

# Summary of sanctions risk assessment

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## In brief

This is a summary of a sanctions risk assessment prepared by the Financial Supervisory Authority (FIN-FSA). Despite its name, the sanctions risk assessment does not assess the risk of different sectors acting in violation of sanctions. Instead, the sanctions risk assessment focuses on assessing for each sector that the policies, procedures and internal controls are in place to comply with sanctions regulations and national freezing orders. The purpose of the sanctions risk assessment is to support the risk-based supervision of the FIN-FSA insofar as it concerns the supervision of compliance with the obligations set out in chapter 3, section 16 of the Money Laundering Act.

The risk assessment determines for each subsector the overall level of risk associated with sanctions and national freezing orders. The overall level of risk consists of risk exposure and risk related to deficiencies in controls.

According to the risk assessment, sanctions risk exposure is elevated in sectors that offer various cross-border payment services enabling funds to be transferred quickly and easily from one place to another. These include, for example, credit and payment institutions that offer international payment services. These actors should pay particular attention to the level of their policies, procedures and internal controls. Money remittance and virtual asset service providers should also pay particular attention that they have effective policies and procedures to comply with sanctions regulations.

The level of controls and the risks related to deficiencies in controls have been assessed in relation to the requirements set out in the Money Laundering Act and in the regulations and binding guidelines of the FIN-FSA. FIN-FSA Regulations and guidelines 4/2023 *Customer due diligence related to compliance with sanctions regulation and national freezing orders* entered into force on 1 March 2024. The level of controls has been assessed on the basis of information reported by supervised entities to the FIN-FSA in RA reporting before Regulations and guidelines 4/2023 came into force as well as information obtained during supervision.

## 1 Regulatory background and purpose of risk assessment

The FIN-FSA supervises compliance with the Act on Preventing Money Laundering and Terrorist Financing (hereinafter Money Laundering Act) pursuant to chapter 7, section 1, subsection 1(1) of the Act insofar as it concerns obliged entities referred to in chapter 1, section 2, subsection 1(1-8)(8 a)(15) of the Act. When this risk assessment refers to supervised entities, it refers to the aforementioned obliged entities under the Money Laundering Act that are supervised by the FIN-FSA.

In 2023, a new chapter 3, section 16 was added to the Money Laundering Act requiring the FIN-FSA to monitor that, as part of customer due diligence measures, obliged entities have effective policies, procedures and internal controls to ensure that they comply with the obligations imposed on them by:

- 1) regulations adopted under Article 215 of the Treaty on the Functioning of the European Union and by government decrees issued under section 1 and section 2a, subsection 1 of the Act on the Enforcement of Certain Obligations of Finland as a Member of the United Nations and of the European Union (659/1967) (sanctions regulations); and
- 2) decisions to freeze assets made pursuant to section 2b of the act referred to in paragraph 1 and pursuant to the Act on the Freezing of Funds with a View to Combating Terrorism (325/2013) (freezing orders).

The FIN-FSA's role is to supervise obliged entities' measures to comply with sanctions regulations and freezing orders. The competent authority in matters related to international sanctions is the Ministry for Foreign Affairs, and the Enforcement Authority is responsible for implementing the freezing of assets.

The FIN-FSA is required to adopt a risk-based approach to organising supervision of compliance with obligations under the Money Laundering Act, i.e. supervision should be proportionate to identified risks and vulnerabilities. Risk-based supervision requires the preparation of a risk assessment and therefore, in consequence of its new supervisory task, the FIN-FSA has prepared a risk assessment, the purpose of which is to assess, by subsector<sup>1</sup>

1. the sectors in which particular attention should be paid to complying with sanctions regulations and freezing orders and which of the subsectors are particularly exposed to attempts to evade sanctions regulations and freezing orders (**sanctions risk exposure**), and
2. the level required of subsectors' policies, procedures and internal controls, as referred to in chapter 3, section 16 of the Money Laundering Act, to comply with sanctions regulations and freezing orders (**controls**).

The sanctions risk assessment does not assess the risk that obliged entities supervised by the FIN-FSA would violate sanctions or national freezing orders, as the FIN-FSA's supervisory obligation is directed at supervision of procedures.

In December 2023, the FIN-FSA published Regulations and guidelines 4/2023 *Customer due diligence related to compliance with sanctions regulation and national freezing orders*, in which the FIN-FSA has clarified what is meant, in practice, by effective policies, procedures and internal controls, as required by chapter 3, section 16 of the Money Laundering Act. Regulations and guidelines 4/2023 entered into force on 1 March 2024.

<sup>1</sup> For risk identification and assessment purposes, the FIN-FSA has already, in its previous risk assessments of money laundering and terrorist financing, broken down the obliged entities it supervises into sectors and further into subsectors according to their activities.

## 2 Sanctions regulations and national freezing orders

### 2.1 UN and EU sanctions

Finland is bound by the sanctions imposed by the UN and the EU (hereinafter “sanctions regulations”). The EU incorporates UN sanctions into its own legislation after the UN Security Council has decided on the sanctions. In addition, the EU has its own autonomous sanctions regimes, which EU member states must comply with. Sanctions enter into force as soon as they are published in the Official Journal of the EU. The EU currently has 46 sanctions regimes in place<sup>2</sup>.

Sanctions may be, for example:

- **list based sanctions**, i.e. **asset freezes** or **travel bans** on persons and entities.
- **sectoral sanctions**, which may include, for example:
  - prohibitions and restrictions on the **financial sector**;
  - prohibitions or restrictions on **service activities**;
- **export bans and restrictions**, which may be applied to
  - military products
  - dual-use products (e.g. microchips or unmanned aerial vehicles)
- **import bans or restrictions**
  - on products generating significant revenue (such as oil, gas, minerals, raw materials)

The obligation to freeze assets, should be taken into account particularly in companies operating in the financial sector. In practice, for example, Finnish companies must identify among their customers those parties that are subject to sanctions regulations and must freeze their assets. A corresponding obligation also applies to payments and other transactions, where parties subject to sanctions regulations must be identified and their assets prevented from ending up in the possession of the said parties. In addition, it is important to be aware that freezing of assets also applies to parties of which a legal person or entity subject to sanctions regulations either owns more than 50% or in which a legal person or entity subject to sanctions regulations has control<sup>3</sup>.

To ensure compliance with list based sanctions, it is important that customer due diligence processes take into account sanctions-related risks, that sanctions screening covers the entire customer base and transactions, that sanctions lists used in sanctions screening are up-to-date and that roles and responsibilities in the asset freezing process are clear.

Unlike list based sanctions, sectoral sanctions do not include an obligation to freeze assets. Instead, sectoral sanctions often prohibit or restrict activities with entities operating in different economic sectors in the targeted country. Sanctions may be used to prohibit, for example, the financing of banks in the targeted country or to set

<sup>2</sup> Situation at 29 August 2024

<sup>3</sup> The EU's best practices for the effective implementation of restrictive measures (2022), paragraph 63.

restrictions on financing. Ordinarily, parties subject to sectoral sanctions are named in a separate list<sup>4</sup>. However, with the expansion of sanctions against Russia, new types of sectoral sanctions have also been introduced, which, for example, prohibit credit institutions from accepting deposits exceeding a certain amount of euros from Russian citizens<sup>5</sup>.

Sectoral sanctions often contain exceptions and in many cases are quite complex, which creates an additional challenge from the standpoint of sanctions compliance. It is therefore important that a company takes sectoral sanctions into account in its risk assessment and their impact on to the company's day-to-day operations. In addition, the company should ensure regular training of its personnel also with regard to sectoral sanctions.

With regard to export and import restrictions, it is important to note that they almost always include a ban on the provision of finance, insurance or other forms of assistance, which means that these sanctions may also have an impact on the activities of entities supervised by the FIN-FSA.

In compliance with export and import restrictions, emphasis is given to effective customer due diligence (which take export and import restrictions into account), so that the supervised entity can identify transactions with a higher sanctions risk that its customer may be engaged in. The inclusion in sanctions screening of jurisdictions with a high sanctions risk may also be justified.

## 2.2 National freezing law

Finland has no national sanctions of its own, but the Act on the Freezing of Funds with a View to Combating Terrorism allows the freezing of assets of a person or legal entity **suspected, accused or convicted of a terrorism offence** under the Criminal Code of Finland.

Orders to freeze funds is always made by the National Bureau of Investigation, also in situations concerning ownership and control. The National Bureau of Investigation is responsible for maintaining and updating the list of freezing orders. Every six months after an order has been made, the National Bureau of Investigation must assess whether the conditions for freezing still exist. At the time of writing of the risk assessment, the National Bureau of Investigation's list of freezing orders includes eight natural persons and one legal entity whose assets must be frozen<sup>6</sup>.

## 2.3 Sanctions evasion

The FIN-FSA has prepared a separate document on its observations related to sanctions evasion. The document goes through in more detail the identified ways of evading various sanctions. The document is published as an appendix to this document and it can be found on the FIN-FSA's website: [Sanctions risk assessment](#).

<sup>4</sup> See, for example, Council Regulation (EU) 833/2014 Annex XIV.

<sup>5</sup> See Council Regulation (EU) 833/2014 Article 5b

<sup>6</sup> Situation on 18 August 2024

## 3 Risk assessment methodology and sources

### 3.1 Assessment and sources

As in risk assessments of money laundering and terrorist financing, also in sanctions risk assessment the assessment of controls means, in practice, the assessment of the weakness of controls. Consequently, the same scale is used in the assessment of both sanctions risk exposure and controls:

Very significant	4
Significant	3
Moderately significant	2
Less significant	1

In assessing subsectors' sanctions risk exposure and level of controls, the primary sources used are the data reported by supervised entities to the FIN-FSA in RA data collection for reference date 31 December 2023 and the data reported by supervised entities to the Bank of Finland in payment and fraud data collection (MAPE data collection). In RA data collection, new questions were added to the reporting of information on the 2023 data, specifically related to sanctions risk exposure and the controls referred to in chapter 3, section 16 of the Money Laundering Act. In this regard, it should be noted that the above-mentioned FIN-FSA Regulations and guidelines 4/2023 entered into force on 1 March 2024, so the data collected through RA data collection concerns a reference date (31 December 2023) when Regulations and guidelines 4/2023 were not yet in force.

In addition, the risk assessment has utilised the FIN-FSA's supervisory observations from inspections, supervisory meetings, incident reporting and other contacts.

### 3.2 Assessment of sanctions risk exposure

UN and EU sanctions as well as domestic freezing orders must be fully complied with by all actors, regardless of whether a FIN-FSA supervised entity is involved and irrespective of the actor's size and the nature or scope of its operations.

There are, however, differences between supervised entities in how likely it is that compliance with sanctions regulations or domestic freezing orders will materialise in practice so that sanctions regulations or freezing orders will be applied to a customer and/or transaction. In other words, there are factors in the presence of which the significance of the existence and effectiveness of the supervised entity's policies and procedures prepared to comply with sanctions and freezing regulations are emphasised. In this risk assessment, we refer to these factors as **factors affecting sanctions risk exposure**. As in the risk assessment of money laundering and terrorist financing, the factors in the sanctions risk assessment are also classified according to whether they are factors related to products and services, geography, customers or distribution channels.

Common elements of factors increasing sanctions risk exposure are

- the cross-border nature of activities, and
- facilitating transfer of assets

Examples of factors increasing sanctions risk exposure include customers located in countries or jurisdictions subject to comprehensive sanctions as well as payments traffic to high-risk countries from a sanctions compliance perspective ( countries subject to sanctions or countries through which sanctions are evaded).

In the risk assessment, the FIN-FSA has assessed for each subsector how significant each risk factor is in the subsector, based on the information available. The combined effect of the risk factors forms an assessment of the sanctions risk exposure of each subsector.

### 3.3 Assessment of controls

It is the FIN-FSA's task to monitor that its supervised entities have policies, procedures and internal controls in place to comply with their obligations under sanctions regulations and freezing orders and that these policies, procedures and internal controls are effective.

In the risk assessment, the FIN-FSA has focused on assessing the compliance with requirements of policies, procedures and internal controls, i.e. in practice the extent to which supervised entities meet the minimum requirements set by legislation as well as binding regulations and interpretations.

Controls are broken down as follows:

- Risk assessment and organisation of functions:
  - Compliance with regulations and binding interpretations is assessed in FIN-FSA Regulations and guidelines 4/2023, Chapter 4 *Organisation of functions to comply with sanctions regulation and national freezing orders* and Chapter 5 *Exposure assessment of the supervised entity's activities to sanctions regulation and national freezing orders*.
- Sanctions screening and alerts
  - Compliance with regulations and binding interpretations is assessed in FIN-FSA Regulations and guidelines 4/2023, Chapter 6 *Customer due diligence to ensure compliance with sanctions regulation and national freezing orders* and Chapter 7 *Sanctions screening*.



## 4 Results of the risk assessment

### 4.1 Overall risk assessment

The table below shows, according to the subsectoral breakdown, the FIN-FSA's assessment of how high the risk is that controls are not sufficient, taking into account the risk exposure and the requirements of the law and the FIN-FSA's binding regulations and interpretations, i.e. the overall risk level. The overall risk level therefore consists of two elements: sanctions risk exposure and the risk related to deficiencies in controls. Within the same overall risk level, subsectors are not arranged according to risk such that the subsector at the top of the table is more significant in terms of risk than the one at the bottom.

The subsectoral breakdown follows the sectoral breakdown used in the risk assessments of money laundering and terrorist financing. For example, it divides credit institutions into five groups according to the products and services they provide as well as the quality and scope of their activities.<sup>7</sup>

The sanctions risk assessment does not cover all actors supervised by the FIN-FSA under the Money Laundering Act. For example, employee pension insurance companies and the Central Securities Depository are excluded from the risk assessment as they are not included within the scope of RA data collection and therefore no information about risks and controls reportable through RA data collection is available.

Subsector	Overall risk level
Credit institutions, group 3	Very Significant
VASPs	Very Significant
Credit institutions, group 2	Very Significant
Payment institutions	Very Significant
Money transfer service providers (Hawalas)	Very Significant
Credit institutions, group 1	Significant
Investment service providers	Significant
Registered payment service providers (excl. Hawalas)	Significant
Credit institutions, group 4	Moderately Significant
Non-life insurance companies	Moderately Significant
UCITS fund managers	Moderately Significant
Life insurance companies	Moderately Significant
Licensed AIFM	Moderately Significant
Registered AIFM	Moderately Significant
Credit institutions, group 5	Less Significant
Consumer credit companies	Less Significant

The key observations on sanctions risk exposure and deficiencies in controls are reviewed by sector below.

<sup>7</sup> For more details on the subsectoral breakdown, see the sector-specific risk assessments: [Riski assessment - Prevention of money laundering and terrorist financing - www.finanssivalvonta.fi](http://www.finanssivalvonta.fi)

## 4.2 Credit institutions and other consumer credit providers

Credit institutions are broken down into five different subsectors in the FIN-FSA's risk assessment of money laundering and terrorist financing. In addition to credit institutions, since 1 July 2023 the FIN-FSA has supervised consumer credit providers and peer-to-peer loan brokers. In the future, these actors will be taken into account in risk assessments concerning the credit institution sector.

In the case of credit institutions, risk exposure is increased in comparison with other sectors, mainly due to the international scope of their activities. In particular, credit institutions engaged in deposit banking have, as a rule, foreign payments traffic, in which case special attention must be paid to international sanctions and compliance with them. Some credit institutions also provide services related to the financing of foreign trade, in connection with which sanctions regulations must be taken into account. In their screening, the deposit banks have also identified parties subject to sanctions or domestic freezing orders.

From the perspective of controls, internationally operating deposit banks have already for some time now been focusing on policies and procedures to ensure compliance with sanctions regulations and freezing orders. Smaller actors, whose customer base and payments traffic are focused on their home country, have, based on the information collected by RA data collection, more work to do in order to meet the requirements set by legislation and the FIN-FSA's regulations and guidelines.

For consumer credit providers, risk exposure is lower than for credit institutions offering payment services. The FIN-FSA has recently carried out a study of consumer credit providers' compliance with their obligations under the Money Laundering Act, and in this context the policies and procedures of all consumer credit providers have been reviewed. Active measures taken by the FIN-FSA had a positive impact on increasing actors' risk awareness and thereby risk management. Actors have responded to feedback given by the FIN-FSA by developing their internal risk management processes.

## 4.3 Payment services and virtual currency providers

As with credit institutions, the risk exposure of payment service providers is also increased by cross-border payments traffic. The provision of cash services (cash withdrawals) also has the effect of increasing risk exposure. The risk exposure of registered payment service providers (excluding money remittance service providers) is lower than that of payment institutions precisely because their payments traffic is mainly domestic. Money remittance service providers' risk is increased, in particular, by the fact that they mainly operate as part of international payment service networks that also have connections to countries that are subject to sanctions or areas neighbouring them.

The activities of virtual currency providers largely involve the same risks as in foreign payments made with fiat currency. In addition, the customer base of virtual currency providers is international and there are customers in areas that are subject to large-scale sanctions. The lack of transparency of transactions made with virtual assets also increases the risk exposure of the sector.

With regard to controls, the payment service sector as a whole should pay more attention to ensuring compliance with sanctions regulations and freezing orders. Responses given by the payment service sector in RA data collection revealed that service providers' sanctions screening does not always cover screening of payee name information. The same deficiency is identified in the responses of payment institutions, registered payment service providers and money remittance service providers. If payee name information is not screened, possible payments to parties

subject to sanctions cannot be identified. More attention should also be paid to ensuring the functionality of systems and to the processes to be followed in the handling of screening alerts. Similar observations were also made with regard to virtual currency providers.

## 4.4 Investment services and management companies

The sanctions risk exposure of investment service providers, UCITS management companies and alternative fund managers is significantly lower than that of the credit institution and payment service sectors due to the fact that actors in these sectors do not offer payment services. Consequently, the risks associated with cross-border payments are lower than in the credit institution and payment service sectors.

Underlying the higher risk exposure of investment service companies is the fact that the customers of the sector's companies also include customers from geographical areas that are subject to large-scale sanctions. In such cases, particular attention should be paid to ensuring that sanctions regulations are complied with. In addition, when asset management services are provided, attention should be paid to the nature of ownership arrangements, particularly in connection with corporate customers.

With regard to controls, among investment service providers and fund managers there are entities that, on the basis of information reported to the FIN-FSA, have in place controls that appear to meet the minimum requirements, but also entities whose controls appear to have significant deficiencies.

## 4.5 Insurance companies

The risk exposure of the insurance sector is assessed as being at the same level as that of fund management companies. The sanctions risk exposure of non-life insurance activities is slightly increased by the fact that non-life insurance companies provide not only voluntary insurance, such as travel insurance, but also statutory insurance, such as motor insurance and occupational accident insurance. Statutory insurance includes a provision obligation, and such insurance is intended to cover compensation for damages caused to third parties. With regard to statutory insurance, it is not possible for insurance companies to refuse to provide insurance on the basis that a person is on a sanctions list, but an exemption from the Ministry for Foreign Affairs is still required to make insurance-related payments. The non-life insurance sector's product range also includes insurance related to foreign trade, where special attention must be paid to compliance with international sanctions.

In the insurance sector, when evaluating controls, risk is increased by deficiencies related to testing and quality control of screening systems.

## 5 Supervisory focus points

It is the FIN-FSA's task to monitor that obliged entities have in place effective policies, procedures and internal controls, as referred to in chapter 3, section 16 of the Money Laundering Act, to ensure that obliged entities comply with their obligations under sanctions regulations and freezing orders. , the primary objective is to ensure that supervised entities meet in their own activities the minimum requirements set by legislation and the FIN-FSA's binding regulations and interpretations.

Owing to deficiencies in controls observed in supervised entities' activities, the FIN-FSA wants to emphasise the importance of the following measures in complying with the obligations of chapter 3, section 16 of the Money Laundering Act:

- Identify and assess how obligations under sanctions regulations and freezing orders are or may be reflected in an entity's own activities and set controls accordingly.
- Ensure that, in a changing operating environment, guidance and personnel expertise is sufficient and remains up to date.
- Ensure that sanctions screening coverage is sufficient and that its effectiveness is monitored regularly. Screening should also cover sanctions imposed by the UN Security Council to prevent the proliferation of weapons of mass destruction and terrorist financing.
- Pay attention to internal controls and division of responsibilities. Even the best guidelines are useless if compliance with guidelines is not enforced and the division of responsibilities is not clear to employees.

The FIN-FSA's sanctions supervision must be risk-based. Sanctions supervision resources are targeted primarily at those subsectors where sanctions risk exposure is most significant. In practice, this means the credit institution and payment service sectors as well as virtual currency providers.

Of the aforementioned sectors, the credit institution sector is the primary supervision target. Given the customer numbers and payments traffic of credit institutions, deficiencies in controls established to comply with sanctions regulations and freezing orders have potentially the greatest impact. In addition to credit institutions, supervisory measures will also be targeted at other sectors as a result of the responses given in RA data collection. In addition, as the operating environment changes, the FIN-FSA may also carry out ad hoc supervision measures.

When measures are planned, due account should be given to the fact that the date of the information reported in RA data collection, which is the basis for the current risk assessment, is 31 December 2023. The information is therefore for the period before the entry into force on 1 March 2024 of the sanctions-related FIN-FSA Regulations and guidelines 4/2023. At the time of the next data collection, supervised entities should already be in compliance with the requirements of the binding interpretations and provisions of FIN-FSA Regulations and guidelines 4/2023.