

FATF



Anti-money laundering and
counter-terrorist financing
measures

Sweden

1st Regular Follow-up Report &
Technical Compliance Re-Rating

September 2020

Follow-up report





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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The FATF Plenary adopted this report in September 2020

Citing reference:

FATF (2020), *Anti-money laundering and counter-terrorist financing measures – Sweden*,
1st Regular Follow-up Report & Technical Compliance Re-Rating, FATF, Paris
<http://www.fatf-gafi.org/publications/mutualevaluations/documents/fur-sweden-2020.html>

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Sweden: 1st Regular Follow-Up Report

1. INTRODUCTION

The mutual evaluation report (MER) of Sweden was adopted in February 2017. Sweden's 1st enhanced follow-up report (FUR) was adopted in July 2018 and given its progress Sweden moved to regular follow-up¹ immediately after. This 1st regular follow-up report analyses Sweden's progress in addressing some of its technical compliance deficiencies identified in its MER. Re-ratings are given where sufficient progress has been made. This report also analyses Sweden's progress in implementing new requirements relating to FATF Recommendations which have changed since the 1st enhanced FUR was adopted: R.2 and 15. Overall, the expectation is that countries will have addressed most if not all technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address what progress Sweden 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 FIRST ENHANCED FOLLOW-UP REPORT

The first enhanced FUR rated Sweden's technical compliance as follows:

Table 1. Technical compliance ratings, June 2018

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
LC	C	LC	LC	LC	PC	PC	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	LC	C	C	C	LC	LC	C	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	LC	PC	LC	LC	C	C
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
LC	PC	LC	LC	LC	C	LC	LC	C	C

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Source: Sweden 1st Enhanced Follow-up Report & Technical Compliance Re-Rating, July 2018: <http://www.fatf-gafi.org/media/fatf/documents/FUR-Sweden-2018.pdf>

¹ Regular follow-up is the default monitoring mechanism for all countries. Enhanced follow-up is based on the FATF's traditional policy that deals with members with significant deficiencies (for technical compliance or effectiveness) in their AML/CFT systems, and involves a more intensive process of follow-up.

Mr. Ali Anakhrouch, Supervisor Specialist, De Nederlandsche Bank N.V, Netherlands (financial expert), assessed Sweden's request for technical compliance re-rating and prepared this report.

Section 3 of this report summarises Sweden'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 Sweden's progress to improve its technical compliance by:

- Addressing the technical compliance deficiencies identified in the MER; and
- Implementing new requirements where the FATF Recommendations have changed since the 1st enhanced FUR was adopted (R.2 and 15).

Progress to address technical compliance deficiencies identified in the MER

Sweden has made progress to address technical compliance deficiencies identified in the MER and requested a re-rating in relation to Recommendation 26, which was rated PC. As a result of this progress, Sweden has been re-rated LC on R.26..

Recommendation 26 (originally rated PC)

In its 4th MER, Sweden was rated PC with R.26. The main technical deficiencies were: gaps in application of fit and proper requirements; no power to require divestiture when an owner is no longer suitable; lack of a supervisory risk classification tool; and no requirement to review FI risk profiles when there are major changes in management and operations. Limited progress was reported for the 1st enhanced FUR on the risk classification tool.

Since then, Sweden has amended its sectoral laws and ordinances to broaden both the scope and the content of the fit and proper requirements, although these requirements do not apply to significant legal owners of legal persons acting as insurance mediators and the deficiency relating to the ability to force persons who are no longer suitable to divest ownership has not been fully addressed.

Separately, the Swedish FSA has developed and improved its risk classification tool. The FSA annually collects information from all FIs using a web-based questionnaire which covers comprehensive risk factors. The risk classification tool has been in use since 2018 and its outcomes are used in the annual supervisory planning.

Finally, credit institutions are subject to quarterly reviews of risks by the FSA. This does not apply to other categories of FIs and there is still no formal requirement to review the ML/TF risk profile of FIs or financial group when major events or developments in the management and operations happen.

In light of progress made, R.26 is re-rated largely compliant.

Progress on Recommendations which have changed since adoption of the 1st enhanced FUR

Since the adoption of Sweden's 1st enhanced FUR, the FATF amended Recommendations 2 and 15. This section considers Sweden's compliance with the new requirements.

Recommendation 2 (rated C following Sweden's 1st enhanced FUR)

In February 2018, R.2 was revised to ensure the compatibility of AML/CFT requirements with rules on data protection and confidentiality and to promote the exchange of information between competent authorities.

As reported in its 1st enhanced FUR, Sweden has amended the Ordinance on Measures against Money Laundering and the Financing of Terrorism (2009:92) and established a co-ordination body tasked with co-operation and coordination of policies, activities, updating the NRAs and domestic information sharing. Separately, in Sweden, all legislative products in the AML/CFT area involving data protection issues are developed in consultation with the Swedish Data Protection Authority (SDPA) as part of the legislative process. AML/CFT authorities also have the possibility to consult with the SDPA on data protection in operational or policy matters. As such, **R. 2 remains compliant.**

Recommendation 15 (originally rated C)

In June 2019, R.15 was revised to include obligations related to virtual assets (VA) and virtual asset service providers (VASPs). These new requirements include: requirements on identifying, assessing and understanding ML/TF risk associated with VA activities or operations of VASPs; requirements for VASPs to be licensed or registered; requirements for countries to apply adequate risk-based AML/CFT supervision (including sanctions) to VASPs and that such supervision should be conducted by a competent authority; as well as requirements to apply measures related to preventive measures and international co-operation to VASPs.

Sweden has taken steps to comply with the new requirements of R.15. Regarding requirements related to the risk-based approach, Sweden has identified ML/TF risks from VA activities as early as 2013 when some virtual assets exchangers were regulated. This understanding has evolved with more attention given to VA in the 2015 and 2019 national risk assessments. Nevertheless, these risk assessments do not contain detailed information on the vulnerabilities and threats associated with the different types of virtual assets, VASPs and VASP activities.

In Sweden, the AML/CFT Act and relevant sectoral legislation treats VASPs as financial institutions and they are therefore subject to the same AML/CFT requirements. As such, VASPs are required to map, assess and document their ML/TF risks and keep their assessments up-to-date. FIs must provide these internal risk assessments to the FSA when applying for a license. Both natural and legal persons who intend to carry out professional activities consisting of safekeeping of or trade within the virtual asset sector have to register with the FSA before taking up business in Sweden, and are regulated and supervised by the FSA. The FSA also has the necessary powers to sanction VASPs, subject to the limits set out in Recommendation 35 of the 2017 MER.

When a natural or legal person in Sweden conducts VASP activities in Sweden or abroad without the required license, the FSA has the power to order the person to provide notification and, if the person fails to comply with the order, the power to order the person to cease the operation and apply a conditional fine. Such a case has not yet occurred and there is therefore no example on the amount of the fine, although the fine has no statutory upper limit. Consequently, it is not clear whether appropriate sanctions apply.

VASPs are required to comply with the requirements of R.10 to 21, to the same extent as other financial institutions. However, the threshold for occasional transactions, above which the VASPs are required to carry out due diligence measures, is fixed at the equivalent of EUR15 000 and there are no measures in place to ensure that VASPs obtain and hold required information on the originator and beneficiary with respect to virtual asset transfers. This does not correspond to FATF requirements for VASPs.

Separately, the targeted financial sanction mechanisms and obligations foreseen in Recommendations 6 and 7, as well as the requirements on international co-operation (Recommendations 37–40) also apply to VASPs in Sweden, subject to the limits of the deficiencies identified in the 2017 MER.

Sweden has taken numerous steps to implement the new requirements of R.15, including implementing a risk-based approach and licencing requirements for the VASP sector. However, it is not clear if sanctions that would apply to an unlicensed VASP would be appropriate. Furthermore, the threshold for occasional transactions is fixed at the equivalent of EUR 15 000, and requirements regarding VA transfers are not in place. As such, **R. 15 is re-rated largely compliant.**

Overview of progress achieved on other Recommendations rated partially compliant

Sweden also made progress on Recommendations 32: As an EU Member State, Sweden is subject to Regulation 2018/1672. This new regulation will be applicable from 3 June 2021 and Sweden reports that it should improve compliance with the requirements of R.32.

4. CONCLUSION

Overall, Sweden has made progress in order to correct the gaps in technical compliance identified in its MER. R.26 is upgraded to Largely Compliant given legislative measures to broaden both the scope and the content of the fit and proper requirements, although minor deficiencies remain in that fit and proper requirements do not apply to significant legal owners of legal persons acting as insurance mediators and there are limitations on the ability to force persons who are no longer suitable to divest ownership. The deficiency related to the absence of requirement to review the ML/TF risk profile of FIs or financial group following major events or developments in their management and operations remains.

R.2 remains compliant given the mechanisms in place to ensure the compatibility of AML/CFT requirements with rules on data protection and confidentiality and to promote the exchange of information among competent authorities.

R.15 is downgraded to largely compliant, considering deficiencies identified in relation to the occasional transactions threshold and the VA transfer rules, and in light of deficiencies identified in the 2017 MER which have repercussions on this Recommendation.

Considering progress made by Sweden since the adoption of its MER, its technical compliance with the FATF Recommendations has been re-evaluated in the following manner:

Table 2. Technical compliance ratings, June 2020

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
LC	C	LC	LC	LC	PC	PC	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	LC	C	LC	C	LC	LC	C	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	LC	LC	LC	LC	C	C
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
LC	PC	LC	LC	LC	C	LC	LC	C	C

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Sweden will remain in regular follow up and will continue to inform the FATF of progress achieved on improving the implementation of its AML/CFT measures.

FATF



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September 2020

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

1st Regular Follow-up Report & Technical Compliance Re-Rating

As a result of Sweden'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 1 of the 40 Recommendations.

The report also looks at whether Sweden's measures meet the requirements of FATF Recommendations that have changed since their Mutual Evaluation in 2017.

Follow-up report