by lawyers and independent legal professionals, and the NGA is responsible for ship-based casino gaming as well as casino-style gaming services. As explained in Section 4.2, The Norwegian Tax Administration controls whether DPMS comply with the limits on cash payments, as this is their only AML/CFT-specific obligation.

222. In the MER, monitoring for TFS obligations relating to PF (PF TFS) was not part of any AML/CFT supervisory work, aside from a 2013 questionnaire to the banking sector. Implementation by REs was varied and limited. Since 2014, Norway took some measures to address the insufficient monitoring of REs compliance with

PF TFS. These obligations are now subject to greater supervisory attention by each individual supervisor (see below). Although gaps remain, these efforts generally fit into Norway's increased focus on AML/CFT supervision. As noted in the analysis of IO.3 (see para. 96), there is now a distinct AML/CFT component included in FSA's standard (prudential) inspections. As such, compliance with PF TFS obligations is part of this AML/CFT component.

Financial Institutions

223. In 2017, the Ministry of Finance highlighted the need to supervise REs compliance with their financial sanctions obligations in an assignment letter to the FSA. Consequently, the FSA included the supervision of compliance with TFS requirements in the 16 standard and four AML/CFT specific inspections carried out in banks in 2018. More generally, the increase in FSA's resources dedicated to AML/CFT supervision also contributed to this greater focus on the overall compliance with TFS requirements. Between 2014 and 2018, the dedicated resources to AML/CFT roughly doubled, to approx. 10.5 full time equivalents (FTEs). With the introduction of the FSA's 2019-2022 Strategy, further resources have been allocated to AML/CFT. In early 2019, the FSA recruited five additional staff, all assigned to the recently established AML unit (April 2019) [see para. 175].

224. In addition, the FSA also now conducts a number of specialised AML/CFT inspections to cover higher risk institutions in more breadth and width. Both standard inspections and specialised AML/CFT inspections typically cover an assessment of the entities policies and procedures, risk assessment, governance and organisation, customer due diligence and enhanced due diligence topics, suspicious transaction reporting, and sample testing. In standard inspections also covering AML/CFT, TFS compliance is mostly covered in the context of examining policies and procedures and risk assessments. AML/CFT specific inspections also cover sample testing and technical examinations of the sanctions screening tools. As mentioned under IO.3, the assessment of the sanctions monitoring systems is conducted on the basis of the supervisory module on electronic monitoring systems developed by the FSA in 2018, which provides guidance for the assessment of systems for classification of customers, transactions monitoring, and checks against sanctions lists.

225. In 2016, the FSA enhanced its AML/CFT supervision of the *banking sector* by conducting AML/CFT specific inspections (of which PF TFS forms a part), with most of the increase starting in 2018. See Table 9. As of the on-site, the banking sector demonstrated a good awareness and understanding of their obligations under the Iran and DPRK Regulations. This was particularly the case for large, multinational banks. These large institutions take their obligations very seriously, especially given the reputational risk of noncompliance. The FSA acknowledged that some smaller banks with lower risks are facing more issues regarding implementation, probably due to lack of knowledge regarding their obligations with the regulations. In one bank-owned payment institution, the FSA found a lack of sanctions screening (although this problem is now addressed). Furthermore, one bank with operations in Norway, Finland and Sweden was fined NOK 18 million (approx. EUR 1,8 million) for various breaches, including severe delays in the implementation of sanction screening.

226. The MVTs sector has been subject to very limited supervision since 2014. See Table 10. Despite this, *MVTs providers* interviewed during the onsite appeared to have a good understanding of their risk and had sophisticated screening mechanisms in place, likely due to the need to comply with international obligations.

227. In the *insurance sector*, FIs are aware of their obligations and are taking measures, including screening against the UN lists. The FSA also reviewed the PF TFS procedures of the largest insurance companies and medium sized companies considered to be at risk for PF. All but one companies are screening their customers, whether foreign or domestic. The limitation identified in 2014 in relation to the use of private sector providers for the monitoring of foreign customers, but not of Norwegian customers, due to cost of the service, appears to be addressed, at least in relation to FIs exposed to PF risk. (MER. Para 4.58).

DNFBPs

228. In 2014, DNFBPs were not taking any measures to implement PF TFS. As of the time of the on-site, DNFBPs in general are still taking only limited measures to implement PF TFS, and supervision remains spotty.

229. Certain DNFBPs are not being supervised for compliance with PF obligations. These include DPMS, which are subject to AML/CFT supervision only for their limited obligation regarding cash payments and the approximately 8457 registered legal practitioners in Norway subject to supervision by the Supervisory Council.³⁸ Lawyers do not have an explicit legal obligation to conduct electronic monitoring or screen against sanctions lists and report back to the Supervisory Council. As a result, the Supervisory Council does not conduct PF TFS monitoring.

230. On a case-by-case basis however, some lawyers may pro-actively act as a RE under Norwegian law, and are thus subject to PF TFS obligations. Under what circumstances this occurs is a current topic of debate in the Norwegian legal community. Meetings with the private sector indicated a need for clearer guidance from the Supervisory Council on this issue. In practice, the large firms are screening clients to ensure they do not inadvertently run afoul of general criminal prohibitions against engaging in transactions with listed entities, and as part of their general due diligence obligations. It is unclear whether sole practitioners are doing the same.

231. Lawyers can also operate as real estate agents licensed to conduct transactions, in which case they fall under the FSA's supervision of the real estate sector. Lawyers in Norway are generally not affiliated with any real estate franchise, and operate alone. They mostly engage in settlements only, identified as a high-risk practice in the 2018 NRA. As a result, lawyers are considered inherently risky when it comes to real estate transactions. As supervisor, the FSA rates lawyers engaging in real-estate at the same or higher risk level than a real estate company. Despite this identified risk, the FSA has not conducted any inspection of lawyers practicing as agents regarding compliance with PF obligations.

232. There is no change in the PF TFS monitoring by the *real estate sector*, which still does not screen clients against the UN sanctions lists. There is also a general lack of awareness of PF risks and obligations in the industry, as well as a perceived lack of focus by the FSA on TFS. The FSA Guidance to the real estate sector (No 6 from 2016) was understood by the sector as saying that such screening was not mandatory. The FSA has not yet conducted any inspection on TFS in this sector.

233. For *casinos and the gaming industry*, as explained in IO.3, the NGA has only been appointed as one of Norway's three supervisors since October 2018. Despite the

³⁸ This issue was missed in the 2014 MER, which identified the FSA as responsible for monitoring compliance by all financial institutions and DNFBPs, and did not note that the SCLP was the supervisory authority for lawyers.

findings of its internal risk assessments (which rated the PF/TF risk of the sector to be low), the NGA still intends to include some amount of TFS checks into its supervisory activity once it begins. From the industry perspective, however the sector has not been, and did not show indication that it will, screen against UN sanctions lists. As most gaming customers are generally required to be registered with a Norwegian id-number, the sector viewed this as mitigating the potential PF risk to a large extent.

234. The FSA considers that *auditors and accountants* include PF in all of their inspections, and that large auditing and accounting firms are well aware of their obligations, but the smaller firms likely are not. However, from the point of view of the sector, it appears that auditors may be screening in some capacity against UN lists as part of their customer ID checks, but do not view this as an obligation. To the extent they do conduct TFS screening of clients, they favour a risk-based approach and thus may not be routinely screening everyone. Accountants did not appear to be conducting any checks against the UN sanctions lists.

235. *Dealers in precious metals and stones* are not subject to AML/CFT supervision in Norway and do not voluntarily conduct PF TFS screening.

236. In 2015, Norway reported one freezing action from an insurance company, likely associated with Iran. Aside from that, no new notifications have been registered regarding assets being frozen with reference to the DPRK or Iran sanctions. This could be attributed to few Norwegian FIs having significant exposure to sectors and countries relevant for PF, and US sanctions against Iran making it difficult for the finance sector to engage in any business with ties to Iran. Following Implementation Day of the JCPOA, the MFA has registered a few notifications related to the unfreezing of accounts of persons and entities no longer subject to sanctions.

237. **Conclusion** - Since 2014 Norway has taken steps to improve its monitoring of REs for compliance with the targeted financial sanctions related to PF. There has been an increase in FSA's resources dedicated to AML/CFT supervision as well as a greater focus on the overall compliance with TFS requirements. In 2018, the FSA included the supervision of compliance with TFS requirements into the 16 standard and four AML/CFT specific inspections carried out in the banking sector which, for the most part, demonstrated a good awareness and understanding of obligations under the Iran and DPRK Regulations. While the MVTs sector is still subject to limited supervision, MVTs providers nevertheless appeared to have a good understanding of their risk and had screening mechanisms in place. However, DNFBPs are still taking limited measures to implement PF TFS, and certain DNFBPs are not being supervised for compliance with PF obligations, include DPMS and the approximately 8457 registered legal practitioners in Norway subject to supervision by the Supervisory Council. There has been no change in the PF TFS monitoring by the real estate sector since 2014, which still does not screen clients against the UN sanctions lists, nor has FSA conducted any inspection on TFS in this sector. The understanding of PF TFS obligations by auditors and accounts was mixed, and accountants did not appear to be conducting any checks against the UN sanctions lists, while auditors may only be conducting intermittent checks. The need for clearer sector specific guidance was noted, by numerous industry representatives during the onsite. **This Priority Action is partly addressed.**

4.5.3. Progress in monitoring FIs' reliance on private sector providers to effectively comply with TFS requirements [MER p. 82, RA f)]

Recommended Action

- The FSA should undertake effective monitoring for compliance with the Iran and DPRK Regulations, taking into account the reliance of financial institutions on private service providers.

238. In addition to the actions taken under Priority Action [on the effective monitoring for PF TFS compliance], this IO.11 Recommended Action aims in particular at addressing the identified lack of clarity as to whether REs - or the FSA - were taking any steps to assure themselves that the private service providers they are relying on were applying the most up-to-date designations and that the contents of their databases were accurate (MER para. 4.55).

239. FIs and DNFBPs mostly use one of few screening tools for TFS compliance. Through the licencing process of some entities, the FSA noted that one service provider offered sanctions screening every time the relevant lists were updated, as well as a choice of screening only once a month or once a year. Some smaller FIs and DNFBPs which used this provider were only screening monthly or only when the sanctions lists were updated. As a result, one fine has been issued for TFS non-compliance (as one of several deficiencies), and cease and desist letters are being considered for certain repeat offenders.

240. In the *banking sector*, while FSA reviews TFS written routines, it will usually only look into the specifics of the electronic systems being used for TFS screening as part of special AML/CFT inspections. In one bank-owned payment institutions, FSA also found a lack of sanctions screening, and has addressed this issue since. In the insurance sector, the FSA only reviews TFS written routines (i.e. it has not yet reviewed the specifics of the electronic systems being used).

241. While the above referenced service provider is not under FSA's supervision as such, they were made aware that they were selling a service, which by definition, would lead their customers into gross non-compliance with the TFS obligations. FSA intends to hold a meeting with the system provider to recommend removing the monthly screening option.

242. **Conclusion** - Overall, FSA has taken into account FIs' reliance on private service providers. While there is no in-depth assessment of the screening tool used by all FIs and DNFBPs (to the extent they are screening at all), REs mostly tend to use one of a few available screening tools for TFS compliance. Thus, the FSA has a good overview and understanding of potential weaknesses in the technical systems used. FSA also identified instances where smaller FIs and DNFBPs have relied on these services, which would lead their customers into gross non-compliance with TFS obligations, and sanctions have been applied or are being considered. **This Recommended Action is largely addressed.**

4.5.4. Progress in establishing a mechanism to communicate and coordinate on PF issues [MER p. 82, RA g)]

Recommended Action from the 2014 assessment

- The FSA and PST, with FIU engagement, should establish a mechanism to communicate and coordinate on PF issues to assist in establishing risk-based targeted supervision.

243. Norway's AML/CFT strategy specifically tasked the MFA, PST, FIU and FSA to formalize co-operation by establishing MOUs and a forum for co-operation. In accordance with this Strategy, Norway set-up a co-operation forum, which has been operational since 2017. This forum coordinates and facilitates training and information sharing between the relevant governmental actors, and also coordinates and cooperates on outreach activities towards the private sector. For example, the parties of the forum cooperated on proliferation-related outreach activities towards the MVTs-sector in June 2018.

244. Additionally, PST conducted a training in January 2018 of FSA Directors and FIU compliance officers. PST also intends to deliver a PF training specifically designed for the FSA in the fall of 2019, to assist the FSA in its AML/CFT supervision activities. Members agreed that deliberations in the forum have contributed to the inclusion of proliferation specific topics in the outreach activities of the individual members.

245. Further cross-agency co-operation, including between the MFA, FIU, FSA, PST and private sector, has taken place, for example through the development of the *Guidance Paper on Financial Sanctions*. PST also implemented measures to strengthen co-operation in the field of proliferation and has developed a guide for co-operation between the various competent authorities.

246. The existing co-ordination mechanisms to combat exports of goods and technologies relevant for the development of weapons of mass destruction and the financing of proliferation, continues to meet regularly and perform its function.

247. Conclusion - FSA and PST, with FIU engagement, have established a mechanism to communicate and coordinate on PF issues to assist in establishing risk-based targeted supervision. **This Recommended Action is addressed.**

Conclusion

- Norway has taken some steps to improve compliance of REs with PF TFS obligations, but moderate improvements are still needed. Norway removed delays in transposition of designations for PF sanctions into Norwegian law, and the FSA has taken into account FI's reliance on private service providers as part of its supervisory process. The FSA and PST, with FIU engagement, have established a mechanism to communicate and coordinate on PF issues to assist in establishing risk-based targeted supervision. However, Norway has not fully undertaken the monitoring of all REs for compliance with PF TFS, and there is a need for clearer, sectoral specific guidance from supervisors in some sectors. The continued lack of supervision, limited implementation by DNFBPs, and the uneven understanding of TFS obligations by certain DNFBPs, continue to impede the effective implementation of PF related TFS in Norway.
- Based on this progress, IO.11 is re-rated to substantial rating.

Remaining elements of Priority/Recommended Actions:

- a) Norway should ensure relevant supervisors are monitoring and ensuring compliance by all DNFBPs with their PF TFS obligations.
- b) Supervisors should ensure an assessment of the screening tools used by FIs and DNFBPs is included as part of their AML/CFT supervision.
- c) Norway should take steps to ensure all FIs and DNFBPs understand their obligations regarding PF TFS, including by issuing clear, sectoral specific guidance where necessary.

5. CONCLUSION

248. Since its 2014 MER, Norway made progress to improve the effectiveness of its AML/CFT system and achieved upgrades on three Immediate Outcomes: IO. 1, 6 and 11, as explained in the body of the report. Norway maintained its level of effectiveness on the other two Immediate Outcomes: IO.3 and 8. Tables 16 sets out the *current* level of effectiveness and technical compliance for Norway.

249. Norway also improved its technical compliance and achieved upgrades on 20 Recommendations (see Table 17) as noted in its third and fourth follow-up reports, and generally complied with the revised requirements of Recommendations 5, 7 and 8

250. As a result, Norway will move from enhanced to regular follow-up, and will continue to report back to the FATF on progress to strengthen its implementation of AML/CFT measures.

Table 16. Current level of Effectiveness with re-ratings

| IO.1. | IO.2 | IO.3 | IO.4 | IO.5 | IO.6 | IO.7 | IO.8 | IO.9 | IO.10 | IO.11 |
|-------|------|------|------|------|------|------|------|------|-------|-------|
| *SE | SE | ME | ME | ME | *SE | ME | ME | SE | ME | *SE |

Note: Ratings marked with an asterisk (*) were re-rated after the MER was adopted and in the course of the FUAR

Table 17. Technical Compliance with re-ratings [no change]

| | | | | | | | | | |
|------|------|------|------|------|------|------|------|------|------|
| R.1 | R.2 | R.3 | R.4 | R.5 | R.6 | R.7 | R.8 | R.9 | R.10 |
| LC* | LC* | C | C* | C* | PC | C* | LC | C* | LC* |
| R.11 | R.12 | R.13 | R.14 | R.15 | R.16 | R.17 | R.18 | R.19 | R.20 |
| C* | C* | PC | C* | C* | PC | LC* | LC* | LC | C |
| R.21 | R.22 | R.23 | R.24 | R.25 | R.26 | R.27 | R.28 | R.29 | R.30 |
| C* | LC* | LC | PC | C* | C* | C* | C* | LC | C |
| R.31 | R.32 | R.33 | R.34 | R.35 | R.36 | R.37 | R.38 | R.39 | R.40 |
| LC | C | PC | LC | C* | C | LC | LC | LC | LC |

Note: Ratings marked with an asterisk (*) were re-rated after the MER was adopted and in the course of the follow-up process.

*Glossary of Acronyms*³⁹

| | DEFINITION |
|---------------------|--|
| CB | Co-ordination Body |
| DNFBP | Designated Non-Financial Business or Profession |
| DPMS | Dealers in Precious Metals and Stones |
| DPP | Director General of Public Prosecutions |
| FI | Financial Institutions |
| FIU | Financial Intelligence Unit |
| FSA | Financial Supervisory Authority |
| FTE | Full Time Equivalent |
| FUA | Follow-Up Assessment |
| FUR | Follow-Up Reports |
| IO | Immediate Outcome |
| LEA | Law Enforcement Authority |
| MER | Mutual Evaluation Report |
| MFA | Ministry of Foreign Affairs |
| ML | Money Laundering |
| MLA | Mutual Legal Assistance |
| MoF | Ministry of Finance |
| MVTS | Money or Value Transfer Services |
| national strategy | National Strategy to Combat ML, TF And PF |
| NAV | Norwegian Labour and Welfare Administration |
| NCA | National Collection Agency |
| KRIPOS/NCIS | National Criminal Investigation Service |
| NGA | Norwegian Gaming Authority |
| NRA | National Risk Assessment |
| NTA | Norwegian Tax Administration |
| NTAES | National Interagency Analysis and Intelligence Centre |
| ØKOKRIM | National Authority for Investigation and Prosecution of Economic and Environmental Crime |
| PA | Priority Action |
| PF | Proliferation Financing |
| POD | National Police Directorate |
| PST | Norwegian Police Security Service |
| RA | Recommended Action |
| RBA | Risk-Based Approach |
| RE | Reporting Entity |
| Supervisory Council | Supervisory Council for Legal Practice |
| TC | Technical Compliance |
| TCSP | Trust and Company Services Providers |
| TF | Terrorist Financing |
| TFS | Targeted Financial Sanctions |

³⁹ Acronyms already defined in the FATF 40 Recommendations are not included into this Glossary.

The FATF logo is a red shield-shaped emblem. At the top, the letters 'FATF' are written in white, bold, sans-serif font. Below the text is a stylized white graphic consisting of three curved, overlapping shapes that resemble a stylized 'S' or a series of waves.

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Anti-money laundering and counter-terrorist financing measures in Norway

Follow-up assessment

Since its mutual evaluation in 2014, Norway has worked to improve the effectiveness of its national framework to combat money laundering and terrorist financing.

The FATF has conducted a 5th year follow-up assessment that looks at the effectiveness of Norway's measures on five issues, or 'Immediate outcomes'. To reflect the country's progress, the FATF has re-rated Norway on three of these immediate outcomes.