

Executive Summary

1. This report summarises the AML/CFT measures in place in Finland as at the date of the on-site visit (23 May to 8 June 2018). It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Finland's AML/CFT system, and provides recommendations on how the system could be strengthened.

Key Findings

- a) Finland has an adequate level of understanding of its Money Laundering (ML) and Terrorist Financing (TF) risks, and especially of its main ML risks associated to the grey economy. Those risks are addressed in a well-coordinated manner and through an efficient and comprehensive set of preventive measures. Key national authorities for combating TF have a sound understanding of TF risks. They address the identified TF risks in a manner which is consistent with the nature and level of TF risk in the country.
- b) Financial intelligence is used to a high extent to develop evidence and trace criminal proceeds. FIU conducts quality analysis but its products are not used to a full extent by other authorities.
- c) Authorities conduct complex and international ML investigations involving foreign predicate offences and significant amounts of laundered proceeds. ML investigations and prosecutions are consistent with the country's risk profile, with priority given to grey economy-related offending and economic crimes. However, some technical limitations impact Finland's effectiveness regarding ML investigations and prosecutions, in particular the rule of concurrent offences and the sanction regime.
- d) Although TF prosecutions have been initiated, there has been no conviction to date in Finland. This is broadly in line with the overall TF risks in the country even though the changing environment, with increased focus on ISIL Foreign Terrorists Fighters (FTFs) and returnees, are not adequately reflected in TF cases investigated. National authorities are mobilised on the terrorism threat, and intelligence on TF shared between the Financial Intelligence Unit (FIU) and the security intelligence service (SUPO) results in TF leads. Targeted Financial Sanctions (TFS) are used only to some extent as mitigation measures, in particular with regard to FTFs. There is limited interaction to date with the Non-Profit Organisation (NPO) sector at risk of TF.

- e) Finland has developed a far-reaching legal system to recover assets, including mechanisms to facilitate decisions to confiscate. Cases evidence that freezing and seizure measures are routinely used by the relevant authorities. However, Finnish authorities do not demonstrate whether the policies are actually successful in permanently depriving criminals of their assets. In any case, confiscations in cross-border ML cases and repatriation of assets to Finland are insignificant, and confiscation in cross-border cash transportation cases is not applied to a satisfactory extent.
- f) Financial Institutions (FIs) have an adequate understanding of their exposure to ML risks and of their AML/CFT obligations. However, there are some gaps on the TF side, and some high-risk institutions such as hawalas need to improve their ML/TF knowledge. The level of understanding of risk and awareness of AML/CFT obligations of Designated Non-Financial Businesses and Professions (DNFBPs) is adequate only in some sectors. STR reporting is low to non-existent for some DNFBP sectors.
- g) Supervisors' understanding of ML/TF risks is not adequate for the majority of sectors under their supervision, and overall, the AML/CFT monitoring and supervision is not carried out on a risk-sensitive basis. The supervisors are significantly under-resourced given the breadth and depth of their AML/CFT responsibilities and associated workload.
- h) The ability of competent authorities to establish the beneficiary ownership (BO) of legal persons in a timely manner is limited. The public registries are not fully reliable and relevant remedies to ensure that registers are kept up-to-date are not available.
- i) Finnish authorities cooperate routinely with their foreign counterparts, formally and informally. Law Enforcement Authorities (LEAs) in particular both seek international cooperation to build their cases, and share timely and accurate information. Cooperation is generally in line with Finland's geographic risk exposure.
- j) There is a satisfactory level of coordination and cooperation in relation to combating Proliferation Financing (PF) matters in Finland. Mechanisms for the implementation of TFS are in place, with European Union (EU) delays for transposition mitigated by prior designations by the EU for Iran.

Risks and General Situation

2. The main risk of financial crime in Finland stems from the grey economy. The main ML threat in that connection is the proceeds resulting from non-payment of statutory payments and taxes, as well as tax fraud. Proceeds generated from both domestic and foreign frauds and proceeds from drug crimes are the other highest ML risks in the country. A significant part of the proceeds of crimes generated in Finland is moved outside of the country. Main ML methods are the use of front companies, complex corporate structures and front persons, cash couriers and wire transfers.

3. Main TF risks stem from sympathisers of terrorist cause and FTFs, with a strong focus on ISIL FTFs and returnees. Main methods are money transfers, including through registered and unregistered hawalas, and misuse of NPOs.

4. A factor that contributes to limiting the ML/TF risk is the relatively low use of cash. Given its geographical location, Finland is a major European gateway to and from non-European countries, and strong business and trade relationships have developed between Finland and Russia, as well as with neighbouring Baltic States and other Nordic countries. This geographic proximity supports the development of commercial routes, including trade routes in illicit flows of goods and funds.

Overall Level of Compliance and Effectiveness

5. Finland has brought a number of technical changes to its AML/CFT preventive regime, with the AML/CFT Act which entered into force in 2017. For instance, it introduced obligations regarding the development of risk assessments by FIs and DNFBPs and the application of risk-based mitigation measures. It also broadened the scope of application of beneficial ownership requirements and strengthened obliged entities' internal control requirements. However, significant shortcomings are still noted, in particular for the transparency regime applicable to legal persons, the supervisory measures applicable to DNFBPs, and the sanction regime for failure to comply with the preventive measures in general. In addition, there are still technical deficiencies affecting in particular the TF offence and the regime applicable to NPOs at risk of TF abuse.

6. Finland is highly effective regarding international cooperation. It achieves a substantial level of effectiveness in the assessment of ML/TF risks and domestic coordination, as well as in the collection and use of financial intelligence and other information and in ML investigations and prosecution. Finland demonstrates a moderate level of effectiveness in areas related to TF investigations, prosecutions and preventive measures and the use of Targeted Financial Sanctions (TFS) for countering TF and PF, as well as on the implementation of preventive measures by FIs and DNFBPs, the prevention of misuse of legal persons and arrangements, and the confiscation of criminals' proceeds of crime or property of equivalent value. Finland achieves a low level of effectiveness regarding supervision of FIs and DNFBPs. Generally speaking, Finland needs to enhance its collection and maintenance of comprehensive ML/TF-related statistics in order to better document its analysis of ML/TF risks, as well as to demonstrate the actions it has taken and the results achieved.

Assessment of risk, coordination and policy setting (Chapter 2; IO.1, R.1, 2, 33 & 34)

7. Finland has an adequate understanding of its ML/TF risks and in particular of its main ML risks, associated with the grey economy. The National Strategy on the Prevention of the Grey Economy and Economic Crime sets a relevant framework to address the main identified ML risks in a coordinated manner and puts forward an efficient preventive approach to economic crime. Other major ML risks identified in Finland - frauds and drugs - are generally adequately addressed by Finnish authorities, based on mutually supportive actions between relevant authorities. There are concerns regarding supervisors' overall understanding of ML risks.

8. Key national authorities for combating TF have a sound understanding of TF risks. They address the identified TF risks in a manner which is consistent with the nature and level of TF risk in the country.

9. To further improve the understanding of the ML/TF risks and to ensure that there is a shared and continuous understanding by all relevant authorities, Finland should update the National Risk Assessment (NRA) conducted in 2014/15 and adopt an Action Plan alongside, including the resources required to successfully and efficiently conduct the planned activities.

10. The AML/CFT priorities and activities of the law enforcement community, intelligence and Tax authorities are aligned with the national risk picture. However, supervisors' ML/TF risk-driven objectives and activities are limited.

11. Co-operation and co-ordination between LEAs, FIU, Tax authorities and SUPO is adequate, but the level of cooperation and coordination between AML/CFT supervisors, and between supervisors and the FIU is not sufficient. The recently established AML/CFT Coordination Group should be operationalized shortly to help improve the dialogue and interaction between those authorities.

12. There is a satisfactory level of coordination and cooperation in relation to CPF matters.

Financial intelligence, ML investigations, prosecutions and confiscation (Chapter 3; I.O.6, 7, 8; R.1, 3, 4, 29–32)

13. Financial intelligence along with other relevant information is used to a high extent in investigations to develop evidence and trace criminal proceeds related to ML and associated predicate offences. Financial intelligence plays an important role in Countering the Financing of Terrorism (CFT) domain as well. However, Finland should encourage LEAs (especially local police departments) to engage more actively with the FIU to leverage its potential.

14. There is a wide range of different reports available to competent authorities, including the "compliance reports" produced by the Tax Administration, with most of them containing accurate and relevant information. The authorities actively request and receive these reports in order to perform their duties.

15. The FIU's analysis and dissemination supports the operational needs of the competent authorities to a moderate extent. The FIU products contribute both to starting new criminal investigations and to supporting the ongoing cases. However, the overall number of ML cases using intelligence products of the FIU is modest. The FIU produces quality strategic analysis, but Finland should urge competent authorities, especially supervisors, to make more active use of it.

16. Finland's ML investigations, prosecutions and convictions seem in line with its ML threats and risks in terms of number of investigations, prosecutions and convictions. Authorities do conduct complex investigations involving foreign predicate offences and significant amounts of laundered proceeds, with priority given to grey economy-related offending and economic crimes, consistently with the country's risk profile. The focus is also on fraud and narcotics-related offences (with a focus on individual dealers rather than on organised crime groups), and third-party ML. Cases are brought to courts by the prosecution service to a satisfactory extent.

17. Penalties for ML offences are not fully proportional, as cumulative fines and unconditional imprisonment are not possible. Courts do not use the full range of penalties available and sentencing practice is lenient.

18. Finland has developed a far-reaching legal system to recover assets, including provisional measures and mechanisms to facilitate decisions to confiscate. Cases evidence that freezing and seizures measures are routinely used by the relevant authorities.

19. Seized amounts are compensated to the victims as a matter of priority in Finland, over confiscation to the State. Therefore the confiscation decisions, and the amounts involved, do not fully reflect the extent to which criminals are deprived of their assets. Nevertheless, Finnish authorities, despite their high-level engagement, lack comprehensive statistics to demonstrate and assess whether the policies are actually successful in permanently depriving criminals of their assets. In any case, confiscations in cross-border ML cases and repatriation of assets to Finland are insignificant, and confiscation in cross-border cash transportation cases is not applied to a satisfactory extent.

20. As regards deprivation of assets related to TF, it is not fully in line with the country's risk profile as only limited steps have been taken to freeze assets of FTFs.

Terrorist and proliferation financing (Chapter 4; I0.9, 10, 11; R. 1, 4, 5–8, 30, 31 & 39.)

21. TF cases are well identified, usually based on information from the FIU and SUPO. The quality of investigations is generally high and based on a collaborative approach between relevant authorities. LEAs, with SUPO's input, are able to mobilise joint investigative teams with international counterparts and use advanced investigative tools.

22. TF is part of every terrorism related investigation, but is not usually pursued as a distinct criminal activity. TF prosecutions have been initiated, but there have been no convictions to date. This is broadly in line with the overall TF risk in Finland. However, the changes in the TF environment - with a strong focus on ISIL FTFs and returnees - are not reflected in TF cases, as there has been no investigation of FTF and returnees so far. Finnish authorities need to increase their focus on these specific risks, as well as get the required skilled and dedicated human resources to deal with the increasing mobilisation on TF risks.

23. The TF offence legal framework does not criminalise the financing of an individual terrorist without a link to the use of funds to finance a specific offence. Clarification of the applicable legislation is required on this point.

24. Finland has measures in place to implement TFS for TF. However, implementation is not without delay nor fully effective, mainly because of technical deficiencies inherent to applicable European Union (EU) regulations. TFS are used only to some extent as mitigation measures, in particular with regard to FTFs. Finland has successfully frozen terrorist related assets but to a very limited extent.

25. Finland has identified NPOs receiving state subsidies, NPOs active in conflict zones and immigrant based NPOs as the subset of NPOs at risk of TF abuse. However, its analysis is not up-to-date. Finland still needs to provide guidance, conduct outreach activity and develop focused actions vis-à-vis potentially vulnerable NPOs to prevent their possible misuse for TF purposes. Nonetheless, the general registration, accounting and auditing requirements applicable to all NPOs, as well as

the special money collection permit, and the associated reporting obligations, are effective transparency measures to reduce the vulnerability of NPOs at TF risk.

26. Finland implements TFS regarding PF through EU measures, which involve delays in the transposition of United Nations (UN) designations. However, in the case of Iran, the practical effect of these delays has been successfully mitigated by prior designations by the EU. In the case of the Democratic People's Republic of Korea (DPRK), a delay still exists.

27. FIs and DNFBPs have a good understanding of their TFS for PF obligations and good advice and guidance is provided by authorities. Supervisors do not have legal powers to supervise the implementation of these obligations.

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

28. FIs have an adequate understanding of their exposure to ML/TF risks, which is in line with the national picture of ML risks. However, there are some gaps on the TF side. This understanding is more developed among larger institutions or those belonging to international groups. Smaller entities such as money remitters particularly those operating “hawala” type money remittance, which are high ML/TF risks institutions, and consumer credit providers, need most improvement. The level of understanding of DNFBPs is adequate only in some sectors. In order to enhance the understanding of ML/TF risks by obliged entities, Finland should provide more risk guidance to all sectors/financial institutions. This guidance should include information on both ML and TF risk typologies, the sectors most vulnerable and red flag indicators.

29. FIs have implemented mitigation measures concerning Customer Due Diligence (CDD), record keeping and monitoring, based on relevant risks. Larger FIs or those belonging to groups have more resources to devote to their systems or can avail of group resources. DNFBPs generally apply CDD measures and take appropriate measures for higher risks including when dealing with foreign customers and Politically Exposed Persons (PEPs), and avoid dealing in cash. However, all DNFBPs experienced challenges with obtaining corporate information relating to foreigners and the beneficial ownership obligations. FIs and DNFBPs have an adequate degree of awareness of TFS regimes and of their obligations in this respect. Finland should ensure that FIs and DNFBPs enhance their ML/TF risk mitigation and control frameworks proportionate to their identified risks by providing the supervised entities with practical guidance on interpretation of the legislation and implementing preventive measures.

30. STR filing requirements are reasonably well understood by FIs. However, the number of STRs filed for some high risk FIs (for example hawala) and other sectors remains low to non-existent. There are concerns about the time delays and quality of reporting for some FIs. With the exception of gambling operators, the number of STRs reported by the DNFBP sectors is low, which is a serious concern. Finland should ensure better quality STR reporting by FIs and DNFBPs by intensifying supervisors' focus and oversight of compliance with the filing of STRs obligations and the timeliness of suspicious transaction reporting. Supervisors should liaise with the FIU to allow targeting of reporting sectors where weaknesses in suspicious transaction reporting have been identified.

31. The FIs internal control policies and procedures in place appear adequate, and no obstacles with respect to information sharing within international financial groups have been identified. Supervisory authorities for the DNFBP sectors should provide the supervised entities with practical guidance on the application of appropriate control measures to meet the AML/CFT obligations.

Supervision (Chapter 6; I.O.3; R.14, R.26–28, 34, 35)

32. A number of FIs and DNFBPs are not required to register with the relevant supervisory authority, which renders their supervision very difficult. The obligation to register only enters into force on 1 July 2019.

33. The financial supervisors apply reasonable fit and proper assessments to prevent criminals or their associates from entering into the market. However, appropriate fit and proper assessments are applied to only part of the DNFBPs.

34. The financial supervisors' understanding of ML/TF risks is inadequate for the majority of the sectors under their supervision. Their identification and understanding of the ML/TF risks specific to the sectors and FIs they supervise is more substantial for the FIs with which they have ongoing ML/TF engagement. However, this represents very few sectors within the overall population under their supervision. The DNFBP supervisors' (other than RSAA) risk understanding has not been fully aligned with the national view of risks. All supervisors should develop and adopt a methodology and process to facilitate regular and timely ML/TF risk assessment across all the sectors and obliged entities they supervise. The methodology should include both qualitative and quantitative measures to facilitate the identification and assessment of current and emerging ML/TF risks specific to the various sectors and the quality of their risk management practices.

35. Overall, the AML/CFT monitoring and supervision approach in the financial sector is not carried out on a risk-sensitive basis. The Financial Supervisory Authority (FIN-FSA) has concentrated its ongoing AML/CFT supervision on the largest banks, and has not developed an intensive supervisory approach for other high-risk institutions, such as hawalas. There is no ongoing AML/CFT supervision of lower risk firms. RSAA has concentrated its supervisory efforts on currency exchange businesses, which do not present major ML/TF risks in Finland, but has limited ongoing risk based AML/CFT supervision with other more risky sectors, such as real-estate agents. No DNFBP supervisor is able yet to conduct adequate and robust AML/CFT supervisory engagement. All supervisors should develop and adopt a risk based AML/CFT supervisory engagement model that takes into account the differing levels of ML/TF risks associated with individual FIs or DNFBPs and also each of the sectors supervised.

36. Supervisors lack powers to supervise the implementation of TFS although they do check that the necessary processes are in place when conducting the licence granting process.

37. No penalties, fines or other sanctions have been imposed on FIs and DNFBPs to date. Supervisory authorities, primarily those in charge of FIs, should be encouraged to take sanctions against supervised entities that do not comply with their AML/CFT requirements. Such sanctions should be dissuasive and reflect the severity of findings encountered.

38. Further, supervisors, and specifically FIN-FSA and RSAA, are significantly under-resourced given the breadth and depth of their AML/CFT responsibilities and associated workload. Finland should substantially increase the resources of all supervisory authorities in order for them to be sufficiently equipped to adequately and effectively discharge their respective mandates commensurate with the varying risks and size of the diverse financial and non-financial sectors in the AML/CFT regime.

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

39. Vulnerabilities involving legal persons and the potential of company misuse by criminals are generally understood. However, Finland should undertake a fully dedicated risk assessment on the misuse of all the legal persons, foreign express trusts and similar legal arrangements, as well as non-profit associations.

40. Finland has in place certain preventive measures. However, they are not effective with regard to the most risky types of legal persons. The ability of competent authorities to establish the beneficial ownership (BO) of legal persons in a timely manner is very limited. In this context, Finland should put in place robust measures to ensure the accuracy of information in all publically held registries as well as implement appropriate measures to mitigate the misuse of legal persons (such as de-registering fraudulent or dormant companies), and the activities of their front men and agents.

41. Since there is no meaningful supervision of the company service providers (see IO. 3), it leaves them open for misuse when they engage in company registration or serving as nominee directors in the companies. Finland should promote effective supervision and enforcement of BO transparency obligations, through a multi-agency approach, involving designated supervisory authorities, law enforcement agencies and other relevant authorities. The Finnish Patent and Registration Office (PRH), in charge of the trade register and other registers of legal persons, should be empowered to issue administrative sanctions for failures to submit adequate, accurate and up-to-date information, where appropriate.

International cooperation (Chapter 8; IO.2; R.36–40)

42. Finnish authorities cooperate routinely with their foreign counterparts, formally and informally, as part of their normal course of operation and the cooperation is especially close with neighbouring countries, such as Nordic countries and Estonia.

43. LEAs in particular both seek international cooperation to build their cases, and share timely and accurate information. Cooperation, including MLA requests, is generally in line with Finland's geographic risk exposure.

44. FIN-FSA, the main financial supervisor, actively engages with its counterparts for the supervision of EU and Nordic countries financial institutions/groups. Finland should nevertheless keep statistics on all its international cooperation activities related specifically to ML and TF, in order to improve its understanding of ML/TF risks.

Priority Actions

- a) Finland should ensure that AML/CFT supervisors accelerate and finalise the development of their methodology for AML/CFT supervision on a risk-sensitive basis, and implement this methodology in relation to their supervised entities as a matter of priority.
- b) Finland should allocate adequate resources to AML/CFT supervisors, and specifically FIN-FSA and RSAA, including human resources, to enable them to conduct their AML/CFT supervisory responsibilities in an adequate and effective manner.
- c) Finland should ensure that the framework in preparation for the setting up of the beneficial ownership registry requires that the information collected and stored is subject to relevant verification, and then implement the registry as a matter of urgency.
- d) Finland should ensure that the existing gaps in the common understanding of ML and TF risks are filled, and that mechanisms are in place and effectively operating to enable all relevant authorities in the country, as well as obliged entities, to have an updated and comprehensive view of ML/TF risks affecting the country.
- e) Finland should set up adequate platforms and/or channels to support operational cooperation between the relevant authorities, first of all to further improve the understanding of ML/TF risks in the country (FIU and AML/CFT supervisors), and second to leverage the potential of the FIU to produce quality financial intelligence (FIU and LEAs, especially local police departments).
- f) Finland should encourage the use of a wider range of sentences for aggravated ML cases by courts, to improve the proportionality of sentencing.

Effectiveness & Technical Compliance Ratings*Effectiveness Ratings¹*

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

Technical Compliance Ratings²

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

1 Effectiveness ratings can be either a High- HE, Substantial- SE, Moderate- ME, or Low – LE, level of effectiveness.

2 Technical compliance ratings can be either a C – compliant, LC – largely compliant, PC – partially compliant or NC – non compliant.