

FATF



Anti-money laundering and
counter-terrorist financing
measures

Denmark

2nd Enhanced Follow-up Report &
Technical Compliance Re-Rating

Follow-up report



November 2019



The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CTF) standard.

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DENMARK: 2ND ENHANCED FOLLOW-UP REPORT

1. Introduction

The mutual evaluation report (MER) of Denmark was adopted in June 2017. Denmark's 1st Enhanced Follow-up Report (FUR) with technical compliance re-ratings was adopted in October 2018. This follow-up report analyses Denmark's progress in addressing technical compliance deficiencies on R.1, 34 and 35 which were identified in Denmark's MER. Re-ratings are given where sufficient progress has been made. This report also analyses Denmark's progress in implementing new requirements relating to FATF Recommendations which have changed since Denmark's 1st FUR: R.2.¹ This report does not address what progress Denmark has made to improve its effectiveness. A later follow-up assessment will analyse progress on improving effectiveness which may result in re-ratings of Immediate Outcomes at that time.

2. Findings of the MER and 1st FUR

The MER and 1st FUR rated Denmark as follows for technical compliance:

Table 1. Technical compliance ratings, October 2018

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
PC	LC	LC	LC	C	PC	PC	PC	LC	LC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
LC	C	PC	LC	LC	LC	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	LC	PC	PC	LC	LC	LC	C
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
LC	LC	LC	PC	PC	LC	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).

Source: Denmark MER, June 2017: www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Denmark-2017.pdf;

Denmark 1st FUR, October 2018: www.fatf-gafi.org/media/fatf/documents/reports/fur/FUR-Denmark-2018.pdf.

¹ The FATF revised R.15 in October 2018 and its interpretive note in June 2019 to require countries to apply preventive and other measures to virtual asset service providers and virtual asset activity. This evaluation does not assess Denmark's compliance with revised R.15 because, at the time of circulating this follow-up report, the FATF had not yet revised its assessment Methodology accordingly. Denmark will be assessed for technical compliance with revised R.15 in due course, in the context of its follow-up process.

Given these results and Denmark's level of effectiveness, the FATF placed Denmark in enhanced follow-up. The following expert assessed Denmark's request for technical compliance re-rating:

- Mr. CAO Zuoyi, Deputy Director, Anti-Money Laundering Bureau, the People's Bank of China.

Section 3 of this report summarises Denmark's progress made in improving technical compliance. Section 4 sets out the conclusion and a table showing which Recommendations have been re-rated.

3. Overview of progress to improve technical compliance

This section summarises Denmark's progress to improve its technical compliance by:

- a) Addressing technical compliance deficiencies on R.1, 34 and 35 identified in the MER, and
- b) Implementing new requirements where the FATF Recommendations have changed since the 1st FUR was adopted (R.2).

3.1. Progress to address technical compliance deficiencies identified in the MER

Denmark has made progress to address technical compliance deficiencies identified in the MER related to Recommendations 1, 34 and 35. Consequently, these Recommendations have been re-rated.

Recommendation 1 (originally rated PC)

In its 4th round MER, Denmark was rated PC based on the following shortcomings: Denmark had not properly identified and assessed its ML/TF risks including in Greenland and the Faroe Islands; the mechanisms to assess and provide information on risks were inadequate; there was no risk-based approach to allocating resources or applying mitigating measures; exemptions were not all based on proven low risk; enhanced and simplified CDD requirements were not adequate; there were limitations in risk-based supervision; and the measures required by FIs and DNFBPs to identify, assess and mitigate risk were insufficient.

Denmark has since undertaken another ML national risk assessment (NRA) based on a new methodology, with input from a range of stakeholders and information sources, and taking into account the risks in Greenland and the Faroe Island. A new TF NRA is planned, but is not yet complete. Denmark's Money Laundering Forum (MLF) has been formally designated as the authority that co-ordinates actions to assess risk and measures have been put in place to ensure the NRAs are regularly updated. The ML NRA has been disseminated to relevant authorities, including through the MLF and via general publication. More resources have been allocated to many relevant authorities and some mitigating measures are being applied based on risk. Denmark's amended AML Act and related Executive Orders require exemptions and simplified measures to be based on low-risk and requires FIs and DNFBPs to incorporate the NRAs into their risk assessment.

However, FIs and DNFBPs are not clearly required to take enhanced measures to mitigate their risks. The measures required by FIs and DNFBPs to identify, assess and mitigate risk have been strengthened, but it is not clear that there are formal requirements to monitor internal controls or take measures to mitigate identified high risks. The amended AML Act

does not yet apply to Greenland and the Faroe Islands. Limitations in risk-based supervision are in the process of being addressed.

Denmark has made good progress that addresses many of the identified deficiencies. Only minor deficiencies remain. **Denmark is re-rated to largely compliant with R.1.**

Recommendation 34 (originally rated PC)

R.34 was rated PC during Denmark's MER due to several shortcomings: competent authorities had not issued specific guidance to assist reporting entities in complying with their AML/CFT obligations and competent authorities in Denmark, Greenland and Faroe Islands provided very limited feedback to reporting entities.

Since its MER, Denmark's supervisors have established guidance for reporting entities on complying with AML/CFT requirements and have demonstrated that they provide feedback to reporting entities.

Denmark has addressed the identified deficiencies. **Denmark is re-rated to compliant with R.34.**

Recommendation 35 (originally rated PC)

In Denmark's MER, R.35 was rated PC as a result of the following deficiencies: the range of sanctions for AML/CFT breaches was limited; supervisory authorities had very limited powers to enforce their own orders; compliance enforcement could only be achieved by referring the matter to the police with the net result that the available sanctions were neither proportionate nor dissuasive.

Denmark has since increased the range of sanctions available for FIs, so that these are now sufficiently proportionate and dissuasive. Monetary sanctions for DNFBPs have also been increased. Supervisors are not yet authorised to issue administrative penalty notices, meaning they still have limited powers to enforce their own orders and compliance enforcement can only be achieved by referring the matter to the police.

Denmark has made progress to address the identified deficiencies, but minor deficiencies remain in the sanctions available to DNFBP supervisors. **Denmark is re-rated to largely compliant with R.35.**

3.2. Progress on Recommendations which have changed since the 1st FUR

Since the adoption of Denmark's 1st FUR with TC re-ratings, the FATF has amended Recommendation 2. This section considers Denmark's compliance with the new requirements.

Recommendation 2 (originally rated LC)

In February and October 2018, R.2 and its interpretive note were amended to require countries to have co-operation and co-ordination between relevant authorities to ensure compatibility of AML/CFT requirements with data protection and privacy rules. The amended recommendation also requires a domestic mechanism for exchange of information.

In its 1st FUR, Denmark was re-rated to LC with R.2. Outstanding deficiencies were: Denmark lacked AML/CFT national policies informed by the NRAs; there was no co-ordination or other mechanism responsible for AML/CFT policies; and the mechanisms for co-operation and co-ordination were inadequate.

Since its MER, Denmark has developed a national AML/CFT strategy informed by the NRA. Denmark's Money Laundering Forum (MLF) has been formally designated as a co-ordination mechanism for AML/CFT policy, although it does not yet fully extend to Greenland and the Faroe Islands.²

The new requirements of R.2 are met. The MLF provides a formal mechanism for relevant agencies to exchange and share information in a manner consistent with data protection and privacy rules.

Denmark meets the new requirements of R.2 and has made progress to address the outstanding deficiencies. Further steps are needed to ensure mechanisms cover Greenland and the Faroe Islands and to finalise the role of the MLF. **Denmark remains largely compliant with R.2.**

3.3. Brief overview of other Recommendations rated NC/PC

Denmark reported progress on several other Recommendations rated PC. On R.6 and R.7, initial steps have been taken to establish a national procedure to implement UNSCRs, including to ensure sanctions can be applied in Greenland and the Faroe Islands. On R.8, the risk of TF abuse of NPOs will be included within the new TF NRA. On R.26, the FI supervisor has enacted several MOUs to enhance co-operation and enhanced its risk assessments and risk-based approach. On R.25, new legislation will implement a register of beneficial owners.

4. Conclusion

Overall, Denmark has made progress in addressing the technical compliance deficiencies identified in its MER, sufficient to justify upgrading three Recommendations.

In light of Denmark's progress since its 1st FUR with technical compliance re-ratings was adopted, its technical compliance with the FATF Recommendations has been re-rated as follows:

Table 2. Technical compliance with re-ratings, October 2019

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
LC	LC	LC	LC	C	PC	PC	PC	LC	LC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
LC	C	PC	LC	LC	LC	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	LC	PC	PC	LC	LC	LC	C
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
LC	LC	LC	C	LC	LC	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).

Denmark will remain in enhanced follow-up and will report back to the FATF on progress in October 2020.

² The MLF's role at the policy and operational level will be strengthened upon the signing of an updated MOU between participating authorities.

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November 2019

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

2nd Enhanced Follow-up Report & Technical Compliance Re-Rating

As a result of Denmark's progress in strengthening their measures to fight money laundering and terrorist financing since the assessment of the country's framework, the FATF has re-rated the country on 3 of the 40 Recommendations.

The report also looks at whether Denmark's measures meet the requirements of FATF Recommendations that have changed since their Mutual Evaluation in 2017 and their first follow-up report in November 2018.

Follow-up report