



ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM SUPERVISORY POLICY FOR 2022–2025

In accordance with subsection 3 (1) of the Financial Supervision Authority Act, financial supervision is conducted in order to enhance the stability, reliability, transparency, and efficiency of the financial sector, to reduce systemic risks and to promote prevention of the abuse of the financial sector for criminal purposes, with a view to protecting the interests of clients and investors by safeguarding their financial resources, and thereby supporting the stability of the Estonian monetary system. Pursuant to § 1 of the Money Laundering and Terrorist Financing Prevention Act, the purpose of the Act is to prevent the use of the financial system and economic space of the Republic of Estonia for money laundering and terrorist financing.

This document focuses on the Anti-Money Laundering and Countering the Financing of Terrorism Supervisory Policy and Objectives of Finantsinspektsioon for 2022–2025 in order to achieve the 2022–2025 Strategic Objectives of Finantsinspektsioon.

I Anti-money laundering and the 2020–2025 Strategy of Finantsinspektsioon

The 2022–2025 Strategy of Finantsinspektsioon sets as one of its strategic objectives a focus on *risk control systems, processes, and culture. /.../ There is a culture of balanced risk-taking and risk management within the management of financial supervisors.* There is also the strategic objective of ensuring, through supervision, that *the organisation and systems used by the entities supervised by the Finantsinspektsioon enable the application of international financial sanctions.* In order to meet these strategic objectives, *we will further develop the supervisory model of anti-money laundering, countering the financing of terrorism and international financial sanctions towards financial intermediaries under supervision.*

II Starting points of the Anti-Money Laundering and Countering the Financing of Terrorism Supervisory Policy

The scope for setting priority areas in the supervision of anti-money laundering and countering the financing of terrorism is the role of Finantsinspektsioon as the financial supervisor and resolution authority in accordance with the Financial Supervision Authority Act.

Finantsinspektsioon based its assessment of the priority areas on the Money Laundering and Terrorist Financing Prevention Act, and took into account the international standards for anti-money laundering and countering the financing of terrorism, including the recommendations, guidelines, etc., of the Financial Action Task Force, the relevant documents of the Wolfsberg and Basel Institute.

In setting the priority areas, Finantsinspektsioon was guided by the European Commission's 2019 Supra National Risk Assessment (SNRA), Estonia's 2020 National Risk Assessment (NRA) on Anti-Money Laundering and Countering the Financing of Terrorism, and the 2021 Sectoral Risk Assessment (SRA) of Finantsinspektsioon.

The Anti-Money Laundering and Countering the Financing of Terrorism Supervisory Policy as priority areas and its performance indicators are presented in a generalised, concise, and, in our view, achievable way. The priorities send signals about the action plan of Finantsinspektsioon to market participants, the public, and our external partners.

III Anti-Money Laundering and Countering the Financing of Terrorism Supervisory Priorities for 2022–2025

In order to meet the above-mentioned 2022–2025 Strategic Objectives of Finantsinspektsioon, while taking into account the objectives of the Financial Supervision Authority Act and the Money Laundering and Terrorist

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Financing Prevention Act and the starting points of the priority areas, we set the following areas as priorities in the anti-money laundering and countering the financing terrorism supervision in the period of 2022–2025:

- i) Risk control culture – the managements of subjects of financial supervision address risk-taking and risk management in a balanced way;
- ii) Risk control systems and processes – subjects of financial supervision have established risk-sensitive risk management solutions, apply due diligence measures appropriately, and properly fulfil their reporting obligations to the Financial Intelligence Unit.

IV Performance indicators

When carrying out supervision in these areas, we will be guided, among other things, by the following:

I Enhancing the risk management culture

The market participants:

- i) have applied an appropriate and transparent risk management environment and culture, including the market participant's risk assessment and risk appetite, and the potential risks have been communicated by the managers of the market participants to the staff implementing the anti-money laundering and countering the financing of terrorism systems and controls;
- ii) have mapped the money laundering and, separately, terrorist financing risks/threats related to their activities, and their magnitude and impact;
- iii) have identified, at a qualitative and quantitative level, the risks they are prepared to take in their business, i.e. determined their risk appetite;
- iv) have identified the need for an effective risk management model (compensation mechanisms), including IT and human resources, to mitigate the risks/threats posed by their activities and made the corresponding investments in human resources, as well as in improving staff competences and developing risk-sensitive and adequate IT systems.

II Establishing risk-sensitive solutions for the proportionate application of due diligence measures

The market participants:

- i) have applied due diligence measures in a proportionate and risk-based manner, and are applying more measures in higher risk situations (taking into account the threats to the Estonian financial system identified in Estonia's 2020 National Risk Assessment (NRA) on Anti-Money Laundering and Countering the Financing of Terrorism and the 2021 Sectoral Risk Assessment (SRA) of Finantsinspektsioon) and have considered the possibility of applying simplified measures in lower risk situations;
- ii) have paid attention to the quality of client communication, its smooth functioning, the clarification of requirements, the relevance of the data to be collected, as well as training staff on the scope and objectives of due diligence measures and providing guidance on how to achieve proportionate and high quality in client relations;
- iii) implement business relationship monitoring solutions that are of a high standard in relation to the size of the market participant and the volume of services provided, and are able to detect money laundering and, separately, terrorist financing situations, as well as suspicious and unusual transactions and transaction patterns;

- iv) implement solutions to enable the correct fulfilment of the reporting obligation to the Financial Intelligence Unit, including in the event of failure of establishing a business relationship, carrying out a transaction, an operation or provision of a service.

As an expected result, market participants will understand and have appropriately identified the money laundering and terrorist financing risks inherent in their activities, and will carry out, in a risk-based, efficient, up-to-date, and proportionate manner both, their 'Know Your Client' policies and their business relationship monitoring functions.

V Methods used to achieve the priority objectives

In the supervision of its priority areas, Finantsinspeksioon implements, among other things, the following methods:

- i) On-site inspections:
 - Full-scope or thematic;
- ii) Off-site inspections:
 - Annual collection of information (questionnaires) as an input for risk-based supervision;
 - Ad hoc off-site inspections;
- iii) Ad hoc inquiries;
- iv) Issuing supervisory guidance for market participants, including in cooperation with the European Banking Authority (EBA) network;
- v) Where necessary, imposing obligations to bring activities into line with legislation or reduce risks, or the processing of infringements;
- vi) Participating in the preparation of the national risk assessment, assessing financial sector risks;
- vii) Informing the market participants, providing explanations;
- viii) Cooperating with national and foreign authorities, including supervisory authorities, and international organisations.