

## **Supervision strategy for anti-money laundering, counter-terrorist financing and compliance with financial sanctions**

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### **1 Objective and implementation of the strategy**

The objective of the Financial Supervisory Authority's (FIN-FSA) anti-money laundering strategy<sup>1</sup> is to reduce the risk of non-compliance by supervised entities with anti-money laundering and counter terrorist financing regulation as well as financial sanctions. Through the strategy, the FIN-FSA communicates to supervised entity and the general public on anti-money laundering policies and practices.

The implementation of the strategy ensures that supervised entities comply with laws, lower-level regulation and the FIN-FSA regulations and guidelines. The FIN-FSA's requirements concerning the prevention of money laundering are familiar to the supervised entities and effectively shape these entities' own anti-money laundering activities. The FIN-FSA targets its supervisory actions at all sectors of supervised entities based on the risks involved and intervenes in any failures with proportionate actions.

### **2 Foundations of the strategy**

The anti-money laundering strategy was designed to be valid until further notice, and it outlines the main courses of action for the supervision of anti-money laundering. It supports and complements the FIN-FSA's overall strategy.

The success, effectiveness and up-to-datedness of the strategy is assessed on an annual basis. The strategy is updated regularly to

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<sup>1</sup> For the purposes of this document, anti-money laundering strategy comprises the supervision of the appropriateness and adequateness of procedures for the prevention of money laundering and terrorist financing as well as ensuring compliance with financial sanctions.

ensure its up-to-datedness and effectiveness in an evolving operating environment. The annual review considers, in particular, findings made by the FIN-FSA itself in its supervision, findings by other domestic supervisors and anti-money laundering authorities as well as any such risks and events surfacing in connection with foreign supervisors' activities that may be relevant in Finland.

The strategy has a guiding impact on the supervision of anti-money laundering as well as regulations and guidelines issued to supervised entities to develop their AML activities. With the strategy, the FIN-FSA also communicates on its supervisory role in anti-money laundering to society at large and makes it visible also for international evaluators of supervision, such as the European Banking Authority (EBA) and the intergovernmental Financial Action Task Force on Money Laundering (FATF).

In addition to AML supervision, the strategy also covers the supervision of counter terrorist financing, since the risk assessments made have not identified significant differences between the prevention of money laundering and terrorist financing. Following the amendments proposed to the AML Act, obliged entities will be under the obligation to consider financial sanctions in customer due diligence, which will also be covered by AML supervision.

### 3 Key objectives

1. Supervised entities receive information in an effective manner about the level of anti-money laundering required by the FIN-FSA. The requirements are recorded in the FIN-FSA's regulations and guidelines as well as supervision letters, among other things.
2. Supervision is directed on the basis of risks. The FIN-FSA observes a methodology established by it for the selection of higher-risk sectors and particular supervision objects.
3. Supervision is proportionate and effective. Remediating actions and follow-up are taken into account in supervision.

#### 3.1 FIN-FSA's requirement level is presented fully and proactively to supervised entities

As regards FIN-FSA regulations, guidelines, statements, interpretations and other communication, some of the most important considerations are:

- Up-to-datedness of legislation and other regulation, and its consistency with international requirements.
- Up-to-datedness of the FIN-FSA's own set of regulations and guidelines.
- Adequate communication.

FIN-FSA regulations and guidelines are consistent with national and international regulation, and up to date. This requires participation in preparing regulation on the domestic arena and pointing out any identified needs of revision in regulation. The responsibility for ensuring

the up-to-datedness of statements and interpretations and updating them belongs to the Anti-money laundering division.

Communication to supervised entities can be broken down according to target group: individual supervised entities, isolated sectors and the entire population of supervised entities. As regards findings concerning a sector, the FIN-FSA liaises with parties active in the sector, advocacy groups and stakeholders.

The AML division takes care of providing corrective feedback to supervised entities. The methods include targeted communication to supervised entities concerned by the findings as well as presentation of supervision and inspection findings at a general level. Guidance and information about current topics are published at the FIN-FSA website in a news summary (3 or 4 times a year). In addition, webinars/seminars targeting key supervisory areas are organised.

### 3.2 Supervision is proactive and based on risks

Key objectives of the AML strategy include the predictability and risk-basedness of supervision. The starting point of risk-based supervision consists of risk-assessment obligations provided by the AML Act and lower-level regulation to supervised entities as well as the AML risk assessments prepared by the FIN-FSA.

FIN-FSA regulations and guidelines as well as guidance of the European Supervisory Authorities<sup>2</sup> provide more detailed guidance on the targeting of supervision. The FIN-FSA's annual supervision targets are established in the action plan, and at a more detailed level in the action plan for the AML division. The determination of supervision objects, i.e. supervised entities to which inspections, ongoing supervisions and other supervisory actions will be targeted, is made on the basis of the risk assessment.

#### 3.2.1 Definition of risk-basedness

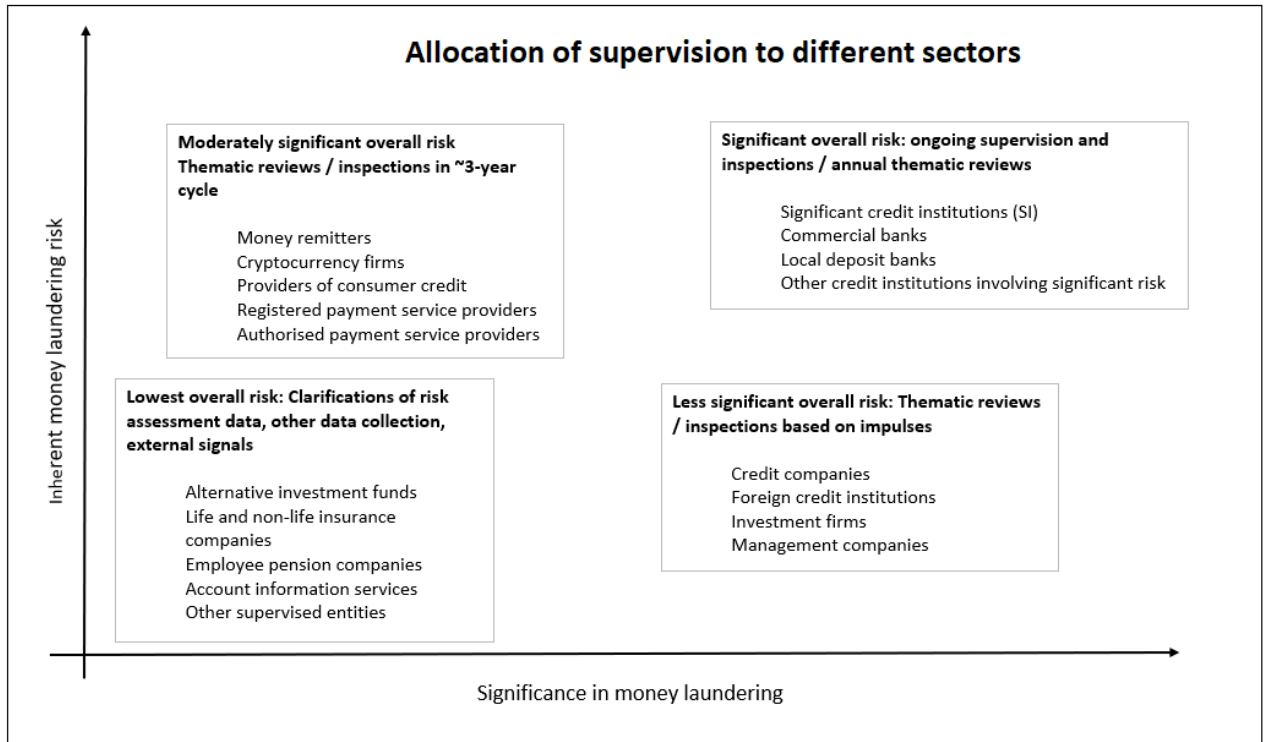
The supervision of anti-money laundering is based on risks. In practice, the minimum level of supervision for different sectors is set so that sectors involving the most significant risk are subject to supervisory actions on an annual basis and moderate-risk sectors in 3–5-year intervals. The supervision of low-risk sectors is based on findings emerging through the risk assessment tool and potential impulses from any other sources. No regular supervision cycle is determined for the least risky sectors and institutions. These supervised entities will be subject to supervisory actions if particular risk-based need to do so is identified.<sup>3</sup>

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<sup>2</sup> Including the European Banking Authority (EBA) and the upcoming new EU Anti-Money Laundering Authority (AMLA).

<sup>3</sup> Information on shortcomings in anti-money laundering may be received for example through international cooperation, from national prudential supervisors, incident reports, customer inquiries or misconduct notifications.

Chart 1. Risk-based targeting of supervision to different sectors



In the chart, the sectors are categorised based on the supervision allocated to them.

### 3.2.2 Supervision is built on different information sources

AML supervision by the FIN-FSA covers a supervised entity's activities already from the stage where it is applying for authorisation or registration. By assessing the applicant's anti-money laundering procedures, it is ensured that only providers complying with regulatory requirements may access the market. The AML division also supports, and where necessary, assists prudential supervisors in conducting management Fit & Proper assessments and assessments related to owner control to the extent that these assessments are related to anti-money laundering and related risks.

The AML division collects information with an annual risk assessment (RA survey) from supervised entities on risks and controls related to money laundering and terrorist financing. The information collected through the survey on the organisation of supervised entities' activities, risk assessments and the level of risk management methods (such as customer due diligence procedures and transaction monitoring) provide a view to the situation of each individual supervised entity. The information from the RA survey is supplemented by other observations and information known to the FIN-FSA as regards individual supervised entities' risks and risk management methods.

The AML division has the main responsibility within the FIN-FSA on the supervision of anti-money laundering, but other FIN-FSA functions also participate to supervisory actions in accordance with the cooperation guidelines of the European Banking Authority<sup>4</sup>. Information exchange among domestic authorities takes place, for example, with other supervisory authorities for money laundering and the Financial Intelligence Unit of the Police.

### 3.2.3 Supervisory activities

Supervision targeted directly at the supervised entities after the authorisation and registration phase is divided into ongoing supervision and inspection activities, the latter also including thematic reviews.

#### ***Ongoing supervision***

A key objective of ongoing supervision is to collect information extensively on a supervised entity's risks and procedures to prevent them. At the same time, the ongoing supervision actions provide a comprehensive picture of the supervised entity and may help resolve interpretation problems, if any. If in the course of ongoing supervision, concerns arise about the adequacy of the measures taken by the supervised entity or there are suspicions about related omissions, the additional tools to examine the matter more closely are a thematic review or an inspection.

Ongoing supervision comprises, among other things the following supervisory actions:

- Most significant supervised entities and Finnish branches judged as constituting a significant money laundering risk: money laundering colleges, regular meetings, ongoing data collection.
- Supervisors money-laundering assessment
- Meetings and desktop reviews
- Examination of findings obtained through inspections and other impulses<sup>5</sup> and supervision of remediating actions.

AML colleges are cooperation groups formed in accordance with the EBA Guideline for the exchange of information and coordination of supervisory actions among supervisory authorities. Their objective is to collect information on a supervised entity for the main supervisor and form a comprehensive picture of the state of the firm being supervised.

Meetings and desktop reviews are key instruments of proactive supervision. They can help intervene at an early stage in risks identified in a supervised entity's products and services as well as in any changes

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<sup>4</sup> EBA Guidelines on cooperation and information exchange between prudential supervisors, AML/CFT supervisors and financial intelligence units under Directive 2013/36/EU(EA/GL/2021/15).

<sup>5</sup> Among other things, findings by foreign AML authorities and the FIN-FSA's prudential supervisors, information received from the Financial Intelligence Unit and other authorities, incident reports, customer inquiries, whistleblowing notifications, media news.

in the supervised entity's activities. Following each meeting, minutes are drawn up to ensure that the issues and interpretations discussed between the supervised entities and the FIN-FSA are appropriately documented. The supervision of remediating actions on a fixed-term basis is part of ongoing supervision.

### ***Inspections and thematic reviews***

Inspections and thematic reviews include:

- Inspections according to the inspection plan.
- Ad hoc inspections: quickly emerging inspection objects.
- Thematic reviews: standardised-format data collection on the situation of a wider group of supervised entities.

Inspections are the strongest supervision instrument in the FIN-FSA's toolbox. By adjusting their target, depth and volume of input material, it is possible to have a significant effect on the level of resources required.

A full-scope inspection of anti-money laundering is a necessary and effective action in circumstances where a risk-based assessment suggests it is useful to conduct a large-scale examination of critical shortcomings in a supervised entity's anti-money laundering functions. Since a full scope AML inspection requires a considerable amount of resources, it is not the primary course of action.

Targeted inspections of specific sub-areas in anti-money laundering (management methods in particular) provide a good opportunity to inspect a given process. Conducting several targeted inspections concurrently provides an opportunity to compare supervised entities to each other. Although a targeted inspection is limited to a specific sub-area of anti-money laundering (for example customer due diligence), it also provides broader information on the activities of the supervised entity. In particular, inspections of the compliance function and more extensive inspections of governance provide a view of the supervised entity's ability to manage the risk of money laundering.

Ad hoc inspections may be a combination of the inspection formats presented above.

An on-site inspection is included as a rule in all inspections, at least on a limited scale.

Thematic reviews help form a broader view of the supervision area/topic under scrutiny than inspections. They can be used to measure supervised entities' awareness and maturity in various subject areas. The resources required in thematic reviews are typically somewhat more limited than in full scope inspections. Findings based on thematic review also serve as impulses to target an inspection – or other supervisory actions – at an individual supervised entity. In connection with inspections, the need for follow-up actions, if any, is also assessed. These may include the remediation of shortcomings

identified in the inspection and sanctions. Omissions and shortcomings concerning anti-money laundering will lead to sanctions if clear failures are identified. The FIN-FSA's Legal unit is responsible for the actual sanction process.

The scope of supervisory actions is determined so that available resources are adequate for their execution. Any redirection of actions in an ad hoc situation may give rise to a need to update and adjust the supervision plan.

### 3.3 Training of personnel, maintaining professional competence, career paths

The implementation of the strategy requires a high level of expertise from the personnel of the FIN-FSA and its Anti-money laundering division. This is developed with a long-term perspective, with due consideration to key changes among supervised entities and in legislation. External certified diplomas may be used in the development of expertise<sup>6</sup>.

Key areas for the next years in the development of expertise:

- Financial sanctions and the supervision of appropriateness and effectiveness of procedures established to enforce them.
- Cryptoasset providers in a broad sense.
- Inspection expertise, including data analysis expertise.
- Deepening expertise in risks faced by supervised entities and in relevant risk management methods.
- Development of expertise in technologies improving the efficiency of supervisory work.

The Anti-money laundering division provides training to the rest of the FIN-FSA personnel. The objective is to improve cooperation with other experts to ensure that factors elevating the risk of money laundering detected in other supervisory actions are taken into consideration and communicated to the AML division. An upcoming common operating guideline will extend the learning objective to all areas related to the activities of supervised entities, including personnel carrying out suitability assessment and the assessment of control.

## 4 Assessment of the implementation of the strategy

The implementation of the strategy will be assessed on an annual basis as part of normal evaluation of effectiveness.

In addition, the FIN-FSA will review the implementation of the strategy together with its main cooperation partners / authorities.

**This strategy was adopted by the FIN-FSA management group in December 2022 and communicated to the Board in January 2023.**

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<sup>6</sup> For example, the Association of Certified Anti-Money Laundering Specialist course.