

Supplemented Latvian National money laundering/terrorism financing risk assessment report

Riga, 22 June 2018

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1. Introduction

1.1. Necessity to assess the ML/TF risks

- 1.1.1. In accordance with AML/CTF international standards,¹ countries must assess, understand and be aware of their national ML/TF risks. Based on this assessment the country must apply an approach that is based on the risks to ensure that activities that are directed to preventing or reducing ML/TF risks are commensurate with the identified risks.²
- 1.1.2. Identification, assessment and apprehension of ML/TF risks is very important for establishing and developing an effective system for combating ML/TF. At state level, it can be accomplished by making well-considered political decisions and implementing them in appropriate areas, but in the private sector it is achieved by implementing and exercising appropriate procedures and internal controls.
- 1.1.3. Latvia has taken measures to implement and provide legal and institutional framework that is sustainable, progressive and conforms to international standards regarding AML/CTF. Performing of the Report will provide the opportunity to completely and comprehensively identify and assess the risks in the AML/CTF system, thus further improving the effectiveness of Latvian AML/CTF.
- 1.1.4. The measures that are directed to awareness, assessment and apprehension of ML/TF risks, have always been the focus of Latvian AML/CTF policy makers - MF and MoJ, as well as FIU, thus stating the consistent efforts of the Latvian government to develop effective AML/CTF system.
- 1.1.5. The Report reflects priorities of Latvian AML/CTF system, inter alia, by taking into account previously performed assessments of Latvian AML/CTF system, as well as challenges of the recent years and progress in effective combating of ML/TF.
- 1.1.6. ML/TF risk assessment conclusions are periodically reassessed and reviewed.
- 1.1.7. The Report will be used by Latvian AML/CTF policy makers, FIU, LEA, AML/CTF Law obliged entities and supervisory bodies, international organisations,³ experts and any other interested parties.
- 1.1.8. The Report will serve as a basis for an action plan to limit the AML/CTF risks.

1.2. The process of ML/TF risk assessment and description of methodology

- 1.2.1. In September 2014, the Cabinet made a decision to prepare the Report of Latvia⁴ and determined that the institution responsible for ML/TF risk assessment is the FIU.
- 1.2.2. To prepare the Report, the FIU purchased the WB methodology.⁵ The World Bank team's role was limited to delivery of the tool; providing guidance on technical aspects of it and review/feedback to assist with the accurate use of it. The data, statistics, and information populated into National Money Laundering and Terrorist Financing Risk Assessment Tool templates, and any other finding, interpretation, and judgment under the scope of National Money Laundering Risk Assessment process completely belong to the Latvian authorities and do not reflect the views of World Bank, its Board of Executive Directors or the governments they represent. Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

¹ See, for example, FATF 40 Recommendations.

² FATF recommendation No. 1

³ On 15 May 2017 the Report will be submitted to Moneyval.

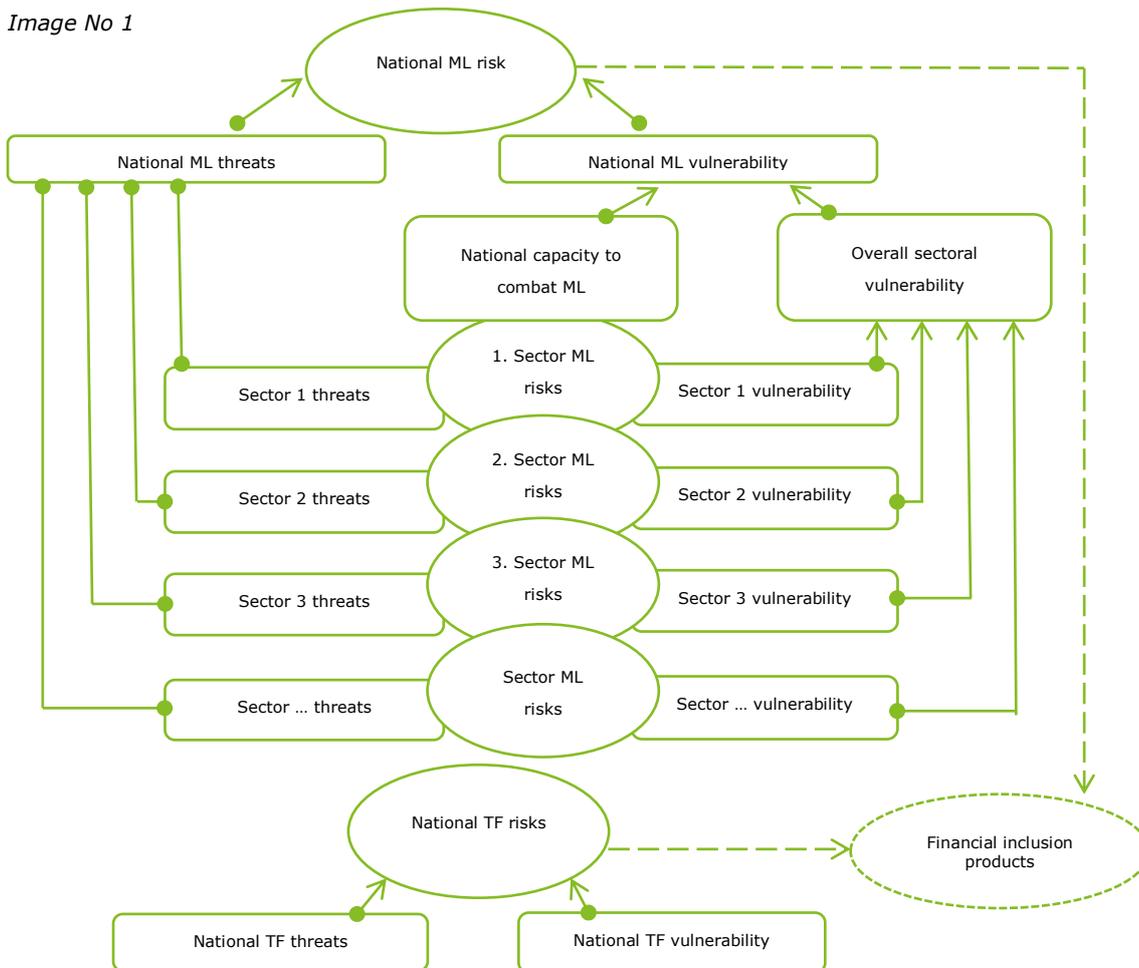
⁴ Cabinet decision of 16.09.2014. on national ML/TF risk assessment report development, prot. No 49, 64.§, TA-2087

⁵ <http://www.worldbank.org/en/topic/financialmarketintegrity/brief/antimoney-laundering-and-combating-the-financing-of-terrorism-risk-assessment-support>

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- 1.2.3. The Report of Latvia was initiated in 2015, when statistical data as well as other information from public institutions and private entities was collected and analysed.
- 1.2.4. The Report is prepared for time period from year 2013 – year 2016.⁶
- 1.2.5. The Report of Latvia was carried out using methodology developed by the WB, which was developed in accordance with the FATF recommendations.⁷ The methodology of the WB uses a risk assessment tool, which is developed in MS Excel and which helps the country to identify the key risks and vulnerabilities of ML/TF. The diagram representation of the risk assessment tool is displayed in Image No 1.

Image No 1



- 1.2.6. The risk assessment tool consists of nine interconnected modules within which a number of input variables are evaluated, which allows the assessor(s) to judge the threats and vulnerability of ML/TF. Within this assessment, threats are considered to be the amount and characteristics of resources of ML and TF occurred as a result of predicate offence. Vulnerability is considered to be the weaknesses and deficiencies in the national defence system against ML/TF. Threats and vulnerabilities exist at both national and sectoral level.
- 1.2.7. The nine risk assessment tool modules are: 1) ML threats; 2) ML national vulnerability; 3) Vulnerability of the banking sector; 4) Vulnerability of the securities sector; 5) Vulnerability of the insurance sector; 6) Vulnerability of other financial institutions sector; 7) Vulnerability of DNFBPs; 8) TF risk assessment; 9) Risk assessment of financial inclusion products.

⁶ The time period set with the Managing group’s decision.

⁷ <http://www.worldbank.org/en/topic/financialmarketintegrity/brief/antimoney-laundering-and-combating-the-financing-of-terrorism-risk-assessment-support>

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- 1.2.8. The completion of each module includes the collection of statistics and data, analysis, risk identification, conclusion drawing and allocation of appropriate ratings based on the assessment. To prepare the risk assessment information and data was gathered from FIU, supervisory bodies, LEA, MF, MoJ and other public authorities, as well AML/CTF Law obliged entities.⁸ Information is obtained from surveys, interviews and information requests.
- 1.2.9. Competent persons from supervisory bodies, LEA, AML/CTF policy makers and other public authorities of relevant sectors were involved in the assessment and allocation of ratings.
- 1.2.10. Considering that Methodology provides two possible approaches for calculation of final vulnerability ratings (“open door approach” and “weighted approach”), during the assignment of ratings, results of both approaches were compared. Management group chose a conservative approach and concluded that “open door approach” gives a more adequate insight into Latvian ML/TF vulnerability. Although in 2016 a number of improvements were made with regard to AML/CTF supervision of obliged entities and transparency of obliged entities operations, it will be possible to assess its results, including impact on efficiency, only after supervisory bodies will have carried out AML/CTF inspections of the obliged entities.
- 1.2.11. Separate ratings of vulnerabilities of ML in different sectors as well as an overall national ML/TF risk rating are determined by using the risk assessment tool.
- 1.2.12. It should be noted, that the aforementioned ratings reflect the vulnerability of sectors after risk mitigation controls were applied to the initial vulnerability ratings (e.g., ICS of AML/CTF Law obliged entities, adequacy of regulatory framework, etc.). Therefore, a high vulnerability rating does not always mean that the relevant sector has weak ML controls. However, if the risk of any sector is already originally higher than the others, it remains higher despite existence of strong AML/CTF controls in this sector.

1.3. Summary

- 1.3.1. The Report shows that:
 - a) the national threat is at medium high level;
 - b) national ML vulnerability is at medium level.
- 1.3.2. The national ML vulnerability consist of:
 - a) the capacity of state to combat ML, which in Latvia is evaluated as medium, and
 - b) overall sectoral ML vulnerability in the state, which is evaluated medium high.⁹
- 1.3.3. The overall ML risk of state is at a medium high level.

Image No.2

Overall ML risk of state

Overall threats	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M	M	MH	MH
	ML	ML	ML	M	M	M
	L	L	ML	ML	M	M
		L	ML	M	MH	H
		Overall vulnerability				

⁸ In the assessment process these institutions were involved – MF, FIU, MoJ, MoI, MoT, GPOSP, SeP, SRS, FCMC, BoL, LGSi, SBC, RE, CA, CRPC, OCMA, LACA, LCSA, LCSN, LACB, LIA, CPCB, ARO, as well AML/CTF Law obliged entities.

⁹ Image No 1.1

The most significant threats of ML

- 1.3.4. The most significant threats of ML are caused by the following CO:
- a) corruption and bribery;
 - b) CO in the tax area;
 - c) fraud;
 - d) smuggling.
- 1.3.5. The assessment concluded that most significant threats are created by CO committed in the large volumes and/or in an organised groups. It has been also concluded that proportionally higher threat occurs from CO committed abroad.

Most significant threats of TF

The overall vulnerability from TF was assessed to be low, the threat level also was assessed to be low, therefore the ultimate risk is low.

- 1.3.6. The most significant threats (taking into account that threat level is low) of TF are caused by:
- a) potential joining of the Islamic terrorist groups by Latvian inhabitants ;
 - b) potential use of non-governmental organizations and business environment for the purpose of terrorist financing and the transfer of funds marked for lawful purposes to terrorist organizations or their participants;
 - c) potential exploitation of the subjects of AML/CTF Law, for example, non-bank lenders or various providers of payment services, for acquisition of the funds and transfer of them to terrorist organizations or their participants.

There are risks that TF can happen as self-financing or acquisition of funds from family members or from the NGO (the latter option is theoretical)

National ML Vulnerability

- 1.3.7. Factors causing the most significant national vulnerability:
- a) the state policy in the area of AML/CTF is fragmented, not always ensuring enough coordination between involved institutions, that, in turn, delays timely awareness of the current and future threats and vulnerabilities in the area of AML/CTF and possibilities of prevention thereof in a timely manner;
 - b) the private sector is not involved enough in the improvement of the AML/CTF system;
 - c) capacity for combating crimes of financial intelligence and ML (capacity of FIU, LEA, prosecutor's office prosecutors and court), currently does not demonstrate effective realisation of prevention and principle of inevitability of punishment associated with these crimes.

ML Vulnerability of financial sector

- 1.3.8. Factors causing the most significant vulnerability of the financial sector:
- a) high risk appetite with regard to transactions of foreign customers exposed to increased ML/TF risk in the sector of Foreign customer serving banks.
 - b) Insufficient independence of ICS due to serious deficiencies in the organizational structure (inadequate compliance with the corporate governance principles, including the involvement of banks' shareholders in the management of ICS);
 - c) insufficient competence of ICS personal and deficiencies in the field of security of the personal liability;
 - d) improper IT systems in the management of ML/TF risks;
 - e) weak or non-existent supervision of certain subjects of the financial sector (Altum, cash collection service providers, financial leasing service providers, as well as other payment service providers which are not supervised by FCMC, non-bank lenders, LP).

Vulnerabilities of the Non-Financial Sector

- 1.3.9. Factors causing the most significant vulnerability of the non-financial sector:
- a) insufficient supervision capacity of the non-financial sector's supervision and control authorities –(SRS, LGSI, LCSA, LACA, and LCSN);
 - b) insufficient regulation, imperfect AML/CTF procedures, inter alia ICS;
 - c) lack of understanding and weak knowledge in the field of AML/CTF.

Overall sectoral vulnerability

- 1.3.10. The Report approves that the knowledge of LEA, Supervisory bodies and private sector entities of ML/TF risks needs to be improved. All involved parties have shown responsiveness and have been actively involved in the preparation of the Report, thus confirming the willingness to improve each AML/CTF Law obliged entity's and each Supervisory body's individual contribution to the development of the states AML/CTF system.
- 1.3.11. Further measures regarding the Latvian ML/TF risks assessment should be taken to ensure that Latvia's financial system develops effective mechanisms to prohibit CP layering. However, in the event that it has still occurred, through the effective cooperation of AML/CTF Law obliged entities, Supervisory body, FIU and LEA, the CP should be withdrawn from circulation, while at the same time not increasing the administrative burden for the involved parties.
- 1.3.12. The Latvian ML/TF risk assessment will be carried out repeatedly and regularly by following current ML/TF trends and tendencies and effectively addressing new and emerging risks.
- 1.3.13. The government has committed to ensure that the Latvian AML/CTF regime is effective and in accordance with AML/CTF Law obliged entities, sectoral and state's overall ML/TF risks, which have been determined using a risk based approach.

1.4. Report supplement - Sectoral Money Laundering Risk Assessment Report

- 1.4.1. Countries must identify and assess ML risks faced by the various sectors in which the AML/CTF Law obliged entities operate. Based on that assessment, the country must take a risk-based approach to ensure that the measures aimed at preventing or mitigating the ML/TF risks are commensurate with the identified ML/TF risks.¹⁰ The assessment allows AML/CTF Law obliged entities to focus their internal control systems on the ML risks to which the respective sector is exposed.
- 1.4.2. According to the WB Methodology, to identify the ML risk, it is necessary to assess both – the underlying ML vulnerabilities and ML threats.
- 1.4.3. In order to identify the level of ML risk of different sectors in which the AML/CTF Law obliged entities operate, it is necessary to apply the 1st module – ML threats and the vulnerability of the respective sector that has been assessing using the modules from 3 to 7. According to the Methodology, the sectors examined under module 1 must be identical to those in module 2.
- 1.4.4. The debt collection service providers are AML/CTF Law obliged entities as of 9 November 2017 which is the effective date of the amendments to the AML/CTF Law. Therefore, notwithstanding that the Report does not deal with the debt collection service providers, Report supplement will also address the ML risks faced by the debt collection service providers. However, the Report evaluates the vulnerability of ML by debt collection service providers, so in order to determine the ML risk, it is necessary to assess the ML risk of both the threats and the vulnerability.
- 1.4.5. Taking into account before mentioned, Report is supplemented with sections 4.5. and 7.16.

¹⁰ FATF recommendation No. 1

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Instrument for determining ML risks

- 1.4.6. The Article 26 of AML/CTF Law lists cases of low ML/TF risk which does not contradict the risks assessment, including the Report, in case of which AML/CTF Law obliged entities may carry out a simplified customer due diligence.
- 1.4.7. For the AML/CTF Law obliged entities to identify whether the respective customer is subject to low ML/TF risk, a tool for the identification of ML risk situations has been developed which allows AML/CTF Law obliged entities to carry out the simplified customer due diligence.

Sectoral ML risk assessment

- 1.4.8. The elaboration of the Report supplement was initiated in March 2018, when statistical data and other information for the period from 2013 to 2016 from public institutions and private entities was collected and analysed, as well publicly available information were collected.
- 1.4.9. The following public institutions were involved in the Report supplement – FCMC, CRPC, CS, GPO, SP, SRS TCPD¹¹, LEI, CPCB and also AEECDL (Association of extra-judicial execution creditors of debts of Latvia).
- 1.4.10. The Report supplement covers the period from 2013 to 2016.¹² The vulnerability to ML of the providers of debt collection services was assessed for the period from 1 January 2018 to 31 March 2018.

Description of Methodology

- 1.4.11. In order to identify the level of ML risk of different sectors in which the AML/CTF Law obliged entities operate, it is necessary to apply the 1st module – ML threats and the vulnerability of the respective sector that has been assessing using the modules from 3 to 7. According to the Methodology, the sectors examined under module 1 must be identical to those in module 2.¹³
- 1.4.12. The Report covered the ML vulnerability assessment of each of the afore-indicated sectors, thus, to identify the sectoral ML risks, this Report supplement deals with the evaluation of the sectoral ML threats.
- 1.4.13. In the Assessment period the providers of debt collection services were not AML/CTF Law obliged entities and therefore the Report does not contain the ML vulnerability of the mentioned entities. The FIU resolved that the Report supplement should also contain the ML risk, incl. ML vulnerability of the providers of debt collection services.
- 1.4.14. For the assessment of the sectoral ML threats the Methodology contains a risk assessment tool developed in MS Excel format – a sheet which helps to identify and assess the level of ML threats in each sector.
- 1.4.15. In consideration of the afore mentioned, the Report supplement of the ML threats is based upon the following criteria:
- a) the number of criminal proceedings initiated on ML offences involving the sector;
 - b) sectoral ML charges brought against AML/CTF Law obliged entities;
 - c) the number of judgments of conviction in ML cases involving the sector;
 - d) the number of persons convicted for ML;

¹¹ As of 1 January 2018 SRS FPD and the SRS CPD were merged and the SRS TCPD established instead;

¹² The period has been set in accordance with the Procurement Agreement No. LRP 2018/1.

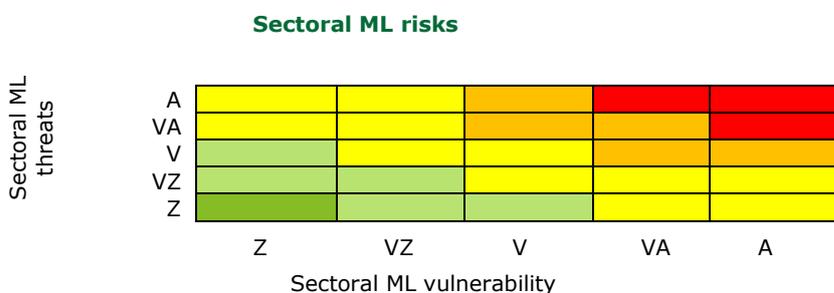
¹³ Sectors were defined in Report.

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- e) other information on the potential sectoral ML activities (public information, research, operative news etc.);
- f) EC Supranational Risk Assessment;
- g) amount of the sectoral ML activities that is not or cannot be identified;
- h) size of the sector and/or share in economy.

- 1.4.16. Each of the ML risk indicators and criteria are assessed in the respective level – 1) low; 2) medium low; 3) medium; 4) medium high and 5) high.
- 1.4.17. Concurrently, according to the Methodology, the sectoral ML trends of each Assessment period are identified, depending on whether the ML activity remains constant, increases or reduces.
- 1.4.18. In order to establish the overall sectoral ML risk, the matrix that is included in the Methodology and is illustrated in Image No.1 is applied.

Image No.1



- 1.4.19. The information gathered regarding the criterion - the number of criminal proceedings initiated on ML offences involving the sector, for 2013-2015 does not include the distribution of the number of criminal proceedings by Foreign Customer Serving Banks and Domestic Customer Serving Banks
- 1.4.20. The table provided in the Methodology lists a number of indicators and criteria which assist in establishing the ML threat level to which the relevant sector is exposed. The WB Methodology allows defining more precisely the criteria included in the table. Thus, the table found in the Methodology has been adjusted to the situation of Latvia and the criterion – the number of persons convicted for ML has been added accordingly.
- 1.4.21. Regarding to the indicators in Methodology (the number of criminal proceedings initiated on ML offences involving the sector; sectoral ML charges brought against AML/CTF Law obliged entities; the number of judgments of conviction in ML cases involving the sector; the number of persons convicted for ML), the risk level was awarded by comparing indicators using median, excepting banking sector.
- 1.4.22. The risk level for each AML/CTF Law obliged entity were divided into five levels: high, medium high, medium, medium low and low. To assign the appropriate level of risk to each groups, several successive steps were taken. First, it was observed that the banking sector has significantly higher incidence rates for all types of events compared to other AML/CTF Law obliged entities. Therefore, the level of risk was defined as "high" for the banking sector. Secondly, the four remaining levels of risk were allocated to the remaining AML/CTF Law obliged entities. In order to set the threshold values for risk levels, the following values were found: maximum, minimum and average (regardless of "0" event values) the number of events for each of the event types. The medium high risk upper limit was defined as the maximum number of occurrences and the lower one as the average value between

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the average number of events for the entire event type and the maximum number of occurrences. The upper limit of the medium risk level was defined as the lower limit for the medium risk level, while the lower - as the average number of events for the entire event type. On medium low, the lower-risk upper limit was defined as the lower risk level, but the lower - as the average of the average number of events for the entire event type and the minimum number of occurrences. Finally, the low risk upper limit was defined as the lower limit for the average low risk level and the lower one as the minimum number of events that is positive (not "0").

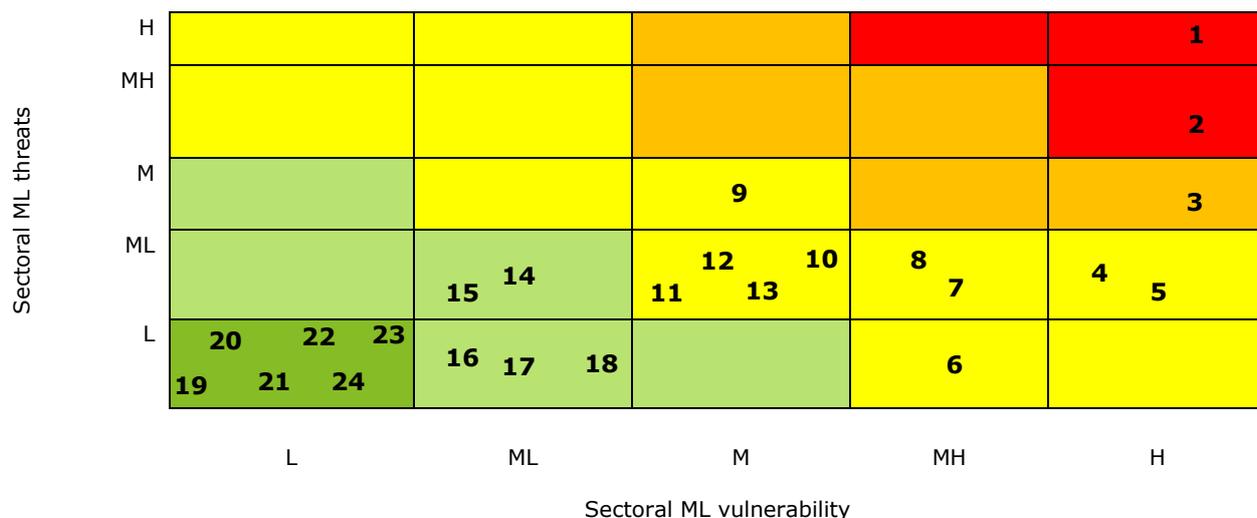
- 1.4.23. As regards the indicator, the size of the sector and/or share in economy was calculated on the basis of information provided by the AML/CTF Law obliged entities, such as the information provided by the banking sector on the turnover of the AML/CTF Law obliged entities, as well as the publicly available information on the turnover of the AML/CTF Law obliged entities, and related to Latvia's 2016 GDP.
- 1.4.24. As regards the indicator for amount of the sectoral ML activities that is not or cannot be identified, it was not evaluated as such information is not collected and not publicly available.
- 1.4.25. As regards the indicator, other information about possible ML activities in the sector (public information, research, operational news, etc.), the Report used an *Google* tool, which sought to find available negative information in Latvia about the involvement of the sector in the NILL. In this criterion, the levels were awarded on the basis of the number of publications available, comparing them using the median (see paragraph 1.4.22).
- 1.4.26. Before the preparation of the Report, the FIU decided to use the EC Supranational risk Assessment, taking into account the fact that it reflected the threat level of almost all AML/CTF Law obliged entities, but threat level of almost all AML/CTF Law obliged entities was not in the Moneyval report in 2012.
- 1.4.27. Additionally, it should be noted that in some sectors there were a difference of ML risks mentioned in NR Report A and EC Supranational risk Assessment. Before mentioned can be explained by the fact that Report and EC Supranational risk Assessment used different assessment methodologies, as regards the criterion, the amount of ML activities in the sector that is not or cannot be detected, this information were not available at the time of the preparation. In EC Supranational risk Assessment the sectoral threat level were based on ML mechanisms (*modi operandi*), as well as EU member states expert's opinion on individuals capabilities and willingness to use ML mechanisms. However, in this Report the sectoral threat level were based on criteria's mentioned in Methodology, which are aimed to identify actual cases of ML in the relevant sector (for example, number of criminal cases, number of convicted judgments).
- 1.4.28. As the EC Supranational Risk Assessment is based upon four ML threat levels whereas the Methodology is based upon a scale of five ML threat levels, the sectoral ML threat levels have been identified as follows:
- a) *lowly significant* – low
 - b) *lowly significant to medium significant* – medium low
 - c) *medium significant* – medium (average)
 - d) *significant to very significant* – medium high
 - e) *very significant* – high.
- 1.4.29. Although in accordance with Methodology it is possible to clarify in table mentioned criteria. Accordingly Methodology table is adapted to the current situation in Latvia - criteria used in addition to the table are the criterion used - the number of convicted persons per ML.

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1.5. Summary

- 1.5.1. The sectoral ML risks are composed of the sectoral ML threats and the sectoral ML vulnerability. The sectoral ML vulnerability level, the sectoral ML threat level and the sectoral ML risk level are illustrated in the image No.1.2.
- 1.5.2. The sectoral ML risk trends are provided in the image No.1.3.
- 1.5.3. The following ML risk level to which the AML/CTF Law obliged entities are exposed has been identified in the Assessment:¹⁴

Sectoral ML risks



ID	Sector	ID	Sector	ID	Sector
1	Foreign customer serving banks	9	Real estate agents and intermediaries	17	Life insurance
2	Domestic customer serving banks	10	Persons trading in precious metals and stones	18	Debt collection service providers
3	PI/EMI	11	Sworn attorneys	19	Persons providing cash collection services
4	Securities sector	12	Bureaux de change	20	Altum
5	IMC	13	Non-bank enders	21	PPF
6	Car dealers	14	Sworn notaries	22	CU
7	Lotteries and gambling operators	15	Certified auditors	23	AIFM
8	Tax advisors, external accountants and providers of legal services	16	LP	24	Persons performing transactions with cultural monuments

ML risks of the financial sector

- 1.5.4. Factors causing the most significant vulnerability of the financial sector:
 - a) High risk appetite with regard to the transactions of foreign customers exposed to increased ML/TF risk in the Foreign customer serving banks;
 - b) Insufficient independence of the ICS due to serious deficiencies in the organizational structure (inadequate compliance with the corporate governance principles, including the involvement of banks' shareholders in the management of the ICS);

¹⁴ Image No.1.1.

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- c) insufficient competence of ICS staff and deficiencies in the field of security of the personal liability;
- d) improper IT systems in the management of ML/TF risks;
- e) weak or non-existent supervision of certain subjects of the financial sector (Altum, cash collection service providers, financial leasing service providers, as well as other payment service providers which are not supervised by the FCMC, non-bank lenders, LP).

1.5.5. Factors causing the most significant threats of the financial sector:

- a) large-scale and/or organized crime;
- b) tax offences;
- c) a proportionally higher threat derives from the offences committed abroad.

1.5.6. Predicate offences that lead to ML in the financial sector in the Assessment period:

- a) under the criminal proceedings dealing with ML, the main predicate offences are:
 - o CL Article 177 (fraud);
 - o CL Article 179 (misappropriation);
 - o CL Article 190 (smuggling);
 - o CL Article 193 (illegal activities with financial instruments and means of payment);
 - o CL Article 218 (evasion of tax payments and payments equivalent thereto)
- b) under the charges dealing with ML, the main predicate offences are:
 - o CL Article 177 (fraud);
 - o CL Article 179 (misappropriation);
 - o CL Article 218 (evasion of tax payments and payments equivalent thereto)
- c) in the court judgments dealing with ML, the main predicate offences are:
 - o CL Article 190 (smuggling);
 - o CL Article 191 (unauthorized activities with goods and other valuable property subject to customs clearance)
 - o CL Article 218 (evasion of tax payments and payments equivalent thereto);
 - o CL Article 275 (forgery of a document, seal and stamp and the use and sale of a forged document, seal and stamp).

1.5.7. In addition, although the data from sectoral ML risk assessment do not directly show up, but according to the National ML threat assessment, during the Assessment period, one of the ML predictive offence in financial sector were corruption and bribery (criminality) (see 4.2.2. point).

1.5.8. The methods for legalizing the proceeds from crime applied in the financial sector:

- o transfers to fictitious companies;
- o transfers for fictitious transactions;
- o corporate account opening using homeless persons;
- o opening of bank accounts for fictitious companies;
- o malicious use of the bank accounts of private individuals;

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- account opening using forged documents;
- loan applications using the personal data of another person;
- relocation of the proceeds from crime, e.g. withdrawal in cash.

Risks of the non-financial sector

1.5.9. Factors causing the most significant vulnerability of the non-financial sector:

- a) insufficient supervision capacity of the non-financial sector's supervision and control authorities –(SRS, LGSI, LCSA, LACA, and LCSN);
- b) insufficient regulation, imperfect AML/CTF procedures, inter alia ICS;
- c) lack of understanding and weak knowledge in the field of AML/CTF.

1.5.10. Factors causing the most significant threats of the non-financial sector:

- a) large-scale and/or organized crimes;
- b) tax offences and fraud.

1.5.11. ML predicate crimes in the non-financial sector in the Assessment period:

- a) under the initiated criminal proceedings on ML, the main predicate offences are:
 - CL Article 177 (fraud);
 - CL Article 179 (misappropriation);
 - CL Article 193 (illegal activities with financial instruments and means of payment);
 - CL Article 218 (evasion of tax payments and payments equivalent thereto);
 - CL Article 275 (forgery of a document, seal and stamp and the use and sale of a forged document, seal and stamp).
- b) the predicative offences in case of charges dealing with ML mostly are:
 - CL Article 177 (fraud);
 - CL Article 218 (evasion of tax payments and payments equivalent thereto);
- c) in the court judgments on ML, the main predicate offences are:
 - CL Article 191 (unauthorized activities with goods and other valuable property subject to customs clearance);
 - CL Article 218 (evasion of tax payments and payments equivalent thereto).

1.5.12. In addition, although the data from sectoral ML risk assessment do not directly show up, but according to the National ML threat assessment, during the Assessment period, one of the ML predictive offence in financial sector were corruption and bribery (criminality) (see 4.2.2. point).

1.5.13. The methods used for the legalization of the proceeds from crime in the non-financial sector are the following:

- transfers to fictitious companies and transfers for fictitious transactions;
- investments into movable property and real estate;

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- intentional/unintentional involvement of area professions in the drafting of documents with the scope of legalizing proceeds from crime, e.g. drafting and certification of transaction documents;
- provision of professional consultations;
- Payment of the proceeds from crime into the bank account of the organizers of gambling and lotteries and the consequential receipt (disbursement) in the form of a win.

1.6. ML trends and future ML/TF risks

ML trends in the financial sector

- 1.6.1. Overall in the financial sector tendencies shows that during Assessment period , ML predicative offences changed, i.e. convictions in the Assessment period shows that before the Assessment period predicative offences for ML mainly were CL Article 218 (evasion of tax payments and payments equivalent thereto). However, there were cases where were other predicative offences for ML like: CL Article 190 (smuggling), CL Article 191 (unauthorized activities with goods and other valuable property subject to customs clearance), CL Article 275 (forgery of a document, seal and stamp and the use and sale of a forged document, seal and stamp). But from criminal procedures in Assessment period arises that in future predicative offences will be: 1) CL Article 177 (fraud); CL Article 179 (misappropriation); CL Article 218 (evasion of tax payments and payments equivalent thereto).
- 1.6.2. Furthermore, from above mentioned arises, that in the future, the major risks in the financial sector will be related to the ML obtained in the form of payment of fraud, embezzlement and other similar payments.

ML trends in the non-financial sector

- 1.6.3. Overall in the financial sector tendencies shows that during Assessment period , ML predicative offences changed, i.e. convictions in the Assessment period shows that before the Assessment period predicative offences for ML mainly were CL Article 218 (evasion of tax payments and payments equivalent thereto). However, there were cases where were other predicative offences for ML like: CL Article 190 (smuggling), CL Article 191 (unauthorized activities with goods and other valuable property subject to customs clearance). But from criminal procedures in Assessment period arises that in future predicative offences will be: 1) CL Article 177 (fraud); CL Article 179 (misappropriation); CL Article 218 (evasion of tax payments and payments equivalent thereto), CL Article 275 (forgery of a document, seal and stamp and the use and sale of a forged document, seal and stamp).
- 1.6.4. Furthermore, from above mentioned arises, that in the future, the major risks in the non-financial sector will be related to the ML obtained in the form of payment of fraud, embezzlement and other similar payments.

Future ML/TF risks

- 1.6.5. It is expected that in future ML/TF risks will be associated with use of virtual currency in ML/TF. Knowing the risks, EU has started develop 5 AML Directive (Directive on laying down rules facilitating the use of financial and other information for the prevention, detection, investigation or prosecution of certain criminal offences and repealing Council Decision 2000/642/JHA),¹⁵ which will restrict NILLTF risks related to virtual currencies.

¹⁵ http://europa.eu/rapid/press-release_STATEMENT-18-3429_en.htm

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- 1.6.6. In future additional ML/TF risk could be generated based on the fact, that credit institutions conduct a review of its client base and terminate business relationship with high-risk customers, in particular with shell companies. This can have two consequences:
- a. the amount of high risk foreign customers funds in Latvian credit institutions will decrease and risky funds will be diverted to credit institutions in other countries. As a result, the FIU and the Latvian authorities lose the opportunity to identify such criminal proceeds;
 - b. the business relations are terminated also with the domestic clients, who are operating in Latvia. Their financial resources are being channeled through financial institutions with weaker ML/TF control or being sent to the "bottom", the FIU and the Latvian authorities lose the opportunity to identify these kinds of criminal proceeds.
- 1.6.7. It also should be noted, that this kind of risk mitigation by credit institutions overall could increase ML/TF risk. One effective ML/TF risk managing pre-condition, is that the transactions are monitored and takes place in within the framework of financial system. Refuse of customers can lead to transactions can be made through non-regulated channels, where transactions are not monitored or are monitored poorly.

2. Economic and Geopolitical Description

2.1. Economic Description

- 2.1.1. In general the Latvian economy may be characterised as small and open, which significantly is influenced by events of the global economy; Latvia is a member of the World Trade Organization since 1991. Since 1 May 2004 Latvia is a member of the EU and as of 1 January 2014 Latvia joined the Eurozone and introduced the *euro*. Since 1 July 2016 Latvia is a lawful Member State of OECD.
- 2.1.2. During the assessment period the effect of the economic crisis and thus slow recovery of the GDP growth was still observed in Latvia, although the unemployment indicators have improved, which is mostly thanks to a decrease in the number of inhabitants rather than changes in employment.
- 2.1.3. Although in total Latvia has one of the most rapid growing economies in the EU, it has slowed down in the range of 2-3% during the recent years.¹⁶ Deceleration of the growth speed is to a great extent determined by trends in the external environment - weak growth of the EU, weakening of the economic situation in Russia and uncertainty on the rapidly growing markets of the Asian countries.¹⁷ Growth of the Latvian economy reached on average 3.8% each year between 2011 and 2014. The growth rates have slowed down in recent years. A survey of large and medium-sized Latvian enterprises was carried out in October and November 2016, which indicated that the most significant social, political and economic risks in Latvia currently are: geopolitical risks; excessive regulation; increase of the tax burden; social instability and future of the Eurozone.¹⁸
- 2.1.4. In the latest WB Doing Business research of June 2016 Latvia has ranked in the high 14th position in the competition of 190 countries.¹⁹ The WB has recognised Latvia as one of the TOP 30 leaders, performing significant reforms for improvement of entrepreneurial activity.
- 2.1.5. In the division of financial flows, the largest incoming financial flows are from Lithuania, Russia, Estonia, Great Britain and Germany. But the largest outgoing financial flows are to Lithuania, Germany, Poland, Russia and Estonia. Latvia also has the most active economic cooperation with these countries.²⁰
- 2.1.6. One of the key factors hindering the economic growth of Latvia currently is the rapid decrease in investment. Investment growth in Latvia is low and fails to reach 5%, their level, for example, in 2016 was almost by one quarter below the previous year, which was mostly affected by the slow acquisition of EU structural funds.
- 2.1.7. In Latvia there are banks which have a larger focus on the local market and they occupy a dominant market share in the lending of domestic customers. In contrast, part of banks in Latvia focus on the serving of foreign customers and these Foreign customer serving banks represent 94.4% of the deposits of foreign customers in the banking sector. In general, in the banking sector, 2016 marked significant decrease of foreign deposits and an increase of domestic deposits.²¹
- 2.1.8. During the assessment period the risks in relation to the impact of the geopolitical situation of Russia and Ukraine to the product export of Latvian companies have increased. The instability of the situation has protracted and mutual economic sanctions have been currently determined. Certain companies, having the market in Russia and Ukraine, are already facing losses caused by currency rates due to

¹⁶https://www.em.gov.lv/lv/nozares_politika/tautsaimniecibas_attistiba/zinojums_par_latvijas_tautsaimniecibas_attistibu/

¹⁷https://www.em.gov.lv/lv/nozares_politika/tautsaimniecibas_attistiba/zinojums_par_latvijas_tautsaimniecibas_attistibu/

¹⁸ <https://www.pwc.com/lv/lv/assets/baltijas-uznemumu-vaditaju-aptaujas-rezultati-30-novembris-2016.pdf>

¹⁹ <http://www.doingbusiness.org/rankings>

²⁰ Information provided by LB

²¹ Report on financial and capital market in 2016. Available:

http://www.fktk.lv/attachments/Section/6203/Parskats_Q4_2016.pdf

the unstable rate of the rouble (RUB) and the hryvnia (UAH) as well as a decrease in demand.

- 2.1.9. Assessment of the tax system is currently performed in Latvia, the audit of the WB on the Latvian tax system is conducted within the relevant framework. The issue with the tax system in Latvia is not the low tax rates, but rather the avoidance of tax payments.

2.2. Geopolitical Description

- 2.2.1. Latvia is a country in North East Europe, located in the middle of the Baltic States. It occupies the total area of 64 589 km² with approximately 2 mln. people living there. Latvia has almost 500 km long sea border with the Baltic Sea and 1370 km land border with such neighbouring countries as Estonia, Russia, Belarus and Lithuania. Such a geographical situation places Latvia in the cross-roads of various transportation and trade movement directions as well as in the border point of the EU and CIS countries. Location of Ventspils, Liepaja and Riga trade ports as well as Riga airport ensures Latvia a status of the transit country.
- 2.2.2. After renewal of its independence in 1991, Latvia has strengthened its cooperation with other European and global countries, which is further evidenced by its membership of NATO and the EU. However, Latvia still maintains close cooperation with Russia and other CIS countries, for example Belarus, Ukraine, Kazakhstan.
- 2.2.3. Geopolitical considerations include the language knowledge of inhabitants and European mentality. Investors could be attracted also by the low tax burden in general - effective rates of corporate income tax as well as capital taxes are one of the lowest in Europe.²² In terms of investments the most attractive areas could be the ones where competitive education is available in the country. In the Latvian case, medicine, pharmacology, as well as IT could be highlighted in particular. The IT industry is currently showing the most rapid growth in Latvia.²³
- 2.2.4. Statistics of foreign investments show that the number and amount of investments made in Latvian companies the Russian Federation has increased during the assessment period, but at the same time the number and amount of investments from Sweden, Norway, USA and Germany as well as other countries have reduced,²⁴ causing the fall of volumes of investments in total.²⁵ Besides, the unstable situation in the EU (Brexit) causes additional doubt to foreign investors regarding the issues on investments into both, the European as well as Latvian companies.²⁶ However, large volumes of money continue to flow in from CIS countries, increasing the ML/TF risk.
- 2.2.5. The geographical location, membership of the EU and the possibility of receiving services in Russian promote the business development of foreign entrepreneurs in Latvia and the size of their investments in Latvian banks. Currently, the deposits of foreigners represent about half of the deposits of the banking sector.²⁷

²² Table No 2.1.

²³ <https://www.diena.lv/raksts/latvija/zinas/ekonomiste-nozimigakie-investoru-piesaistes-faktori-geopolitiskais-stavoklis-un-zemais-nodoklu-slogs-14015091>

²⁴ Distribution of direct foreign investments by countries. Available:

https://www.lursoft.lv/estadistic?act=UR_STATS&pcurr=EUR&id=502&state=DE&period=Y

²⁵ <http://www.db.lv/finanses/strauji-saruk-arvalstu-tieso-investiciju-apmers-latvija-454429>

²⁶ An EY survey on foreign investment decisions in Europe and the prospect of Brexit, available at:

<http://www.ey.com/gl/en/issues/business-environment/ey-attractiveness-survey-plan-b-for-brexit>

²⁷ <http://www.fktk.lv/lv/mediju-telpa/pazinojumi-masu-informacijas-l/arhivs/2012/1779-2012-11-22-banku-nerezidentu-biznes.html>

3. Legal and Institutional Framework

3.1. Description of Institutional AML/CTF system

Coordinating institutions of AML/CTF

3.1.1. Coordinating institutions of AML/CTF are the following:

- a) FSDC, and
- b) FIU Advisory Committee.²⁸

Entry controls and supervision of AML/CTF Law obliged entities

3.1.2. The legal framework that determines the procedures of licensing and entry controls for financial institutions supervised FCMC, is complete and fully detailed. Institutions supervised by the FCMC are required to comply with a number of conditions of entry controls. Strict requirements for registration of the commercial activity in the non-financial sector are only set up for lotteries and gambling operators. However, other obliged entities are subject to few or no requirements. The key requirements for initiating the commercial activity of obliged entities is described below.

	Obliged entities	Licensing/ registration authority	Supervising authority	Licensing/ registration requirements			
				Compliance with AML/CTF Law	Origin of the share capital	Officials/ applicants knowledge	Officials/ applicants reputation/ impunity
Financial sector Licence/registration	Banks	FCMC	FCMC	+	+	+	+
	IBS	FCMC	FCMC	+	+	+	+
	IMC	FCMC	FCMC	+	+	+	+
	AIFM	FCMC	FCMC	+	+	+	+
	PPF	FCMC	FCMC	+	+	+	+
	Life insurance companies	FCMC	FCMC	+	+	+	+
	PI/EMI	FCMC	FCMC	+	+	+	+
	CU	FCMC	FCMC	+	-	+	+
	Consumer lenders ²⁹	CRPC	SRS	-	+	-	+
	Altum ³⁰	n/a	SRS	n/a	n/a	+	+
	Lp ³¹	n/a	MF	n/a	n/a	+	+
	Bureau de change	BoL	BoL	+	-	-	+
Entities providing cash collecting services	SP ³²	not specified	-	-	-	-	

²⁸ See Paragraph 5.1. of the Report

²⁹ Except cases stated in the Consumer rights protection law, for instance, banks or CU

³⁰ Given that the institution is the only one and has already been established, there are no procedures for licensing. Before the appointment, officials of the relevant authority are tested

³¹ Given that the institution is the only one and has already been established, there are no procedures for licensing. Before the appointment, officials of the relevant authority are tested

³² SP issues a permission (license) for provision of cash collecting security services.

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		Obligated entities	Licensing/ registration authority	Supervising authority	Licensing/ registration requirements			
					Compliance with AML/CTF Law	Origin of the share capital	Officials/ applicants knowledge	Officials/ applicants reputation/ impunity
Non-financial sector	Licence/registration	Lotteries and gambling operators	LGSI	LGSI	+	+	-	+
		Sworn attorneys	LCSN	LCSN	-	n/a	+	+
		Sworn notaries	LCSA	LCSA	-	n/a	+	+
		Sworn auditors	LACA	LACA	-	n/a	+	+
		Persons trading in precious metals and precious stones	Latvian Assay Office	SRS	+	-	-	-
	Without licencing/registration	Persons acting as real estate agents or intermediaries in real estate transactions	-	SRS	-	-	-	-
		Tax advisers, external accountants, providers of legal services	-	SRS	-	-	-	-
		Car dealers	-	SRS	-	-	-	-
		Entities, who carry out transactions with cultural monuments	-	State Inspection of cultural monuments protection	-	-	-	-

3.1.3. The current legal framework does not designate a supervisory body for some obliged entities i.e. cash collecting service providers, financial leasing service providers, and other providers of payment services that are not under the supervision of FCMC.

Law enforcement authorities involved in AML/CTF

3.1.4. In Latvia, CO related to ML/TF are mostly investigated by SP, SeP, SRS FPD, SRS CPD and CPCB.³³

3.1.5. Specific institutional jurisdiction of CO is determined by the Prosecutor General. In the event that the investigation of a specific CO is in a jurisdiction of more than one investigation institution, it is investigated by the institution that has commenced the CP.

3.1.6. For provision of criminal procedure, the rights of a person may be limited with procedural coercive measures, including detention.³⁴ Security measures within criminal procedure may only be applied to the suspect and the accused.³⁵

3.1.7. The Prosecution Office carries out pre-trial investigations and operational activities, initiates and carries out criminal prosecution, maintains public prosecution and oversees the execution of penalties. Two specialised prosecution offices are operating in relation to the prosecution of ML offences and related predicate offences, as follows:

- a) SPOOCOS;
- b) POIFEC.

3.1.8. Simultaneously, the cases of the above mentioned category may be subject to monitoring or proceedings in any region or district Prosecutor in the regions of Latvia.

³³ CPL, Section 386

³⁴ CPL, Section 242

³⁵ CPL, Section 241 (2)

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- 3.1.9. Prosecutors of the SPOOCOS specialise in the investigation and criminal enforcement of economic and financial crimes related to ML. These prosecutors oversee the activities of SP ECB and SRS FPD.

3.2. Legal framework of AML/CTF system

- 3.2.1. In Latvia, the AML/CTF legal framework is included in AML/CTF Law in accordance with the international standards in the area of AML/CTF. It is developed and improved in accordance with the 40 recommendations of FATF, and the requirements of the 3rd Directive are included in the Law. AML/CTF Law is binding to all obliged entities.
- 3.2.2. In addition, the legal framework of AML/CTF consists of the FCMC and Cabinet regulations, CL, the CPL, the AVC and international regulatory enactments.
- 3.2.3. In 4th round Moneyval report, the non-compliance or partial compliance of the Latvian legal framework with some of the FATF 40 + 9 recommendations was detected.³⁶ Latvia has taken measures to prevent non-compliance with FATF recommendations No 5, 9, 12, 13, 16, 17, 21, 24, 32, 38 and special recommendations III, IV, VI, IX whose execution in Latvia in the 4th round Moneyval report was evaluated as non-compliant or partially compliant.³⁷
- 3.2.4. During the assessment period, Latvia made a range of amendments in the Latvian legal framework to gain full compliance with FATF recommendations (since 2012 AML/CTF Law has been amended eight times), in addition with those where the legal framework has been evaluated as mostly compliant. Examples of significant changes in the Latvian AML/CTF Law are summarised as follows:
- Widening of the PEP definition to include all persons that are or have been in an important public position.³⁸ Unlike the previous wording of the respective norm, the current PEP definition is open and does not include only the list of positions stated in the respective norm.
 - Widening of the definition of financial institution to include all possible financial institutions;³⁹
 - Updated regulation regarding the identification of UBO's;⁴⁰
 - The definition of TF was widened and moved from CL to AML/CTF Law;⁴¹
 - A set of normative regulations of FCMC have been executed regarding, for instance, the responsibility of banks to develop a numerical assessment system of customers' risk, training requirements for staff, etc. See Paragraph 3.2.7 of the Report.
- 3.2.5. Currently, work on the implementation of the 4th Directive in the Latvian legal framework is taking place, which will further improve the legal framework of Latvia.
- 3.2.6. In addition to what is stated in AML/CTF Law, delegated laws and regulations have been issued, which regulate in details certain requirements of the AML/CTF Law. Cabinet has issued regulations that are binding to all obliged entities and determine how terrorist lists are admitted,⁴² the order in which state and public institutions provide information to the FIU,⁴³ signs of unusual transactions and the order in

³⁶[http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/LTV4_MER_MONEYVAL\(2012\)16_en.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/LTV4_MER_MONEYVAL(2012)16_en.pdf)

³⁷ 28.07.2016 Second 4th round report on evaluation progress which Latvia has submitted to Moneyval. [not publicly available]

³⁸ 13.08.2014 Amendments in AML/CTF Law

³⁹ 13.08.2014 Amendments in AML/CTF Law

⁴⁰ 13.08.2014 Amendments in AML/CTF Law

⁴¹ 13.08.2014 Amendments in AML/CTF Law

⁴² Cabinet 08.03.2016 regulations No 138 On countries and international organizations that have prepared lists of those persons that are suspected of participating in terroristic activities or creating, holding, moving, using or distributing weapons of mass destruction

⁴³ Cabinet 22.12.2008 regulations No 1092 Order in which state and municipality institutions provide information to Office for Prevention of Laundering of Proceeds Derived from Criminal Activity

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which reporting on unusual or suspicious transactions shall be carried out,⁴⁴ and a list of third countries whose laws and regulations in the area of AML/CTF are equivalent to EU requirements.⁴⁵

- 3.2.7. The authorisation to issue binding regulatory enactments that are relevant to obliged entities has also been delegated to several AML/CTF Law supervisory bodies (FCMC, BoL).
- 3.2.8. FCMC has issued a range of requirements that are binding to obliged entities under its supervision. In accordance with the risk based approach, special attention is paid to banks. FCMC has issued the following regulatory enactments in the area of AML/CTF:
- a) Regulations relating to ECDD, which regulate the order of CDD. Regulations are binding to PPF, IBS, IMC, and registered PI/EMI, whose activity does not require a licence.⁴⁶
 - b) Regulations for banks and licensed PI/EMI on ECDD. Regulates the order of executing CDD and are binding to banks and licenced PI/EMI.⁴⁷
 - c) Regulations regarding the provision of IT for ML/TF risk management, which regulates ML/TF risk management IT security minimum requirements. Regulations are binding to banks and branches of banks of member states and third countries.⁴⁸
 - d) Regulations regarding the provision of human resources and staff training for ML/TF risk management. This determines the provision of necessary resources and personnel training in the area of AML/CTF. Regulations are binding to banks and branches of banks of member states and third countries.⁴⁹
 - e) Regulations on the collection of information on customers of a bank and their transactions, and submission of the information to the FCMC. This determines the requirements regarding the collection and provision of information about customers to FCMC. Regulations are binding to banks and branches of banks of member states and third countries.⁵⁰
 - f) Regulations for cooperation with third parties and requirements for business relations with the customers whose identification or CDD requires the services of a third party. This determines requirements for cooperation with third parties that perform the customer identification and obtain the information necessary for CDD in the interests of an institution, and business relationships with customers for whose identification or CDD the information was provided by an agent. Regulations are binding to banks, PI/EMI and their branches in member states and third countries.⁵¹
 - g) ML/TF risk management regulations. This determines ML/TF risk management minimum requirements. Regulations are binding to banks registered in the Republic of Latvia.⁵²
- 3.2.9. BoL has issued requirements for the prevention of ML/TF with regard to buying and selling foreign currencies that determine requirements regarding ICS for

⁴⁴ Cabinet 22.12.2008 regulations No 1071 Regulations on list of signs of an unusual transaction and the order in which reports on unusual or suspicious transactions must be provided

⁴⁵ Cabinet 25.11.2008 regulations No 966 on the list of the third countries imposing requirements equivalent to those of the European Union regulatory provisions with respect to the prevention of money laundering and of terrorist financing

⁴⁶ FCMC 23.12.2015 regulations No 234 on enhanced customer due diligence, 27.08.2008 FCMC regulations No 125.

⁴⁷ Regulatory provisions for credit institutions and licensed payment and electronic money institutions on enhanced customer due diligence

⁴⁸ FCMC 28.12.2016 regulations No 219 regarding provision of information technology for money laundering and terrorist financing risk management

⁴⁹ FCMC 20.12.2016 regulations No 214 regarding provision of staff resources and staff training for money laundering and terrorist financing risk management

⁵⁰ FCMC 29.11.2016 regulations No 197 On the collection of information on customers of a credit institution and their transactions, and submission of the information to the financial and capital market commission

⁵¹ FCMC 29.11.2016 regulations No 196 On cooperation with third parties and requirements for business Relations with the customers whose identification or due diligence requires third party's services

⁵² FCMC 23.09.2016 regulations No 154 Money laundering and terrorist financing risk management regulations

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establishing and verifying the identity of the UBO, as well as the supervision of transactions executed by the customer, and managing the economic activity of customers.⁵³ Regulations are binding to Bureaux de change.

- 3.2.10. The activities of sworn attorneys, sworn notaries and certified auditors are regulated in the Advocacy law of the Republic of Latvia, Notariate law and the Law on Audit services, as well as for each DNFBP sector the supervisory body has issued guidelines in the area of AML/CTF. These guidelines are binding for all professionals in the DNFBP sector concerned.
- 3.2.11. Obligated entities have expressed the need for additional regulation in a number of areas. For instance, in the DNFBP sector regulations should be implemented regarding the establishment of ICS and for performing CDD. At least in some areas, the work on the development of a legal framework has already begun. For instance, FCMC is developing regulations that will allow the audio-visual identification of customers and the European Parliament is discussing the 4th Directive amendment project that would include drawing up lists of national PEPs. These provisions and the fact that amendments are being prepared to implement the 4th Directive, indicates that regulations are constantly being improved.

Administrative Penalties

- 3.2.12. The Latvian regulatory framework provides administrative penalties for not following the requirements of AML/CTF Law. Penalties are provided in both the AVC and separately in regulatory enactments, which regulate the activities of obliged entities.
- 3.2.13. Within the financial sector, regulation for obliged entities supervised by FCMC provides severe administrative penalties in relation to non-compliance with the requirements of AML/CTF Law, but improvements are necessary in the regulation of the administrative penalties for other financial institutions.
- 3.2.14. The strictest penalties are for financial institutions whose regulatory enactments already include requirements of the 4th AML/CTF Directive regarding penalties. For example, PI/EMI and banks, which are not following AML/CTF Law requirements, can be subject to a range of different penalties, from which the most significant are withdrawal of their license, a fine of up to 10% of the total annual turnover of the institution,⁵⁴ and a fine of an employee or official of up to EUR 5 mln.⁵⁵
- 3.2.15. Regulations of other institutions⁵⁶ supervised by FCMC apply different types of administrative penalties. FCMC is entitled to withdraw the license of any institution that is under its supervision.⁵⁷ Applicable maximum monetary penalties are comparatively high: for insurance companies – EUR 142 thous.,⁵⁸ AIFM and IMC – EUR 142.3 thous.,⁵⁹ IBS – 10% of net income, but if 10% of net income doesn't exceed EUR 142.3 thous., then the maximum penalty is EUR 142.3 thous.,⁶⁰ PPF – 400 minimum monthly salaries or EUR 152 thous.,⁶¹ CU – EUR 7.1 thous.⁶²
- 3.2.16. BoL does not have the right to impose penalties to bureaux de change for offences in the area of AML/CTF, but it is entitled to suspend or withdraw the license for purchasing and selling of foreign currency cash.⁶³
- 3.2.17. MoT does not have the right to impose penalties on LP for offences in the area of AML/CTF. But as the only shareholder of LP, MoT would have the opportunity to

⁵³ BoL 19.09.2014 regulations No 141 Money laundering and terrorism financing prevention requirements when buying and selling foreign currencies

⁵⁴ Maximum amount is 10% from total annual turnover. If the 10% of the institution's annual turnover is less than EUR 5 mln, then the maximum penalty is EUR 5 mln.

⁵⁵ Credit Institutions Law, Section 196, 7), 198.¹ (1) 2), Payment Services and Electronic Money Law, Section 25, (1), Section 56, (2)

⁵⁶ Insurance companies, CU, PI, EMI, OIF, IMC, IBS, PPF.

⁵⁷ Insurance and Reinsurance Law, Section 93, (2), Law On Savings and Loan Associations, Section 13, (1), Law on Alternative Investment Funds and Their Managers, Section 20, (1), Law on Investment Companies, Section 84, (1²), Law "On Private Pension Funds", Section 28, (5¹) Financial Instruments Market Law, Section 84, (1)

⁵⁸ Insurance and Reinsurance Law, Section 94, (3)

⁵⁹ Law on Alternative Investment Funds and Their Managers, Section 90, Law on Investment Companies, Section 87, (1²)

⁶⁰ Financial Instruments Market Law, Section 148 (15)

⁶¹ Law "On Private Pension Funds", Section 28, (5³)

⁶² Law On Savings and Loan Associations, Section 32, (2)

⁶³ Foreign currency cash purchase and sale rules, BL 13.05.2009 regulations No36, Sections 57.1, 59.7.

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release the LP board member from its position, who was assigned with the mediation of the LP council, an offence in the area of AML/CTF should be found.⁶⁴

- 3.2.18. SRS is entitled to impose administrative sanctions on Altum and non-bank lenders for non-compliance with AML/CTF procedures, but the maximum penalties are only EUR 700.
- 3.2.19. Room for significant improvement to the regulation of administrative sanctions in the non-financial sector is visible with regard to both the rights of the supervisory authorities to impose administrative sanctions and the maximum amounts of the imposed sanctions.
- 3.2.20. LCSA, LCSN, LACA and LGSI are not entitled to impose administrative penalties to obliged entities in their supervision for violations in the area of AML/CTF.
- 3.2.21. It should be indicated that MoT, BoL, LGSI, LACA have rights to recommend to SRS to impose administrative penalty to obliged entities, if violations are detected in the area of AML/CTF.⁶⁵
- 3.2.22. SRS is entitled to impose administrative penalties for not following the AML/CTF order, but the maximum applicable penalty is EUR 700 and SRS has no rights to suspend the activity of the obliged entities due to violations in the area of AML/CTF.⁶⁶ Within the assessment period, amendments to AVC have been adopted, that broaden SRS rights to penalise obliged entities (incl. sworn attorneys, sworn notaries, certified auditors) for not reporting unusual and suspicious operations by imposing a penalty of up to EUR 5 thous.⁶⁷ Thus there should be improvements in applying administrative responsibility in this area.
- 3.2.23. Several deficiencies have been identified in the assessment with regard to the administrative penalties system for non-compliance with AML/CTF Law requirements. The following measures should be carried out:
- the amount of fines should be increased for those obliged entities, which are not under supervision of FCMC and SRS;
 - opportunities to impose fines on all obliged entities from the side of BoL, LGSI, LCSA, LACA, LCSN should be provided (e.g., LP, Bureaux de change);
 - opportunities to impose fines to all employees and board members of obliged entities should be provided.
- 3.2.24. It is expected that these deficiencies will be addressed by implementing the requirements of the 4th Directive in 2017.

Sector Guidelines

- 3.2.25. In addition to the legal framework, several supervisory bodies have issued recommendations and guidelines. The most active in this field was FCMC, which is the supervisor for the largest number and most significant Latvian financial institutions.
- 3.2.26. FCMC has issued the following recommendations:
- Recommendations for PIs/EMIs regarding the prevention of ML/TF;⁶⁸
 - Recommendations for banks and financial institutions regarding the identification, investigation and supervision of PEPs, their family members and close relatives.⁶⁹

⁶⁴ Law On Governance of Capital Shares of a Public Person and Capital Companies, Section 107, (2) 1)

⁶⁵ AML/CTF law, Section 46, (1) 6)

⁶⁶ AVC, Section 165.⁸

⁶⁷ Became effective as of 01.01.2017.

⁶⁸ FCMC 06.12.2013 recommendations No 268 for payment institutions and electronic money institutions in the area of the prevention of money laundering and terrorism financing

⁶⁹ FCMC 02.03.2016 recommendations No 55 for credit institutions and financial institutions to establish and research politically exposed persons, their family members, and closely-related persons and to monitor transactions; 02.03.2016

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- c) Recommendations to banks regarding the determination of the origin of customers' assets and welfare;⁷⁰
 - d) Recommendations regarding non-face-to-face customer identification.⁷¹ Issued for all banks and subsidiaries of foreign banks;
 - e) Recommendations regarding the reduction of the risk of ML/TF in the area of correspondent relations.⁷² Issued for all banks and subsidiaries of foreign banks;
- 3.2.27. In order to promote a unified understanding of ML processes, in March 2015, SRS developed guidelines for obliged entities, in which the rights and obligations of the obliged entities are interpreted.⁷³ Guidelines are developed for each sector/category supervised by SRS separately and are publicly available on the website of SRS.
- 3.2.28. LGSi has developed recommendations regarding the establishment of ICS.⁷⁴
- 3.2.29. The LCSA has developed procedures for ensuring the fulfilment of the requirements of AML/CTF Law, as well as the determination of actions that shall be performed when the service is provided by sworn attorneys according to AML/CTF Law (in 2017 issued in new wording).⁷⁵ LACA has developed procedures to determine how certified auditors develop and implement the ICS, which ensures the fulfilment of the requirements of AML/CTF Law.⁷⁶ LCSN has adopted the procedures and recommendations, which determine the procedures for the application of provisions of AML/CTF Law, provide suspicious and unusual transaction segregation schemes and include typologies.⁷⁷

International regulation

- 3.2.30. Latvia has joined a range of international agreements on the promotion and improvement of cooperation.⁷⁸ Several bilateral⁷⁹ and multilateral⁸⁰ cooperation agreements has been signed.
- 3.2.31. If there is no agreement with a foreign country regarding cooperation in the area of criminal law, the right to submit a request for cooperation in the area of criminal law to a foreign country or to receive a request for cooperation in the area of criminal law is granted to the MoJ and the Prosecutor General within the competencies determined by CPL. These officials may request or issue a certificate to a foreign country, stating that reciprocity will be ensured in cooperation in the area of criminal law, that is, that the cooperating party will provide assistance in accordance with the same principles.
- 3.2.32. In Latvia, there are three competent institutions entitled to receive and send mutual legal assistance requests:

⁷⁰ FCMC recommendations to credit institutions for determining the origin of customers' assets and welfare. Available: <http://www.fktk.lv/lv/tiesibu-akti/kreditiestades/fktk-izdotie-noteikumi/citi/5213-ieteikumi-kreditiestadem-klientu-lidzeklu-un-labklajibas-izcelsmes-noteiksanai.html>

⁷¹ FCMC recommendations on distant customer identification. Available: http://www.fktk.lv/attachments/article/5212/Ieteikumi_neklatienes%20identifikacija_18.09.2014.pdf

⁷² FCMC recommendations on reducing risk of money laundering and terrorism financing in area of correspondent relations. Available:

http://www.fktk.lv/attachments/article/5211/Ieteikumi%20korbankas%20final_18.09.2014.pdf

⁷³ SRS's guidelines for tax consultants and outsourced accountants regarding compliance with requirements of AML/CTF law. Available:

<https://www.vid.gov.lv/default.aspx?tabid=10&id=3814&hl=1&oid=25708&otype=17>

⁷⁴ FCMC recommendations to capital companies licensed to arrange and maintain lotteries and gaming for the establishment of internal control systems for anti-money laundering and counter-terrorist financing. Available: https://www.iaui.gov.lv/images/NormatAkti/2014_Ieteikumi_firmam_NILLTFNL.pdf

⁷⁵ Instruction of Latvian Sworn Advocates Board of 15.12.2009. "Procedure for actions to be taken in regards to compliance with AML/CTF law", "Customer identification form", "Customer research and risk assessment form"

⁷⁶ Compliance procedure for conditions of AML/CTF law. Available: <http://www.lzra.lv/index.php>

⁷⁷ Procedure on Execution of AML/CTF Law Requirements by Sworn Notary; Recommendation to Sworn Notaries in Area of Preventing ML and TF. Available:

https://www.latvijasnotars.lv/lv/notary/laws_and_regulations/

⁷⁸ For example, European Convention on Mutual Assistance in Criminal Matters and additional protocols; Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime of 8.11.1990.

⁷⁹ Available: <http://www.mfa.gov.lv/arpolitika/divpusejie-ligumi>

⁸⁰ Available: <https://likumi.lv/ta/saraksts/starptautiskie-ligumi/fg1/0/offset/0/cs/50/#stl-meklet>

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- a) Until initiation of criminal prosecution— State police;⁸¹
- b) in criminal prosecution — GPO; and
- c) in adjudication — MoJ.

SRS CPD receives and sends mutual legal assistance requests in custom matters.

3.2.33. Latvia has joined a range of international documents in the area of preventing and combating ML:

- a) United Nations Convention against Transnational Organised Crime⁸² (Palermo Convention);
- b) Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism⁸³ (Warsaw Convention);
- c) United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances(Vienna Convention);⁸⁴
- d) Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime;⁸⁵
- e) International Convention for the Suppression of the Financing of Terrorism.⁸⁶

3.2.34. FATF Recommendations are binding to Latvia as a Member State of the Council of Europe. In turn, directives and framework decisions adopted in this field are binding to Latvia as an EU Member State. The current EU legal framework in relation to the freezing and confiscation of CP consists of four Council Framework Decisions and one Council Decision:

- a) Directive 2014/42/EU of the European Parliament and the Council on the freezing and confiscation of instrumentalities and proceeds of crime in the EU.⁸⁷
- b) Council Framework Decision 2001/500/JHA on money laundering, the identification, tracing, freezing, seizing and confiscation of instrumentalities and the proceeds of crime (in accordance with this Framework Decision, Member States have a duty to facilitate confiscation in order to be able to confiscate equivalent values of assets, if it is impossible to confiscate funds directly obtained as the result of criminal offences, and to ensure that the requests of other Member States are considered on the same priority basis as local legal proceedings cases);
- c) Council Framework Decision 2005/212/JHA on the confiscation of crime-related proceeds, instruments and property (stipulates harmonising legal acts on confiscation. Simple confiscation, including the confiscation of values, must be applied to all criminal offences, the perpetrators of which are punished by the deprivation of liberty for a term of up to 1 year. Extended confiscation must be applied to certain serious criminal offences, if they are "committed in a criminal organisation");
- d) Framework Decision 2003/577/JHA on the execution in the European Union of orders freezing property or evidence (stipulates the mutual recognition of orders on freezing);

⁸¹ During performance of the investigative actions within criminal proceedings, SRS FPD prepares and sends mutual legal assistance request with the help of the competent authority – GPO.

⁸² United Nations Convention against Transnational Organised Crime ratified by Latvia by the Law on United Nations Convention against Transnational Organised Crime of 6 June 2001

⁸³ Council of Europe Convention of 16 May 2005 on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism ratified by Latvia by the Law on Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism of 17 December 2009

⁸⁴ United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, which Latvia joined by the Decision of the Supreme Council of 11 May 1993 "On Joining the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 19 December 1988"

⁸⁵ Council of Europe Convention of 8 November 1990 on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime ratified by Latvia by the Law on Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime of 23 October 1998

⁸⁶ International Convention for the Suppression of the Financing of Terrorism, of 9.12.1999.

⁸⁷ Directive 2014/42/EU of the European Parliament and of the Council of 3 April 2014 on the freezing and confiscation of instrumentalities and proceeds of crime in the EU

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- e) Framework Decision 2006/783/JHA on the application of the principle of mutual recognition to confiscation orders (stipulates the mutual recognition of orders on freezing); and
- f) Council Decision 2007/845/JHA concerning the cooperation between the Asset Recovery Offices of the Member States in the field of tracing and identification of proceeds from, or other property related to, crime (on information exchange and cooperation between asset recovery offices of the Member States, stipulating that the Member States must establish or arrange State asset recovery offices as the main contact points, which, with close cooperation, promote the fastest possible tracing of proceeds from crime across EU).

3.2.35. For international information exchange Egmont Secure Web, FIU NET, Europol, Interpol national bureaus, as well as SIS, ARO, Camden Assets Recovery Interagency Network (CARIN), European Judicial Network in criminal matters, and RAILPOL has been used.

4. ML Threats

4.1. Significance and amount of potential threats

- 4.1.1. This section of the Report determines the scale and nature of criminal activity, inherent to Latvia, which generates CP. The AML threats from local and predicate offences committed abroad are prioritised and assessed based on the evaluation of collected data on the type, origin and involved sectors.
- 4.1.2. Although Latvian LEA have only recently stated that the combating of ML is their priority, the activities of recent years: the initiation of criminal proceedings against representatives of the financial sector, dismantling of large criminal groups that provide ML services, as well as the confiscation of a large amount of CP, have created good momentum and efficiency in the identification and prevention of the threats inherent to Latvia. Latvian LEA, FIU and supervisory bodies maintain regular contact and improve the quality of cooperation to focus on their efforts in reducing possibilities to launder money in Latvia.
- 4.1.3. ML is financial crime, which develops with an increase in economic and financial operations globally. Technological progress in relation to communication and the internet promotes capital turnover and creates new ML possibilities, more often including several jurisdictions at the same time. It means that the efficiency of AML now, more than ever, depends on the cooperation between countries and the ability to adapt prevention of new threats in a timely manner.
- 4.1.4. It is difficult to determine precisely how much proceeds of criminal origin are injected into the economic cycle worldwide. The most cautious estimate by experts is 2-5% of global GDP per year, with most of the assets destined to be laundered through the financial sector in particular⁸⁸. Researchers suggest an upward trend in the volume of capital of criminal origin channelled into the financial sectors of OECD member countries, with the proportion nearing an average of 2% of GDP per year and reaching 3.5% to 4% for certain countries.⁸⁹
- 4.1.5. Considering an estimate of the injection of CP into the financial system of OECD countries in conjunction with Latvia's GDP in the amount of circa EUR 25 bln., it may be presumed that the amount of CP injected in the economy of Latvia is EUR 0.5-1 bln.
- 4.1.6. In Latvia, currently there is a lack of official information on the nature and extent of ML. However, official data on confiscation orders show that most of CO associated to ML are classified as fraud and tax evasion. In case of foreign predicate CO, it may be presumed that these CO also relates to bribery and corruption.
- 4.1.7. The assessment of Latvian ML threats is based on a detailed analysis of factors and quantitative indicators that are the most characteristic to Latvia and have been identified by LEA.⁹⁰ Additional studies have also been used regarding threats of ML in Latvia.
- 4.1.8. The amount of assets generated through crimes committed domestically and abroad gives a more precise idea of the extent of the potential threat. At the same time, the qualification and evolution of the types of offences make it possible to get a

⁸⁸ Peter J. Quirk, "Macroeconomic Implications of Money Laundering", IMF, Monetary and Exchange Affairs Department, 1996; IMF "Financial System Abuse, Financial Crime and Money Laundering – Background paper", 2001, pieejams: <https://www.imf.org/external/np/ml/2001/eng/021201.pdf>; UNODC "Estimating Illicit Financial Flows Resulting From Drug Trafficking and Other Transnational Organized Crime" pieejams: UNODC 2011, https://www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf.

⁸⁹ F.Schneider, "Turnover of organized crime and money laundering: some preliminary empirical findings", [www.urosario.edu.co/observatorio-de-lavado-de-activos/.../Schneider-\(2008\).pdf](http://www.urosario.edu.co/observatorio-de-lavado-de-activos/.../Schneider-(2008).pdf)

⁹⁰ ML threat assessment was oriented on crimes committed in Latvia most. Analysed indicators/factors were divided in two groups ("dominating" and "indirect" factors), to differentiate their level of influence on ML threats. Based on dominating factors (seriousness of criminal offence, spread, increase tendencies etc.) law enforcement institutions were asked to provide an assessment of provisional predicate offence threats (from low to high level). After that the influence of these offences on common ML threats was evaluated by analysing this assessment in conjunction with indirect factors (for example, amount of ML cases and STR reports). A similar approach was used to evaluate level of foreign ML. Also see: <https://www.osac.gov/pages/ContentReportDetails.aspx?cid=19016>

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more exact picture of the real threat, identifying the offences for which ML is probably carried out.

Crime trend in Latvia

- 4.1.9. The level of crime in Latvia is rated as average,⁹¹ with a firmly decreasing tendency. Within the assessment period the average crime level was - 2,350 CO registered by police on 100,000 citizens.⁹² Additionally, with respect to local ML threats, Latvia as a point of trading and transport flow transit, and the regional financial centre, is subject to ML threats that arise from CO committed in foreign countries.
- 4.1.10. In accordance with Europol data, banks of the Baltic States are attractive to ML for "white collar" criminals and OCG.⁹³ Other sources have also pointed to the large threats created by ML opportunities to inject proceeds that arise from predicate offences committed in foreign countries in Latvia or through the Latvian financial sector.
- 4.1.11. Within the assessment period foreign predicate offences constituted 28% from all CO related to ML. In addition 7% of CO with predicate offence committed domestically and abroad as well as part of those ML CO where the predicate offence is with unknown origin shall be added.⁹⁴ Overall it illustrates an indication made by LEA that the proportion of foreign ML CO is higher compared to domestically committed.
- 4.1.12. Also the largest part of confiscated CP in the amount of EUR 103 mln. is generated from predicate offences committed in foreign countries.
- 4.1.13. Additionally to this indicator, information about criminal cases where the Latvian financial sector and DNFBFS were involved, as well as intensive international cooperation activities, were analysed. It must be indicated that difficulties in analytics of this element are created by the fact that the largest amount of CP placed in Latvia is generated in CIS countries, with whom the judicial cooperation is not sufficiently effective, especially with Russia, which in the recent years has become worse and very weak.
- 4.1.14. The banking sector is one of the most important ML instruments, however, assets are mostly invested in real estate and commercial activity. ML is therefore mostly carried out with the involvement of banks, real estate agents, and the so called gatekeeper DNFBFS (tax consultants, legal and accounting service providers).
- 4.1.15. A large part of the Latvian banking sector is focused on serving foreign customers. This segment tends to have a range of high risk factors (geographical risks related to the client (off-shore companies) and their UBOs - CIS countries), risks of products and services (fiduciary trusts, credits against financial collateral etc.) as well as delivery channels of the products (e-commerce, corporate cards with groundlessly large number of card users etc.). Although the volume of foreign customer deposits and the volume of transactions has significantly decreased in 2016, foreign customer deposits are still totalling to EUR 9 bln. (compared to EUR 12.4 bln. in 2015).
- 4.1.16. Additional threats are caused by the activity of Foreign customer serving bank customers – in particular, customers - large, financially well secured company groups from CIS countries, by transferring assets through several Foreign customer serving banks - a large amount of non-transparent mutual transactions within the banking or financial sector without appropriate economic justification.
- 4.1.17. The previously mentioned threats are heightened by Foreign customer serving bank correspondent relationships with banks from CIS countries that have been involved in all large volume fraud schemes in relation to which Latvian Foreign customer serving banks were mentioned in recent years.

⁹¹ Table No 4.1

⁹² In accordance with IC MoI data CO amount on 10,000 citizens in 2013 was 2,350; 2014 – 2,422; 2015 – 2,387; 2016 – 2,327. Additionally see review on work results of prosecutor's office in 2016, available at: <http://lrp.gov.lv/public/30230.html>, Image No.4.2

⁹³ Russian Speaking Organized Crime Groups in the EU, Walter Kegö, Alexandru Molcean, March 2011 (http://www.isdp.eu/images/stories/isdp-main-pdf/2011_kego-molcean_russian-speaking-organized-crime.pdf), page 50

⁹⁴ Image No 4.3

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- 4.1.18. As of 2015 the amount of cases initiated in the area of ML has rapidly grown⁹⁵. Taking into account that the average period for proceedings until the final judgment is made is 3-4 years, the outcome of these criminal proceedings will only be evident in the following years. There tends to be a small amount of suspects in ML cases that are being investigated. The basis for starting the investigation is usually the material prepared by the FIU. The second most popular reason for starting an investigation is operative work and analysis. Then follows the application of the aggrieved person, audit, FCMC application and proceedings extracted from another criminal proceedings.
- 4.1.19. The assessment shows the influence of legislation amendment, supervision enhancement measures and LEA activities on the increase in the amount of suspicious reports, initiated criminal proceedings and started prosecution, which thus positively impacts the growth of the Latvian ML prevention system efficiency, but does not show this tendency yet in the court, which could be expected after approximately 3-4 years.

4.2. Identification of actual threats

- 4.2.1. In Latvia, predicate offences in the ML/TF area can be any CO. When assessing ML threats, only those CO were evaluated which resulted in CP and then sequentially, selecting those that can generate the most CP (in the context of OCG, wider scope of CO was analysed (see Paragraph 4.2.13. and Table 4.4)).
- 4.2.2. Evaluation of suspicious activity reports in conjunction with the analysis of cases in investigation and adjudication proves that for the area of the most significant ML threats are caused by the following CO:
- a) corruption and bribery,
 - b) tax evasion,
 - c) fraud and
 - d) smuggling.⁹⁶
- 4.2.3. The results of Report concluded that the main threats are caused by CO that have been committed in large volumes and/or in an organised group. It was also concluded that proportionally larger threats are caused by crimes committed in foreign countries.

Self-laundering and third party ML

- 4.2.4. The assessment concluded that the domestic threat of ML is mainly confined to self-laundering⁹⁷ mostly in relation to drug related crime, some selected property crimes and more complex fraud (e.g. insolvency abuse), taxation and excise evasion related matters.⁹⁸
- 4.2.5. Where predicate offences occur abroad but the proceeds of criminal activity flows through the Latvian banking system, the core threats arise from the white collar crimes such as fraud; taxation and corruption and bribery (including embezzlement of public funds).
- 4.2.6. The number of suspicious transaction reports in conjunction with convictions does not seem commensurate with the identified risks. Investigations and prosecutions are characterized by orientation primarily towards predicate offences where ML is appended as an additional charge in only some cases where self-laundering is obvious.
- 4.2.7. SP ECB data assessment indicates approximately 51 % of cases where it is not possible to identify a specific predicate CO, which could indicate that Latvia has been used in later stages of ML - integration of CP⁹⁹. At this stage it becomes complicated to determine the connection between the committed CO and suspicious, possibly - criminal, assets. A large proportion of such identified ML cases could indicate the activity of groups that specialise in ML, including international

⁹⁵ Table No 4.4

⁹⁶ Table No 4.5

⁹⁷ "Self-laundering", in which the person that legalizes the assets is the same person that previously obtained them by committing the crime in question.

⁹⁸ Image No 4.6

⁹⁹ Image No 4.3

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OCG, but could partially be explained by the previously given indication of weak responsiveness from Russia and some CIS countries to mutual legal assistance requests.¹⁰⁰

- 4.2.8. Traditionally, ML on behalf of third parties is performed and professional ML services are provided by legal, tax, financial and accounting service providers and real estate agents. According to SP ECB the assessment period there were few criminal cases involving the representatives of the above mentioned professions, including one conviction against sworn attorney regarding a large amount of ML.¹⁰¹
- 4.2.9. Representatives of these professions also mostly provide services related to incorporation and structuring of fictitious companies or a shell company¹⁰² for ML needs. Shell companies are considered to be one of the highest ML threats, as they are used to commit all CO mentioned above. Also, in the biggest ML cases, in which Foreign customer serving banks have been involved within the assessment period, a large number of shell companies established also in the EU, for instance, in Scotland, have been used.
- 4.2.10. It is important to note that within the assessment period, the operation of a "shell bank"¹⁰³, the activity of which is prohibited by AML/CTF Law, was suspended for the first time.¹⁰⁴

During pre-trial investigation it was established that a bank registered in Estonia - A/S "VERSOBANK" since 2013 has continuously and permanently provided financial services to Latvian customers through a permanent and uninterrupted physical presence of bank's employees in Latvia, breaching Section 12¹ of the Credit institutions law which determines how a bank registered in another member state may launch cross-border provision of financial services in Latvia with opening a branch.

As a result of SP ECB investigation operation of A/S "VERSOBANK" was suspended. FCMC has decided to prohibit A/S "VERSOBANK" from providing financial services in Latvia. Criminal proceedings against two individuals and A/S "Versobank" has been initiated.

- 4.2.11. Participation of Latvian inhabitants in international cybercrime schemes by undertaking the function of "money mules"¹⁰⁵ materialised within the assessment period.¹⁰⁶
- 4.2.12. In addition to the traditionally observed trend to involve needy or inexperienced persons or persons without a declared place of residence in ML, legal entities registered in Latvia or abroad, mostly LLC, as well as associations, foundations and funds with good reputation and operational background are used in ML more and more often.

¹⁰⁰ Image No.4.7

¹⁰¹ The judgement has not come into force due to the submitted appeal

¹⁰² A shell or fictitious company is a company without active business operations or significant assets; which does not constitute economical value; or which does not prepare or submit financial statements; or it does not have a place of operations only mailbox.

¹⁰³ In accordance with AML/CTF Law Art. 1, part 15, a credit institutions whose management, personnel or financial service provision place is not in the country where it is registered and which does not have institution supervising its activity. A shell bank is also considered a person who provides services that are similar to credit institution services by doing money transfers in the task of a third party, and who does not have institution supervising and controlling its activity, except in cases when these transfers are carried out by electronic money institutions or they are executed between commercial companies of one group that are as such in interpretation of Financial Conglomerate Law, or between commercial companies that have one and the same beneficiary.

¹⁰⁴ SP CCPD ECB criminal proceeding No. 11816006816. Based on characteristics of the established CO, it complies with characteristics of CO set out in Section 207 of Criminal law (entrepreneurship without registration and permit (license)).

¹⁰⁵ Money Muling - More than 90% of money mule transactions are linked to cybercrime. The illegally obtained money often comes from phishing, malware attacks, on-line shopping/e-commerce fraud, payment card fraud (pcf), business e-mail compromise (bec) and on-line fraud, and others. See:

<https://www.europol.europa.eu/activities-services/public-awareness-and-prevention-guides/money-muling>
¹⁰⁶ See, for example <http://www.lsm.lv/en/article/economics/economy/latvian-money-mules-key-to-regional-ring-fbi.a123860/>; <https://www.forbes.com/sites/thomasbrewster/2015/11/23/visa-mastercard-atm-fraud-hackers-steal-millions-dollars/#3f1a54742981>; <http://www.bankinfosecurity.com/taiwan-sentences-money-mules-in-atm-attacks-a-9657>; <http://www.eurojust.europa.eu/press/PressReleases/Pages/2016/2016-11-22.aspx>

Activity of organised criminal groups

- 4.2.13. OCG activities in Latvia are connected with publicly known CO types, i.e. smuggling of narcotic/psychotropic substances, weapons/ammunition and products subject to excise duty, human trafficking and blackmail that is often covered behind legal commercial activity - collection of debts, as well as fraud and cybercrimes characteristic to Latvia.¹⁰⁷¹⁰⁸
- 4.2.14. Forgery of documents, ML and the online trade of illicit goods and services are the engines of OCG in the EU. Although neither document forgery nor ML have a direct impact on most inhabitants in the EU, they facilitate most, if not all, other serious crimes.¹⁰⁹
- 4.2.15. During the assessment period Latvia was stabilising economic and social processes after the financial crisis in 2008. During the crisis the level of shadow economy grew significantly, however the level of income decreased. Segregation of society occurred and many people immigrated to foreign countries.¹¹⁰
- 4.2.16. As a result the influence of OCG grew in specific economic sectors, for instance, in the smuggling of products of excise goods from Russia and Belarus. Also new type of OCG evolved related to the insolvency abuse, in which the central role was taken by administrators of insolvency proceedings, but private and public sector representatives were involved in committing CO.
- 4.2.17. Formation and operation of OCG is affected by the following factors the geopolitical situation of Latvia, visa-free travel regime of the Schengen zone, the EU external border and the status of a transit country which is provided by Ventspils, Liepāja and Riga ports and Riga airport.
- 4.2.18. Historically Latvian OCG had a very close bond with Russian OCG, which have not been interrupted even after the renewal of the independence of Latvia in 1991. For instance, the most significant representatives of the so called "second generation criminal group" - Lavent and Leskov families - were closely related with V.Ivankov (aka "Yaponchik"), who was named the "godfather of Russian mafia". In the early 90's both families created one of the first Latvian banks, taking a significant role in the formation of Latvian financial sector.¹¹¹ During that time, organised crimes systematically integrated in legal commercial activity, thus increasing the vulnerability of state.
- 4.2.19. According to the 2015 USA National Risk Assessment, OCG of Russia and Eurasia are characterised by close political bonds at the local and national level. These bonds are used to protect the interests of OCG and facilitate the access to the international financial system. These groups impose special threats because they use sophisticated schemes to move and hide CP, by using large amounts of shell companies and financial systems of different countries. This report provides an explicit reference to the transit of OCG CP through Latvian banks.¹¹²
- 4.2.20. In the section on Money Laundering and Economic Crimes of the 2015 USA International Narcotics Control Strategy Report of USA,¹¹³ it is pointed out that CP laundered in Latvia have mostly been obtained through fraud, and most of that is obtained through tax evasion outside Latvia. The Government of US has stressed

¹⁰⁷ In accordance with CoM order No. 276 "On Organised Crime Prevention and Combat plan for 2014-2016", Latvia has defined criminal activity against a property (mobile criminal groups) as especially important; prevention of production of synthetic narcotics and combating its contraband in EU; combating cybercrimes; combating fraud in excise tax and VAT area (including contraband and illegal turn-round of products subject to excise tax, as well as preventing criminal offences in state institutions).

¹⁰⁸ Table 4.4

¹⁰⁹ EU Serious and Organised crime Threat assessment (SOCTA). Crime in the age of technology. Pieejams: <https://www.europol.europa.eu/activities-services/main-reports/european-union-serious-and-organised-crime-threat-assessment-2017>

¹¹⁰ During the economic crisis (2008-2010) in Latvia the GDP rapidly decreased (by 25%), level of unemployment increased (by 15%), there was a significant emigration (10%) of citizens to other countries etc.

¹¹¹ http://berlinrisk.com/Media/Downloads/BR_5_14_ACAMS_BalticStates.pdf

¹¹² <https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/National%20Money%20Laundering%20Risk%20Assessment%20%E2%80%93%2006-12-2015.pdf>

¹¹³ International Narcotics Control Report 2015, United States Department of State Bureau for International Narcotics and Law Enforcement Affairs, <https://www.state.gov/documents/organization/239561.pdf>

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several times that OCG of Russia are active in Latvia, and it is likely that a significant part of CP obtained in Latvia are composed of assets generated by these criminal groups.¹¹⁴

- 4.2.21. There are approximately 80 OCG in Latvia (in accordance with Article 21 of CL), out of which only 10-12 groups are active in the area of severe and organised crime with an international dimension¹¹⁵. It should be stressed that the influence of regional OCG is comparatively smaller than in Lithuania.
- 4.2.22. The common tendencies indicate that several transnational criminal groups from several countries that specialise in ML, including but not limited to, Russia, Ukraine, Estonia, Lithuania, Poland and other countries. Taking into account the convenient infrastructure (number of banks, their specialisation and the geographical position of Latvia) as well as the relatively weak response from LEA and controlling institutions until recently, criminals were more likely to create their places of residency in Latvia (register shell companies, open offices, recruit employees, etc.) from which the criminal activity may be conducted.
- 4.2.23. Since 2012 Europol has been supporting the German-led ISEC project to strengthen the cross-border operational cooperation in combating the mobile OCG from the Baltic Sea region, including Russian-speaking mobile OCG. As a result of the project the operation of more than 100 OCG, which executed CO against property, smuggling of narcotics, counterfeiting of documents and ML, was interrupted. Total losses caused by OCG exceeded EUR 65 mln.
- 4.2.24. Active involvement of the criminal groups may be noted in all CO, creating the largest risks in Latvia, which are described within the further sections of the Report.

Corruption and Bribery

- 4.2.25. The corruption has been recognized to be the ML threat with the highest importance to Latvia, mostly due to CO committed abroad and its comprehensive nature, i.e. the rest of CO assessed in this Report also could not be committed if corruption was not present.
- 4.2.26. The level of corruption in Latvia is one of the highest in the EU. It is estimated that because of this, economy of Latvia loses approximately 15% of GDP. Although not all of these losses are directly related to CP, the threat of corruptive CO can be evaluated as high.¹¹⁶
- 4.2.27. Corruption is a necessary component for sustainable and profitable organised crime. Practically all types of CO analysed here that create a ML threat have been committed through a corrupt official, especially with the support of an employee of LEA or due to their wilful blindness.
- 4.2.28. Although the results of public survey on corruption¹¹⁷ shows that public's trust in state institutions grows, citizens more rarely involve in corruptive activities, including that they more rarely see cases of bribery, in the assessment period the amount of CO related to corruption in state institutions has gradually increased.¹¹⁸ Also by comparison to the other two Baltic States – Estonia and Lithuania - the situation in Latvia may be assessed to be worse than in both neighbouring countries.
- 4.2.29. According to the survey executed during assessment period, Latvian companies spend 7.6% of their revenue on "getting things done" and 4.5% on government bribery to win the procurement procedures.¹¹⁹
- 4.2.30. In cases of the bribery of Latvian officials, CO are usually committed over a longer time period (on average 3-6 years¹²⁰), bribes are hidden as traditionally legal transactions, for example, consultation agreements in which the non-conformity of the level of compensation to the substance and volume of provided service is difficult to prove. Revealing CO requires specific technical or financial knowledge,

¹¹⁴ Europol. Socta 2013 EU Serious and Organised Crime Threat Assessment.

¹¹⁵ European Council Framework Decision 2008/841/JHA of 24 October 2008 on the fight against organised crime.

¹¹⁶ http://www.europarl.europa.eu/RegData/etudes/STUD/2016/579319/EPRS_STU%282016%29579319_EN.pdf

¹¹⁷ http://www.knab.gov.lv/uploads/free/aptaujas/soc_aptauja_par_2015.pdf

¹¹⁸ Prosecutor's Office annual report 2016, <http://www.prokuratūra.gov.lv/lv/noderigi/gada-parskati>

¹¹⁹ <http://www.sseriga.edu/en/news-and-events/upcoming-events/enuekonomikaskonference2016.html>

¹²⁰ For example, "Latvenergo case" CO has been committed in 2007-2010; "Daimler case" - 1998-2006.

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also in most cases international legal assistance requests must be used which requires additional time and financial resources.

- 4.2.31. In accordance with data published by international non-governmental organisation Transparency International, in 2016 the corruption perception index for Latvia is 57 (out of 100), which ranks it in 44th place out of 176 countries of the world. By comparison to 2015 Latvia has gained two more points in its index, which is the best result up until now, but it is in a lower place in the overall assessment than it was last year when Latvia was ranked was in 40th place, which creates a warning about stagnation in the prevention of corruption.¹²¹
- 4.2.32. Taking into account the segment of customers in Latvian Foreign customers serving banks and focus on CIS, especially servicing Russian customers (UBO), as a result of which a large amount of funds are injected from those countries, it is found that in Latvia a larger amount of assets that are subject to laundering, are generated from the corruption of officials in foreign countries.
- 4.2.33. In accordance with the Kroll report¹²², a large amount of CP obtained through economic crimes has been generated in Russia- in 2015/2016 73% of companies in Russia have faced fraud, 20% have faced active theft, 20% - corruption, 17% - misappropriation of company assets, and 13% - fraud in public procurement process. These numbers in general create a picture of a very high level of CO in Russia.¹²³¹²⁴
- 4.2.34. As per Transparency International state corruption perception rating for 2016, Russia is in a very low place - 131 (out of 176 countries). Ukraine and Kazakhstan are rated just as low. Moldova is 123, but Tajikistan, Turkmenistan and Uzbekistan, with whom Latvian Foreign customer serving banks are closely related, are accordingly rated as 151, 154 and 156.
- 4.2.35. From the previously mentioned, it can be concluded that not only corruption, but also the possibility of committing other CO in these countries is significant. The same applies to the possibility that financial assets that are transferred from these countries to/through Latvian banks have criminal origin and are sent abroad, as well as invested in real estate.
- 4.2.36. The purchase of real estate using the proceeds of corruption is the subject of the "UK Transparency International" report. This report identifies that the largest investments in high value assets in the UK are made by persons from regions with substantial domestic public sector corruption problems.¹²⁵
- 4.2.37. Taking into account the large amount of CP that are generated in these countries, information about Russia's OCG operation in Latvia and the fact that in 2016 Latvian bank customers have received payments from Russian correspondent banks to the value of EUR 27.87 bln and approximately 2 bln (from CIS) which represents 22.6% (and - 24.34% accordingly) of the total amount of customers' incoming payments of clients in this period, there is a risk that part of these cross-border payments could be related to the legalisation of CP obtained in Russia (CIS).¹²⁶
- 4.2.38. It is also confirmed by all of the important investigations which were carried out by the Latvian LEA on ML generated by a CO committed in foreign countries. For instance, "Ukrainian" case, "Trasta komercbanka" case, Laundromat case, "Baltic International Bank" case (see the following).

1. "UKRAINIAN" case initiated in 2014.

During the period from 20.06.2013 until 19.03.2014, ML was committed in large volume by using Latvian bank accounts of companies that are registered in foreign countries. Within the criminal proceedings there were arrests and almost EUR 45 mln were confiscated to the state budget.

¹²¹ https://www.transparency.org/news/feature/corruption_perceptions_index_2016

¹²² http://candu.md/files/doc/Kroll_Project%20Tenor_Candu_02.04.15.pdf

¹²³ http://anticorruzione.eu/wp-content/uploads/2015/09/Kroll_Global_Fraud_Report_2015low-copia.pdf;

¹²⁴ Corruption in Russia costs 318 bln dollars annually, LETA, http://news.lv/Latvijas_Avize/2009-11-25_data_of_fond_„In_DEm”

¹²⁵ <http://www.transparency.org.uk/publications/corruption-on-your-doorstep/>

¹²⁶ Information submitted by banks on in/out flows using correspondent banks.

2. "Trasta komercbanka" case initiated in 2015.

In 2015 information on A/S "Trasta komercbanka" responsible employees's relation with ML was received. On the basis of this information a criminal proceeding was initiated, two bank's employees were arrested, 7 real estate objects were confiscated in amount of almost EUR 1.8 mln and USD 4.3 .mln.

3. "Baltic International Bank" case initiated in 2016.

In 2016 information was received about the relation of several current and former employees of A/S "Baltic International Bank" to the ML in an organised group, which had taken place since at least 2012, by performing money transfers in mutually related and complex transactions without economic or obvious legal purpose. Based on this, criminal proceedings were initiated, persons involved in the case were arrested, and the investigation that was carried out in cooperation with counterterrorism unit "Omega" evidences significant for this case were obtained.

4.2.39. The impact of the bribery of foreign officials on the most significant ML threats to Latvia can be explained by the growth in illegal global financial flow and changes in the political situations of the closest neighbouring countries to Latvia and Eurasia in general.

Tax Evasion

4.2.40. Latvia has a high risk of tax evasion.¹²⁷ Income inequality is one of the highest among OECD countries.¹²⁸ It is assumed that the amount of shadow economy in Latvia is about 20-25% of GDP¹²⁹ which corresponds to EUR 5-6 bln. per year.

4.2.41. Assuming that all of these assets would be acquired through legal economic activity, it could be calculated that 35% (average tax burden)¹³⁰ or approximately EUR 1 bln. is the amount that is not paid in taxes. Additionally the financial assets that are acquired as a result of illegal activity should be added, for example, assets from VAT fraud which amounted to EUR 474 mln in 2013.¹³¹

4.2.42. The main components of the shadow economy is:

- a) underreporting of business income,
- b) underreporting of employees,
- c) envelope wages,
- d) general business bribery (in order to "get things done"), and
- e) specifically government bribery (to receive a government contract).¹³²

4.2.43. The threat from this type of CO is considered to be high with no changes in trend.

4.2.44. The investigation of financial offences in Latvia becomes more and more complex and time consuming, because OCG use new methods to commit CO: execute money transfers through accounts in many countries, including those that are outside the EU and re-registers fictitious companies to non-residents¹³³ which significantly impacts the investigation and ability to obtain of evidence.

4.2.45. Although for CO that are related to tax fraud and ML the sanctions are severe, by analysing the investigation, prosecution and adjudication cycle, it can be concluded

¹²⁷ OECD Economic Surveys LATVIA, February 2015, OVERVIEW https://www.oecd.org/eco/surveys/Overview_Latvia_2015_Eng.pdf, pp.22

¹²⁸ OECD Economic Surveys LATVIA, February 2015, OVERVIEW https://www.oecd.org/eco/surveys/Overview_Latvia_2015_Eng.pdf, pp.18

¹²⁹ <http://www.imf.org/external/pubs/ft/scr/2016/cr16171.pdf>, <http://www.sseriga.edu/en/news-and-events/upcoming-events/enuekonomikaskonference2016.html> and Schneider, F: "Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2015: Different Developments"

¹³⁰ <http://www.pwc.com/lv/lv/news/kopeja-nodoklu-likme-latvija-ir-zemaka-baltijas-valstis.html>

¹³¹ According to data for 2013 provided by SCB. Additionally <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2016-0453+0+DOC+XML+V0//EN&language=GA>

¹³² <http://www.sseriga.edu/en/news-and-events/upcoming-events/enuekonomikaskonference2016.html>

¹³³ Mostly Lithuanian, Belorussian or Central Asia citizens.

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that the duration of the proceedings¹³⁴ and the mild imposed penalties are not an effective barrier to the willingness to create financial CO schemes and registering new companies in Latvia and off-shore for this purpose¹³⁵.

- 4.2.46. Traders with real economic activity and shell companies that are established for the purpose of committing ML, get involved in CO schemes related to tax evasion. Often bookkeeping companies also are involved into the chain of fictitious transactions as the first level buffers and concurrently offer VAT scheme services.
- 4.2.47. The money transfers executed within schemes do not have economic purpose, they usually are covered as expenses or payment for actually non-existent goods, services.
- 4.2.48. The function of shell companies is to extend the VAT evasion chain and burden SRS opportunities to trace a delivery operation chain, especially because these companies are often registered in foreign countries. Payments received by such companies and usually divided into several relatively small payments, which altogether constitutes a large total sum. These payments are likely just transactions that transit through the Latvian payment system, without an underlying economic rationale. The amount of employees in such companies is not sufficient to manage economic activity, they have no warehouses, production units or structural units, and they only have a couple of business partners with many mutual operations.
- 4.2.49. Shell companies do not pay taxes to the state budget when they receive a transfer. Officials of these companies are usually foreigners, persons, who do not have a specific place of residence or who are inter-related persons. At the time of investigation these companies are typically already excluded or SRS is preparing to exclude them from the VAT payers register. Often operations in accounts are still carried out after the company's business activity has been stopped.
- 4.2.50. The Report demonstrates that the companies get involved in CO in the area of tax in order to reduce the taxable income, or to get cheaper raw materials for its economic activity as well as to get undeclared cash resources for "envelope wages".
- 4.2.51. The assessment period is characterised by a very successful activity of revealing several major CO schemes in the tax area¹³⁶:

1. Gan bei case

It was found that management of the Gan Bei company have formed an organised group to reduce with a special software the daily revenues in restaurants cash registers. A software was developed, with the help of which it was possible to amend the cash register data and withdraw cash. During the period from January 2014 to June 2014 more than two million euros was withdrawn from cash registers of 13 restaurants. The state lost amount of EUR 957.8 thous. corresponding to unpaid VAT and personal income tax.

Prosecutors entered into an agreement with the accused persons, considering that they all admitted guilt and fully compensated the material losses to the state budget.

The court approved the prosecutor's agreement with the nine accused persons and two legal entities, who were sentenced to a custodial sentence (conditional) from 1-4 years, one of the accused persons was sentenced with property seizure and seven of the accused persons, including the company's financial director (Parliament's member's wife), was fined EUR 33,3 thous. Also, the group of companies involved in the CO were fined EUR 287 thous. For each of the accused persons a period of time during which they were prohibited from holding a position on the board of any company (from 2 years and 6 months to 4 years) was set.).

2. Raw material case.

An international criminal group, established at least 42 fictitious companies in Latvia and abroad, from which in 32 companies officials were Lithuanian and Belorussian citizens. These companies provided services to at least 50 companies that operated in the area of alcohol, food manufacturing and construction material trade for the purpose of tax evasion on a large scale.

¹³⁴ Information on duration of investigation and length of court criminal proceedings differs significantly, there are cases that are resolved within a year, but some are open for four and more years.

¹³⁵ Into the sight of SRS FPD more often comes persons that despite previous convictions for committing similar CO, continue to do that in other EU countries.

¹³⁶ The first 4 cases were investigated by SRS FPD, the last-by SP ECB.

During January 2012 to May 2014 these companies purchased goods (incl. sugar, oil, cheese, construction materials etc.) from non-resident companies in Estonia, Lithuania, Poland, Czech Republic, but in VAT reports reported to SRS that goods are purchased from Latvian residents. Losses caused to state budget are more than EUR 2.47 mln.

Criminal proceedings were handed over for criminal prosecution and with a court's judgment the property and cash of EUR 240,542 was found as having criminal origin.

3. Envelope salaries case

A criminal group whose services were used by one of the largest Latvian cleaning and household management field service provider, as well as more than 10 actual operating companies in the metal processing and construction field created interrelated business chains with the aim of tax evasion. The obtained CP were used for paying "envelope salaries". During January 2011 to December 2013 photographs of the management with their names were put on the walls in their offices for the involved persons to know how their nominal "director" looked like.

As a result of the respective CO, the state budget lost EUR 1 mln. suffered

Criminal proceedings were proceeding was handed over for criminal prosecution in 2016 and with the court's judgment, of court the property and cash of almost EUR 92 thous. was found as having criminal origin.

4. Wholesale trade case

In the ML scheme created by a criminal group, more than 20 actual working companies and 32 fictitious companies were involved in 2012 and 2013 to commit tax evasion on a large scale and laundered CP by using interrelated companies, creating fictitious business chains.

The criminal group operated in the field of construction and wholesale of fruits and vegetables, as well as the purchase and sale of household goods. For the purpose of ML, the funds for actual non-existent operations were transferred to current accounts of the companies involved in chain not only in Latvian, Lithuanian, Czech and Austrian banks, but also Vietnamese and UAE banks, and later withdrawn in cash and given to the scheme "customers".

Losses were caused to the state budget in the form of unpaid VAT to the value of almost EUR 3 mln.

This criminal group was partially revealed by evaluating the organisers' luxury lifestyle of the organisers which did not conform to their official incomes - luxury items used every day, expensive mobile phones, luxury class vehicles.

Criminal proceedings were handed over for criminal prosecution in 2015 and with a court the court's judgment the property and cash of almost EUR 200 thous. was found as having criminal origin.

5. Case of luxury car

In the 4th quarter of 2016, criminal proceedings were initiated on possible ML and tax evasion on a large scale for purchasing luxury vehicles with CP.

During investigation it was established that the group had developed a scheme that allowed the concealing of the origin of funds, actual ownership of vehicles, and at the same time - tax evasion.

For this purpose a network of shell companies was established in Latvia and abroad on names of individuals without determined places of residence. On paper the notion that the vehicles were not purchased from Latvian dealers, but from foreign suppliers was created. Afterwards the vehicles were registered on fictitious Latvian companies.

There have been several searches in which assets were seized - two luxury class vehicles - "BMW X6M" and "Mercedes Benz S500 4MATIC Coupe", cash of almost EUR 100 thous., gold items, computer equipment and bookkeeping documents. Four persons have been detained and three are suspects, two of which have been arrested.

- 4.2.52. Indirect evidence indicates that in Latvia, like it is in the most countries, the shadow economy is mainly based around cash turnover. Cash is an effective tool for ML. It

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is anonymous and widely used. In addition, everyday transactions with CP are difficult to trace making seizure of cash practically impossible.

- 4.2.53. Criminals use commercial activities where large amounts of cash are circulated as a cover, for example, wholesale of scrap metal, trading in jewellery and restaurant business. They are used to hide large amounts of CP and to mix it with legally earned income, thus hiding the true source of funds.
- 4.2.54. Under the cover of companies with a large cash turnover, criminals can hide CP and make cash deposits at ATMs. It is important to point out that during the assessment period, growing volume of cash deposits at ATMs has been identified, the cause of which will continue to be assessed after the finalisation of the assessment.

Fraud

- 4.2.55. Fraud reported to LEA can be evaluated as having both a high risk and an unchanging trend.
- 4.2.56. Topical domestic fraud cases are related to the execution of projects financed by EU structural funds, defrauding of real estate, international and inland cargo transportation, where high concentration of organised criminal groups exists. Credit fraud and vendor fraud remains with unchanging trend. This trend is well demonstrated by two criminal proceedings where accused reimbursed loss and received appropriate penalties

1. "Bank shareholder" case initiated in 2007.

Judgement of the Court found J.F. guilty and convicted for committing a fraud and ML. The judgement entered into force on 02.21.2013.

The accused, being a shareholder of the Bank, Vice President and the Head of Regional Development Department, during October 2003 to August 2006, exploited his position to defraud and misappropriate the bank customers in the amount of USD 5.5 mln. By convincing the victims to transfer their money to the accounts in the Bank that were registered abroad and supervised by the offender himself. Afterwards the funds were transferred to other bank accounts in foreign countries several times with the purpose of ML. Part of the fraudulently obtained funds in the amount of circa EUR 1 mln. were laundered but not yet used as they were seized.

The accused was sentenced to a custodial sentence of 4.5 years, with confiscation of property. Seized CP were returned to victims.

2. "Energy" case initiated in 2014.

The public prosecutor and the defendants entered into an agreement on admission of guilt and punishment in connection with the fraud and ML on December 2016. The court approved the agreement on 24 January 2017.

It acknowledged that the defendants, during January – February 2012, executed fraudulent activities in an organized group - requested and received a loan from bank to secure a fictitious transaction being aware that there is no intention to return it. Then the loan was laundered through sophisticated money transfer scheme through a large number of foreign companies.

Three defendants were sentenced by conditional custodial sentences of 3 and 3.1 (two defendants) years; one of the accused received an addition penalty in the amount of EUR 30.4 thous. The loss suffered by the bank in the amount of EUR 6 mln was repaid in full.

- 4.2.57. In recent years Latvia often experienced fraud in insolvency proceedings, e.g. the creation of fictitious unsecured¹³⁷ creditor claims, and use of illegal reorganisation processes to conceal the assets of insolvent companies etc.
- 4.2.58. In 2015 SP ECB sent to the prosecutor's office, two criminal proceedings for prosecution that had been ongoing for several years. Those cases were serious, very large scale and had gained response locally and internationally - "Krājbanka" proceeding initiated in 2011 and "Winery - Norvik banka" proceeding initiated in 2013.

¹³⁷ Thus obtaining the voting rights in creditors' meeting and defrauding the secured creditors, mostly banks, who do not have voting rights.

1. "Krājbanka" case

5 suspects were prosecuted, including the bank's owner, Russian citizen V.A. and management of the bank. Persons are held suspect for appropriation of assets to the value of EUR 90 mln, exceeding authority, violation of bookkeeping regulations, ML. As a result of CO, the bank became insolvent and in relation to its insolvency proceedings there are legal and also PR struggles, in which an important role is played by OCG that are involved in insolvency proceedings.

2. Winergy - Norvik banka" case

The same groups were involved in this case where criminal proceedings are related to defrauding money in the form of state co-financing for construction of wind power stations that was handled by officials of "Winergy", as well as creating obstacles in the process of "Winergy" insolvency. Prosecutor's office took over for further investigation the criminal proceeding as they have sufficient amount of evidence to declare one of the largest AS "Norvik banka" shareholders as the suspect for illegal acquisition of bank's shares.

- 4.2.59. Fraud on the internet creates lesser amount of losses, however the number of cases is significantly higher. It is mostly related with not delivering goods, submitting false payment orders, as well as using personal data of another person. It is expected that the number of persons defrauded on the internet will not change significantly in the future.
- 4.2.60. The tendency to obtain and use of data of another person's payment cards for purchasing goods, which are then sold in Latvia for a cheaper price through advertisements on the internet, using services of dishonest companies or bank transfers, is also topical.
- 4.2.61. In the assessment period the participation of Latvian citizens in international cybercrime schemes has become topical, especially in phishing, which Moneyval already noted in 2012.
- 4.2.62. In the field of cybercrime, it is essential to emphasize the effective action of Latvian LEA in suspending criminal groups, which carried out fraudulent activities against "Google Inc" company.

"GOOGLE" case¹³⁸ initiated in the prosecutor's office after an FIU report on large scale money laundering.

In 2013 Lithuanian citizens established in Latvia a limited liability company with the same name as the popular Asian computer production company. Later with the phishing method these persons defrauded more than USD 23 mln from the company „Google Inc." registered in the USA (total volume of losses made to several companies by the fraud is at least USD 100 mln). The defrauded assets were returned to their lawful owners following Latvian LEA investigation and the case in which Lithuanian citizens are suspects for ML, is prepared for sending to Lithuania for initiating criminal prosecution.

Smuggling

- 4.2.63. In accordance with data provided by CSB in 2013 the amount of loss that is acquired from alcohol smuggling constitutes approximately EUR 165 mln, from cigarette smuggling – EUR 95 mln, and from fuel smuggling – EUR 90 mln.
- 4.2.64. Approximately in 95% of all initiated criminal proceedings the subject of the CO is excisable goods - most often (in more than 90% of cases) - tobacco products.
- 4.2.65. In total the level of smuggling threats in the country is assessed as medium high with constant tendency¹³⁹.
- 4.2.66. Smuggled tobacco products are imported in Latvia mainly from Belarus and Russia, also from Asian countries. Part of the smuggled cigarettes is consumed in Latvia, but part is exported to other EU countries¹⁴⁰.

¹³⁸ Criminal proceeding No. 18507000415; additional information <https://business-gurus.com/2017/03/23/phishing-scam-steals-100-mln-from-two-u-s-tech-companies/>

¹³⁹ Empty Packs Latvia (2015 Q4), The Nielsen Company.

https://www.vid.gov.lv/dokumenti/aktualitates/informacija%20presej/2016/empty%20packs%20latvia%202015q4%20-%20prezentacija-%20latviski_final%2013012016%20%5Bread-only%5D.pdf

¹⁴⁰ Lithuania, Sweden, Finland, Germany, and the Netherlands.

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- 4.2.67. Geopolitical status of Latvia- located between Europe and Russia, with a developed transport infrastructure is one of the factors that promotes smuggling of illicit drugs through Latvia. Latvian presence in the Schengen zone is also an important factor, which is a significant aspect in the whole EU and in the world in the context of open borders. Previously mentioned factors make the borders of Baltic States a target for illicit drugs smuggling, while Latvia has become a transit channel in the mentioned directions. A comparatively larger risk of transporting illicit drugs exists on the border crossing points between Russia and Latvia and in the traffic lines of ferries in ports.
- 4.2.68. According to data provided by SCB for the year 2013, the amount of assets that could be acquired from illegal trafficking of drugs, psychotropic, psychoactive substances is EUR 35 mln per year, therefore in total this CO does not generate a large volume of CP by comparison to other CO mentioned.¹⁴¹

4.3. Overall Threat evaluation

Complexity

- 4.3.1. The vulnerability of ML prevention system increases in case more complicated ML predicate CO are committed. Legal structures, for example, local and off-shore shell companies, funds, trusts etc. reduce the transparency of specific commercial structure capital flows and the ability to identify the UBO. Involvement of these non-transparent structures, for example, in bribery and ML CO significantly reduces the possibility of revealing them and gives a higher level of complexity to this CO. The number of members involved in predicate CO also indicates the level of highest complexity in cases of bribery or fraud committed in foreign countries. Local level CO that are related to tax evasion usually have a large number of people involved.

Amount of Assets Involved

- 4.3.2. The value of money involved is an additional indicator to consider when determining the most significant threats. Bribery of officials and fraud, including tax fraud, pose a higher level of threat to ML, taking into account the large values of involved assets.
- 4.3.3. Predicate offences committed by organised groups create a significant threat, not only due to the higher level of complexity and high value of involved assets, but also by taking into account the possible reputational consequences for the financial sector and the country in general.

Geographical Distribution

- 4.3.4. Since assets that have been generated by other countries and international criminal organisations can be injected into the international financial system, we must take into account that these flows in transit, when integrated into the integrating them in financial system, create a potential threat to the Latvian financial system in general.
- 4.3.5. The financial flows in and out of Latvia each year are worth billions of euros. These are significant financial flows and they represent a very real potential for illicit money to enter and flow through Latvia, in particular as part of a layering process.
- 4.3.6. Taking into account that the volumes of incoming and outgoing payments in general (within the assessment period outgoing payments are slightly larger for about 4%) matches, it can be concluded that financial flows cross Latvia in a transit.
- 4.3.7. When entering the territory of Latvia, cash is mostly registered from Russia, Ukraine, Belarus and Turkey. Undeclared assets are mostly confiscated from Russia and Turkey. But when exiting the territory of Latvia – cash is mostly registered to Russia, Ukraine, Turkey and Belarus. When exiting the territory of Latvia, cash is confiscated only when going to Turkey.
- 4.3.8. In the division of financial flows, the largest incoming financial flows are from Lithuania, Russia, Estonia, Great Britain and Germany. But the largest outgoing financial flows are to Lithuania, Germany, Poland, Russia and Estonia. Those are also the most active economic cooperation countries.

¹⁴¹ <https://www.state.gov/j/inl/rls/nrcrpt/2015/vol2/239089.htm>

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- 4.3.9. Analysis of ML cases show that there is a significant threat from UK registered shell companies with unclear UBO's and which operates through Latvian banking system with suspicious funds generated in CIS countries.
- 4.3.10. There is an active economic cooperation with Estonia, Lithuania and Poland, thus it is hard to make conclusions about specific risks. However, it is well known that the companies registered in these jurisdictions have been actively used by Latvian residents for tax evasion purposes. This trend is decreasing recently and the illegal activity is migrating to other countries, e.g., Czech Republic. As regards Moldova, Ukraine and Russia¹⁴² it is widely recognized that CP generated in these countries have been laundered in Latvia.
- 4.3.11. The largest amounts of frozen assets are from Spain, USA, UK and Russia. Whereas, the largest amount of confiscated assets are from Ukraine, Belarus and Poland. In general there is a large difference between the amounts of frozen and confiscated assets. From the assessed countries, approximately EUR 105 mln. were frozen, but only slightly above EUR 160 thous. were confiscated. Taking into account that most of these cases are currently in various stages of investigation, the amount of confiscated assets could increase if the cases are adjudicated.
- 4.3.12. Countries that create the highest threat are: Russia, UK and Lithuania. Medium high threat is created by Poland and Ukraine.
- 4.3.13. After analysing the threats in division of jurisdictions and collected information it can be concluded that the most external threat to Latvia comes from CIS countries (Russia, Moldova, Ukraine and Uzbekistan).
- 4.3.14. In both directions threats are with USA, Belorussia, France, UK, the Netherlands, Poland and Turkey.
- 4.3.15. Threats from Latvia are established in relation to Estonia, Italy, Lithuania, Spain, Germany and Sweden.
- 4.3.16. During the assessment period threat in relation to UK, Ukraine and Germany has increased, and decreased in relation to Estonia, Italy, Russia, Poland and Spain.¹⁴³

Convictions and Mutual Legal Assistance

- 4.3.17. In ML criminal proceedings activity is directed in two areas:
- proving the person's guilt in committing such CO;
 - measures for solving property issues in criminal proceedings - fast and efficient finding, withdrawal and confiscation of CP.
- 4.3.18. As a result of SP activity within the last two years more than EUR 81 mln has been found as having criminal origin, from which almost EUR 48 mln has been transferred to the state budget, but more than EUR 33 mln. has been returned to its legitimate owner.
- 4.3.19. Statistics on convicted persons for ML demonstrate effectiveness risks, i.e. 8 convicted persons in 2013, 5-in 2014 and 16 -2015. Thus it confirms the concerns expressed by LEA on encumbered application of ML laws.
- 4.3.20. In addition it shall be stated that only one foreigner has been convicted during the assessment period. 2 foreigners have been convicted in post -assessment period, in the first 4 months of year 2017.
- 4.3.21. International requests to/from Latvia is most active with Moldova, Lithuania, Ukraine, Russia, Estonia and Poland.

4.4. Overall ML Threat

- 4.4.1. Taking into account that the total amount of CP from domestic crime is medium, ML threats that arise from domestic crimes are at a medium level. ML threats that arise from foreign CO are rated as high. In total the level of ML threats is medium high.

¹⁴² <http://www.lsm.lv/en/article/societ/society/bank-employees-arrested-over-russian-money-laundering.a160310/>

¹⁴³ Table No 4.8

4.5. Sectoral ML risks

- 4.5.1. This part of the Assessment covers the ML threats to which the AML/CTF Law obliged entities are exposed and determines the risk level of AML/CTF Law obliged entities according to the criteria set out in the Methodology.

Foreign customer serving banks

ML risk level – HIGH

- 4.5.2. The Foreign customer serving banks can be involved at all ML stages. The Foreign customer serving banks offer a comprehensive range of financial products and services and such are also accessible relatively freely.
- 4.5.3. In the Assessment period there have been 339¹⁴⁴ criminal proceedings initiated on ML involving the banking sector. In 2016 82 criminal proceedings on ML have been initiated involving Foreign customer serving banks.¹⁴⁵
- 4.5.4. The predicate offences underlying ML under the criminal proceedings that deal with ML and involve banks are as follows: 1) CL Article 177 (fraud); 2) CL Article 193 (illegal activities with financial instruments and means of payment); 3) CL Article 218 (evasion of tax payments and payments equivalent thereto); CL Article 179 (misappropriation); 5) Article 190 (smuggling); 6) CL Article 201 (Usury) and 7) CL Article 318 (abuse of official position).¹⁴⁶
- 4.5.5. Whereas the predicate offences in the criminal proceedings on ML involving Foreign customer serving banks in 2016 were the following: CL Article 177 (fraud); 2) CL Article 320 (bribery); 3) CL Article 148 (violation of copyrights and neighbouring rights); 4) CL Article 193 (illegal activities with financial instruments and means of payment); 5) CL Article 218 (evasion of tax payments and payments equivalent thereto).¹⁴⁷
- 4.5.6. The Foreign customer serving banks are involved in money laundering offences more frequently in cases when the predicate offence has been committed abroad.¹⁴⁸
- 4.5.7. The Foreign customer serving banks are involved in ML, in case the proceeds from crime must be transferred to another bank, particularly in cases when the proceeds from crime have been acquired abroad, i.e. the predicate offence has been committed abroad. In criminal proceedings on ML that involve Foreign customer serving banks, in the majority of cases the Foreign customer serving banks receive and make transfer to fictitious companies.¹⁴⁹ A major share of the proceeds from crime are transferred from/to the banks of the so-called low-tax or tax free countries or territories.¹⁵⁰
- 4.5.8. There were 43 criminal proceedings on ML initiated in 2013 involving the banking sector. The respective number of criminal proceedings on ML in the banking sector in 2014 was 67, and 105 in 2015 and 124 in 2016 accordingly. Therefore, it can be concluded that criminal cases on ML, in which banking sector is involved, from 2013 till 2016 are slowly increasing.¹⁵¹
- 4.5.9. In the Assessment period 18 money laundering charges involving Foreign customer serving banks have been initiated.¹⁵² The predicate offences of the money laundering charges including Foreign customer serving banks are as follows: 1) CL Article 177 (fraud); 2) 218 (evasion of tax payments and payments equivalent

¹⁴⁴ From 2013 to 2015 data were collected on the banking sector in general.

¹⁴⁵ Table No 4.9.

¹⁴⁶ Surveys No 6, No 60, No 61, No 62

¹⁴⁷ Surveys No 6, No 60, No 61, No 62

¹⁴⁸ Surveys No 6, No 60, No 61, No 62

¹⁴⁹ Surveys No 6, No 60, No 61, No 62

¹⁵⁰ The Regulations of the Cabinet of Ministers of 26.06.2001 No.276 "Regulations on Low Tax and Tax free Countries and Territories". Lost effect on 01.01.2018.

¹⁵¹ Report. Surveys No 6, No 60, No 61, No 62

¹⁵² Table No 4.9. In four of the money laundering charges it is impossible to identify which particular bank is involved, therewith these charges were not added to the total number of money laundering charges involving Domestic customer serving banks.

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thereto; 3) CL Article 179 (misappropriation). In 17 of the money laundering charges involving Foreign customer serving banks, the predicate offence has been committed in Latvia and in one of the cases – abroad.¹⁵³

- 4.5.10. The dominant predicate offences underlying the money laundering charges involving Foreign customer serving banks are: tax evasion and fraud.¹⁵⁴
- 4.5.11. In the Assessment period the courts have rendered 18 ML judgments of conviction involving Foreign customer serving banks.¹⁵⁵ There are 44 persons that have been convicted for ML involving the banking sector in the Assessment period.
- 4.5.12. The predicate offences of the judgments on ML involving Foreign customer serving banks are: 1) CL Article 218 (evasion of tax payments and payments equivalent thereto), CL Article 275 (forgery of a document, seal and stamp and the use and sale of a forged document, seal and stamp); 3) CL Article 190 (smuggling); 4) CL Article 191 (unauthorized activities with goods and other valuable property subject to customs clearance); 5) CL Article 218 (violation of accounting and statistical information requirements).
- 4.5.13. The money laundering methods that have been used by the Foreign customer serving banks sector are as follows: 1) transfers to fictitious companies; 2) payments for fictitious transaction. 3) the proceeds from crime are transferred by means of a bank transfer; 4) opening of fictitious bank accounts; 5) the use of the bank accounts of private individuals.
- 4.5.14. Information on the involvement of Foreign customer serving banks in ML is frequently found in the public domain.¹⁵⁶
- 4.5.15. There is information in the public domain on ML cases involving Foreign customer serving banks and on the fines and penalties for failing to comply with the AML/CTF requirements. For example, the FCMC imposed a penalty to a Foreign customer serving banks in the amount of 305 000 EUR for AML/CTF violations. Within the framework of the administrative proceedings, the FCMC performed the inspection of the operations of several customers of the Foreign customer serving banks who were engaged in transactions aimed at acquiring control over the banks of Moldova in 2012 and 2013. In other materials, the information on the "Moldova case" is attributed to the period from 2010 – 2014 involving suspicious transactions from Russia to Moldova through Foreign customer serving banks resulting in the legalization of proceeds from crime.
- 4.5.16. There is also public information¹⁵⁷ on the fines and penalties imposed by the FCMC to Foreign customer serving banks for failing to comply with the AML/CTF requirements. In the Assessment period the FCMC had imposed fines to 12 banks, incl. penalties totalling 7 180 756 EUR.
- 4.5.17. The EC Supranational ML/TF Assessment Report deals with the following banking services that have been attributed to the entire banking sector – investments, private banking and corporate banking. The average ML threat level of the mentioned banking services is medium high.
- 4.5.18. According to the EC Supranational ML/TF Assessment Report, the ML threats of the banks¹⁵⁸ are associated with the ML schemes, i.e. the banks are involved in the ML. The EC Supranational ML/TF Assessment Report lists the main predicate offences committed with the involvement of banks as follows: corruption, drug trafficking, fraud and tax fraud.
- 4.5.19. The overall Non-resident banking sector's ML threats in the Assessment period by comparing the results per years from 2013 to 2016 remain constant. At the same time it should be indicated that the ML criminal proceedings initiated and charges

¹⁵³ Survey No 60.

¹⁵⁴ Surveys No 6, No 60, No 61, No 62

¹⁵⁵ Table No 4.9.

¹⁵⁶ For example, http://www.tvnet.lv/financenet/finansu_zinas/599589-fktk_piespriez_baltic_international_bank_11_miljona_sodu;
<http://www.delfi.lv/news/national/criminal/policija-un-specvieniba-omega-riga-aptur-kadas-caulas-bankas-darbibu.d?id=47673031;>
[https://www.lsm.lv/raksts/zinas/latvija/lieta-par-naudas-atmazgasanu-belokonam-piederisaja-banka-notikusi-kratisana.a183318/;](https://www.lsm.lv/raksts/zinas/latvija/lieta-par-naudas-atmazgasanu-belokonam-piederisaja-banka-notikusi-kratisana.a183318/)
http://www.delfi.lv/bizness/bankas_un_finanses/banku-uzraugs-piemero-ablv-bank-3-17-miljonu-eiro-sodu.d?id=47491325;
[http://www.la.lv/fktk-piemero-70-000-eiro-soda-naudu-as-regionala-investiciju-banka/;](http://www.la.lv/fktk-piemero-70-000-eiro-soda-naudu-as-regionala-investiciju-banka/)
http://www.delfi.lv/bizness/bankas_un_finanses/fktk-soda-latvijas-pasta-banku-ar-305-000-eiro.d?id=47714797;

¹⁵⁷ <http://www.fktk.lv/lv/tirgus-dalibnieki/kreditistades/2014-10-22-fktk-piemerotas-sankcijas.html>

¹⁵⁸ EC Supranational ML/TF risk assessment report does not differentiate between the Foreign customer serving banks and the Domestic customer serving banks.

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brought in the Assessment period evidence that the predicate offences underlying the judgments in the future will also list fraud and tax offences.

- 4.5.20. The assessment of the sectoral ML threat criteria makes conclude that the level of ML threats of Foreign customer serving banks is high.
- 4.5.21. In the National Assessment Report the ML vulnerability of Foreign customer serving banks has been evaluated as high. In consideration that the ML vulnerability of Foreign customer serving banks and also the ML threats of Foreign customer serving banks are high, according to the Methodology, the ML risk of Foreign customer serving banks is high.

Domestic customer serving banks

ML risk – MEDIUM HIGH

- 4.5.22. The banks servicing the domestic customers can be involved in ML at all stages. Considering the relatively comprehensive range of the products and services offered by the banks servicing domestic customers, the banks are being involved in ML.
- 4.5.23. In the Assessment period 339¹⁵⁹ criminal cases on ML have been initiated involving banks sector. In 2016 there were 42 criminal proceedings on ML involving banks servicing domestic customers.¹⁶⁰
- 4.5.24. In general, the predicate offences of the criminal proceedings on ML involving banks are as follows: 1) CL Article 177 (fraud); 2) CL Article 193 (illegal activities with financial instruments and means of payment); 3) CL Article 218 (evasion of tax payments and payments equivalent thereto); CL Article 179 (misappropriation); 5) Article 190 (smuggling); 6) CL Article 201 (Usury) and 7) CL Article 318 (abuse of official position).¹⁶¹
- 4.5.25. Whereas the predicate offences of the criminal proceedings on ML involving Domestic customer serving banks in 2016 were the following: CL Article 177 (fraud); 2) CL Article 193 (illegal activities with financial instruments and means of payment); 3) CL Article 218 (evasion of tax payments and payments equivalent thereto)¹⁶². Moreover, the predicate offences of the criminal proceedings initiated in 2016 on ML involving banks servicing domestic customers have been committed both in Latvia and abroad.
- 4.5.26. The dominant predicate offences of the criminal proceedings on ML involving banks servicing domestic customers are: tax evasion and fraud.¹⁶³
- 4.5.27. The banks servicing domestic customers are involved in ML at the moment when it is necessary to transfer the proceeds of crime to another bank account, including also abroad.¹⁶⁴ The banks servicing domestic customers are frequently involved in fraud schemes under which the proceeds from crime are transferred to other bank accounts and afterwards withdrawn in cash. In such cases the ML amount commonly is not significant.¹⁶⁵
- 4.5.28. The Domestic customer serving banks are used more frequently in case the predicate offence has been committed in Latvia.¹⁶⁶ For example, there are cases of involvement of the Domestic customer serving banks in "cash loan" fraud.¹⁶⁷

¹⁵⁹ From 2013 – 2015 the data were collected for the entire banking sector.

¹⁶⁰ Table No 4.9.

¹⁶¹ Surveys No 6, No 60, No 61, No 62

¹⁶² Surveys No 6, No 60, No 61, No 62

¹⁶³ Surveys No 6, No 60, No 61, No 62

¹⁶⁴ Surveys No 6, No 60, No 61, No 62

¹⁶⁵ Law "On the Procedures for the Coming into Force and Application of the Criminal Law" Article 20 - Liability for an offence, provided for in the Criminal Law, which has been committed on a significant scale, shall apply if the total value of the property which was the object of the offence was not less than the total of fifty minimum monthly wages specified in the Republic of Latvia at that time. The value of the property shall be determined according to the market prices or prices equivalent thereto at the time when the offence was committed.

¹⁶⁶ Survey No 6, No 60, No 61, No 62

¹⁶⁷ Consumer Rights Protection Law Article 8(1). In accordance with a consumer credit contract, the person who is engaged in consumer crediting (the creditor) shall grant or promise to grant a credit to a consumer as a deferred payment, loan or other financial agreement. A contract for the provision on a continuing basis of services or for the supply of goods shall not be considered as a consumer credit agreement within the meaning of this Law, if a consumer pays for the services or goods during the term of the contract by means of instalments.

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Namely, some private individual approached third persons with the offer to earn money, obtained access to their bank accounts, filed an application for a cash loan through the internet bank and collected the money.

- 4.5.29. In comparison to the criminal proceedings on ML involving Domestic customer serving banks initiated in the Assessment period, it should be concluded that Foreign customer serving banks are involved in money laundering more frequently.¹⁶⁸
- 4.5.30. It should be additionally stated that the Foreign customer serving banks appear in the requests filed by the FIU up to more than eight times more frequently than the Domestic customer serving banks.¹⁶⁹
- 4.5.31. In 2013 there were 43 criminal proceedings initiated on money laundering offences in the banking sector. In 2014 those were 67 criminal proceedings. The respective figures in 2015 and 2016 were 105 and 124 accordingly. The comparison of the number of the criminal proceedings for money laundering offences involving the banking sector per years from 2013 to 2016 shows that the number of criminal proceedings for money laundering offences in the banking sector is increasing.¹⁷⁰
- 4.5.32. In the Assessment period charges have been brought in 20 money laundering cases involving Domestic customer serving banks.¹⁷¹ The predicate offences underlying such ML charges involving Domestic customer serving banks are: CL Article 177 (fraud); 2) CL Article 218 (evasion of tax payments and payments equivalent thereto); 3) CL Article 275 (forgery of a document, seal and stamp and the use and sale of a forged document, seal and stamp). In all the ML charges involving Domestic customer serving banks the predicate offences have been committed in Latvia.¹⁷²
- 4.5.33. The dominant predicate offence for money laundering charges is: tax evasion and fraud.¹⁷³ In 14 cases the charges have been brought for tax evasion including VAT fraud in the majority of cases involving several companies.¹⁷⁴ In six cases the proceeds from crime have been the result of fraud, including fictitious entrepreneurship.¹⁷⁵
- 4.5.34. In the Assessment period the courts have rendered 21 judgments of conviction on money laundering involving Domestic customer serving banks.¹⁷⁶ In the Assessment period there are 44 persons¹⁷⁷ sentenced for money laundering charges involving the banking sector.
- 4.5.35. The predicate offences underlying the court judgments related to the Domestic customer serving banks are as follows: 1) CL Article 218 (evasion of tax payments and payments equivalent thereto); 2) CL Article 213 (driving into insolvency); 3) CL Article 193 (illegal activities with financial instruments and means of payment); 4) CL Article 193¹ (obtaining, manufacture, distribution, utilisation and storage of data, software and equipment for illegal acts with financial instruments and means of payment); 5) CL Article 275 (forgery of a document, seal and stamp and the use and sale of a forged document, seal and stamp); 6) CL Article 219 (avoiding submission of the income return); 7) CL Article 217 (violation of provisions regarding accounting and statistical information)¹⁷⁸.
- 4.5.36. The money laundering methods that have been identified for the Domestic customer serving banks: 1) transfers to fictitious companies; 2) transfers under fictitious transactions; 3) the use of the bank accounts of private individuals; 4) the use of the bank accounts of legal entities.
- 4.5.37. Public notices on the involvement of the Domestic customer serving banks in money laundering activities are not frequent.¹⁷⁹ There is information on individual cases

¹⁶⁸ Table No 4.9.

¹⁶⁹ Survey No 6.

¹⁷⁰ Surveys No 6, No 60, No 61, No 62

¹⁷¹ Table No 4.9.

¹⁷² Survey No 7.

¹⁷³ Table No 4.9.

¹⁷⁴ Surveys No 6, No 60, No 61, No 62

¹⁷⁵ Surveys No 6, No 60, No 61, No 62

¹⁷⁶ Table No 4.9.

¹⁷⁷ No division in Non-resident banks and Domestic customer serving banks.

¹⁷⁸ Surveys No 6, No 60, No 61, No 62

¹⁷⁹ For example, <https://www.diena.lv/raksts/latvija/zinas/fktk-piemero-swedbank-14-miljonu-eiro-soda-naudu-14160357/>; <https://www.lsm.lv/raksts/zinas/ekonomika/banka-aizdomas-par-naudas-atmazgasanu-iesalde-stradinu-buvnieka-kontus.a210687/>;

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when the Domestic customer serving banks have been related to money laundering, inter alia on the compliance with AML requirements. For example, the FCMC imposed a fine to a Domestic customer serving bank on transaction control violations, namely, it has failed to pay sufficient attention to the complex, mutually related transactions of its customers which had no apparent economic or legal scope.

- 4.5.38. The EC Supranational ML/TF Assessment Report deals with the following banking services that are attributable to the entire banking sector – investments, private banking and corporate banking. The average ML threat level of the mentioned banking services is medium high.
- 4.5.39. According to the EC Supranational ML/TF Assessment Report, the ML threats of the banks¹⁸⁰ are associated with the ML schemes, i.e. the banks are involved in the ML. The EC Supranational ML/TF Assessment Report lists the main predicate offences committed with the involvement of banks as follows: corruption, drug trafficking, fraud and tax fraud.
- 4.5.40. The comparison of the years covered by the Assessment period (2013 to 2016) reveal that the Domestic customer serving banking sector's ML threats generally increase. At the same time it should be indicated that the criminal proceedings initiated and charges brought on money laundering in the Assessment period evidence that the predicate offences underlying the judgments dealing with ML in the future will also list fraud and tax offences.
- 4.5.41. Following assessment of the criteria for money laundering threats according to the Methodology, there is room for the conclusion that technically the level of ML threats of the Domestic customer serving banks is high.
- 4.5.42. On the basis of the opinion of the Domestic customer serving banks supervisory authority – the FCMC and the information provided by the CS¹⁸¹ regarding the information requested by the foreign FIU on the involvement of the Domestic customer serving banks and Foreign customer serving banks in ML, it was resolved to reduce the level of ML threats of the Domestic customer serving banks to medium.
- 4.5.43. In the National Assessment Report the ML vulnerability of the Domestic customer serving banks has been assessed as high. Due to the fact that the ML vulnerability of the Domestic customer serving banks is high and the ML threats of the Domestic customer serving banks are medium, according to the Methodology, the ML risks of the Domestic customer serving banks are medium high.

Payment Institutions / Electronic Money Institutions

ML risk level – MEDIUM HIGH

- 4.5.44. Due to the constant development of mobile technologies, instant payments and contactless payments, PI and EMI are taking an increasingly active part in the provision of payment services – accounting for the total volume of payments in 2016 of EUR 402 million, which is by 58.8% higher than in the previous year.¹⁸² In 2016, the average amount of electronic money of EMI in circulation increased by EUR 1.5 million or by 31% reaching EUR 6.4 million.¹⁸³
- 4.5.45. The size of PI/EMI and its share in the economy should be treated as low.¹⁸⁴
- 4.5.46. There are PI/EMI operating in the Latvian market which, in cooperation with the foreign customer serving banks, provide payment services mainly to non-residents.

<https://www.lsm.lv/raksts/zinas/latvija/nodoklu-shemotaju-kersana-vid-vairs-nepalaujas-uz-kontroles-dienestu-bet-prasa-zinas-tiesi-no-bankam.a178608/>

¹⁸⁰ EC Supranational ML/TF risk assessment report does not differentiate between the Non-resident banks and the Domestic customer serving banks.

¹⁸¹ Survey No 6.

¹⁸² Financial and Capital Market Report 2016, available under:

http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

¹⁸³ Financial and Capital Market Report 2016, available under:

http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

¹⁸⁴ Survey No 5.

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The results of the PI/EMI survey show that the number of non-resident customers in the PI/EMI sector is insignificant, namely 6% of the total number of PI/EMI customers.¹⁸⁵ However, the FCMC indicates that although the share of the non-resident customers is insignificant, the total amount of PI/EMI transactions of non-residents is considerably higher than the total amount of PI/EMI transactions of the domestic customers. The FCMC indicates that the servicing of non-residents causes ML threats for the PI/EMI sector.

- 4.5.47. In the Assessment period there were eight criminal proceedings initiated on ML and involving PI/EMI.¹⁸⁶
- 4.5.48. The criminal proceedings on ML and involving PI/EMI are connected with the failure to report cash, large scale fraud, e.g. one of the cases deals with a pyramid scheme.¹⁸⁷
- 4.5.49. The predicate offences of the criminal proceedings on ML which involve PI/EMI are: 1) CL Article 218 (evasion of tax payments and payments equivalent thereto); 2) CL Article 207 (non-registered business activity and operation without a permit (licence)); 3) CL Article 177 (fraud). The predicate offences underlying the criminal proceedings on ML and involving PI/EMI in five cases have been committed abroad and in three cases – in Latvia.
- 4.5.50. The largest ML threats of PI/EMI are associated with the money transfers, namely, the proceeds from crime are transferred to the PI/EMI account and further transferred into another account, including a bank account and therewith the ML involving PI/EMI also concern the banking sector.

Pyramid case

From 2014 to 2016 companies registered in the UAE, Bulgaria and Switzerland opened EMI accounts and used them, allegedly, for organizing a fraudulent financial pyramid which involved several thousands of private individuals, among other things from Malaysia, the Philippines, Mexico, the UAE, Saudi Arabia and South Korea. The funds were transferred to electronic money cards and also to other accounts of the companies, whereas the persons originally making the payments did not receive the promised income.

- 4.5.51. In the criminal proceedings on ML involving PI/EMI, the predicative offences are mostly committed abroad and the funds are transferred to bank accounts registered in Latvia through PI/EMI.
- 4.5.52. In 2016 the number of criminal proceedings dealing with ML and involving PI/EMI has significantly increased.¹⁸⁸
- 4.5.53. In the Assessment period five charges were brought on ML involving PI/EMI.¹⁸⁹ The charges mostly concern tax evasion and fraud.¹⁹⁰
- 4.5.54. The predicate offences of money laundering charges involving PI/EMI are as follows: 1) CL Article 218 (evasion of tax payments and payments equivalent thereto); 2) CL Article 177 (fraud); 3) CL Article 275 (forgery of a document, seal and stamp and the use and sale of a forged document, seal and stamp); 4) CL Article 326 (unlawful participation in property transactions). The predicate offences of all ML charges involving PI/EMI have been committed in Latvia.
- 4.5.55. Three of the ML charges involving PI/EMI are related to VAT fraud and ML in organized group. One of the ML charges involving PI/EMI is associated with fraudulent activities of the corporate officials what has resulted in large scale fraud of EU funds. One of the ML charges involving PI/EMI is related to the unlawful participation in property transactions, namely the tenders announced by some local public services provider was won by foreign companies. By drafting fictitious service

¹⁸⁵ Survey No 5

¹⁸⁶ Table No 4.9.

¹⁸⁷ The financial pyramid can take different forms and at the first glance it might be difficult to identify it, as it may be hidden against various forms of business, charity, etc. Thus the financial pyramids have one common feature – promises of incommensurably high profit within a short period of time; usually the participants also receive promises of additional payments, bonuses for the attraction of new participants.

¹⁸⁸ Table No 4.9.

¹⁸⁹ Table No 4.9.

¹⁹⁰ Surveys No 6, No 60, No 61, No 62

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agreements, the foreign companies transferred proceeds from crime to the bank accounts of companies registered in Latvia and also Cyprus.

- 4.5.56. All charges on ML involving PI/EMI also involve the banking sector. One of the charges on VAT fraud and ML in organized group also involved a Bureaux de change.
- 4.5.57. In the Assessment period there are no final judgments on ML that would involve PI/EMI.¹⁹¹
- 4.5.58. The ML methods that have been identified in the PI/EMI sector are: 1) account opening using forged documents or fictitious businesses registered in the name of homeless persons; 2) the transfer of the proceeds from crime to other accounts incl. bank accounts; 3) money transfers for unreported business.
- 4.5.59. There are only occasional public announcements on the involvement of PI/EMI in ML.¹⁹² For example, the FCMC imposed a penalty on the non-compliance with the requirements of the AML/CTF Law and warned the responsible official on the necessity to ensure such compliance.
- 4.5.60. According to the EC Supranational ML/TF Risk Assessment Report¹⁹³ the level of ML threats of PI/EMI is high. The main arguments are that the role of using PI/EMI in transferring funds and the amount so transferred is increasing. The PI/EMI are attractive for criminals, incl., criminal organizations also outside the EU, particularly because of the option to use prepaid cards.
- 4.5.61. Individual countries have experience with PI/EMI, particularly the use of pre-payment cards in tax fraud schemes, drug trafficking and prostitution. Considering that part of the pre-paid cards have no set limits, it is treated as the main PI/EMI threat. In many cases the funds that are transferred to pre-paid cards are the proceeds from crime.
- 4.5.62. The comparison of the results per years from 2013 to 2016 reveals that in the Assessment period the ML threats are taking an upward trend.
- 4.5.63. After assessment of the sectoral criteria for money laundering threats, the level of PI/EMI ML threats is medium.
- 4.5.64. In the National Assessment Report the PI/EMI vulnerability to ML has been assessed as high. Due to the high vulnerability of PI/EMI to ML and considering the medium level of ML threats of PI/EMI, according to the Methodology the ML risks of PI/EMI are medium high.

Investment Management Companies

ML Risk Level - MEDIUM

- 4.5.65. Higher ML risks are associated with the investment fund management and the management of the investment portfolios of private entities, particularly in cases of managing the funds of non-residents.
- 4.5.66. No criminal proceedings on ML involving IMC have been initiated in the Assessment period.¹⁹⁴
- 4.5.67. No ML charges involving IMC have been brought in the Assessment period.¹⁹⁵
- 4.5.68. No final judgments on ML involving IMC have been rendered in the Assessment period.¹⁹⁶
- 4.5.69. No information on the involvement of IMC in ML has been made public.

¹⁹¹ Table No 4.9.

¹⁹² For example: http://www.delfi.lv/bizness/bankas_un_finanses/fktk-piemero-7281-eiro-sodu-maksajumu-iestadei-baltic-payment-solutions.d?id=49880847

¹⁹³ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

¹⁹⁴ Table No 4.9.

¹⁹⁵ Table No 4.9.

¹⁹⁶ Table No 4.9.

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- 4.5.70. According to the EC Supranational ML/TF Risk Assessment Report¹⁹⁷ the ML risk level of IMC is medium high.
- 4.5.71. The EC Supranational ML/TF Risk Assessment Report equally provides that IMC¹⁹⁸ are not usually involved in ML. The main argument supporting the statement is the fact that ML would require in depth and specific knowledge on the management of the IMC assets.
- 4.5.72. The size of the IMC sector and its share in the economy should be regarded as medium low.
- 4.5.73. In the Assessment period, comparing the ML threats of IMC from 2013 to 2016, the overall trend remains constant.
- 4.5.74. According to the assessment of the sectoral ML threat criteria, the ML threats of IMC are medium low.
- 4.5.75. In the National Assessment report the vulnerability of the IMC to ML has been evaluated as high. Considering that the ML vulnerability of the IMC is high and the ML threats of IMC are medium low, according to the Methodology, the ML risk of IMC is medium.

Securities Sector

ML risk level – MEDIUM

- 4.5.76. ML risks in securities sector are related to the flow of funds of non-resident customers. The risks associated with the non-residents are increased by such factors as the geographical risk (off-shores and tax havens, UBO residency in CIS country), legal form, shareholders' structure (complex structure of group of companies, use of shell companies).
- 4.5.77. No criminal proceedings on ML involving the securities sector have been initiated in the Assessment period.¹⁹⁹
- 4.5.78. No ML charges involving the securities sector have been initiated in the Assessment period.²⁰⁰
- 4.5.79. No convicting judgments on ML involving the securities sector have been rendered in the Assessment period.²⁰¹
- 4.5.80. There are not many cases on the involvement of the securities sector in ML that would be made public.²⁰² There is public information on the decision of the European Central Bank to withdraw the licence of a non-resident bank due to lengthy violations and also in connection with the established ML scheme under which securities were purchased in Russia for roubles and immediately sold to some EU bank, therewith assisting with the transferring of the funds of its customers to low tax or tax free countries or territories.²⁰³
- 4.5.81. According to the EC Supranational ML/TF Risk Assessment Report²⁰⁴, the ML risk level in the securities sector is medium high.
- 4.5.82. The EC Supranational ML/TF Risk Assessment Report indicates that the securities sector is not usually involved in ML. The main argument supporting the statement is the fact that ML would require in depth and specific knowledge on securities management.
- 4.5.83. The size of the securities sector and its share in the economy should be regarded as medium high.

¹⁹⁷ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

¹⁹⁸ EC Supranational ML/TF Assessment Report does not separately deal with the IMC, but it provides an assessment of the level of ML threats of investment brokers and investment banks.

¹⁹⁹ Table No 4.9.

²⁰⁰ Table No 4.9.

²⁰¹ Table No 4.9.

²⁰² For example: <https://www.lsm.lv/raksts/zinas/ekonomika/anuleta-trasta-komercbankas-licence.a171992/>

²⁰³ The Regulations of the Cabinet of Ministers of 26.06.2001 No.276 "Regulations on Low Tax and Tax free Countries and Territories". Lost effect on 01.01.2018.

²⁰⁴ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

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- 4.5.84. In the Assessment period, comparing the ML threats of the securities sector from 2013 to 2016, the overall money laundering threats remain constant.
- 4.5.85. The assessment of the sectoral ML threat criteria allows conclude that the ML threats of the securities sector are mod medium low.
- 4.5.86. In the National Assessment Report the vulnerability of the securities sector to ML has been evaluated as high. Considering that the ML vulnerability of the securities sector is high and the ML threats of the securities sector are medium low, according to the Methodology, the ML risk of the securities sector is medium.

Companies that have received a licence issued by the Bank of Latvia for the sale/purchase of cash in foreign currency - Bureaux de change

ML risk level – MEDIUM

- 4.5.87. Bureaux de change may be involved in ML to exchange proceeds from crime into higher denomination foreign currency notes therewith concealing the origin of the funds and facilitating border crossing with such funds.
- 4.5.88. In the Assessment period the authorities have initiated five criminal proceedings on ML involving bureaux de change.²⁰⁵
- 4.5.89. The predicate offence of all criminal proceedings on ML involving bureaux de change have been committed in Latvia and concern: 1) CL Article 177 (fraud) and CL Article 218 (evasion of tax payments and payments equivalent thereto).
- 4.5.90. The criminal proceedings on ML involving bureaux de change are associated with fictitious business operations, tax evasion and in one of the cases – a fraud scheme (financial pyramid).
- 4.5.91. In the Assessment period five charges on money laundering involving bureaux de change have been brought.²⁰⁶ The charges mostly concern tax evasion and fraud, including also a VAT scheme, forging of documents and setting up of fictitious businesses.²⁰⁷
- 4.5.92. It should be additionally stated that one of the charges involves tax evasion however, this case involves a bank registered in Estonia and a bureaux de change equally registered in Estonia, i.e. the defrauded tax funds have been transferred to the accounts of fictitious undertakings opened in Estonia wherefrom the funds were transferred to a bureaux de change operating in Estonia and were withdrawn in cash in another currency.
- 4.5.93. Four cases of ML charges involving bureaux de change involve also the banking sector. One of the ML charges whose predicate offence is VAT evasion involves persons trading in precious metals and stones.
- 4.5.94. The predicate offences of all charges on ML involving bureaux de change have been committed in Latvia and concern: 1) CL Article 177 (fraud) and CL Article 218 (evasion of tax payments and payments equivalent thereto).
- 4.5.95. The ML method that has been applied in the bureaux de change sector are the use of fictitious companies withdrawing the funds transferred in cash.
- 4.5.96. No convicting judgments on ML involving bureaux de change have been rendered in the Assessment period.²⁰⁸
- 4.5.97. In the public domain there is no information on the involvement of bureaux de change in ML practice.
- 4.5.98. According to the EC Supranational ML/TF Risk Assessment Report, the level of ML threats of bureaux de change is medium high. The main arguments to support the conclusion are the fact that bureaux de change are comparatively freely accessible, and require no specific knowledge and a large amount of the proceeds from crime

²⁰⁵ Table No 4.9.

²⁰⁶ Table No 4.9.

²⁰⁷ Survey No 6, No 60, No 61, No 62

²⁰⁸ Table No 4.9.

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may be legalized within a short term. Moreover, in the majority of cases the offenders use for ML purposes the bureaux de change located in tax free zones in airports.²⁰⁹

- 4.5.99. The size of the bureaux de change sector and its share in the economy should be regarded as low.
- 4.5.100. In the Assessment period, comparing the results per years from 2013 to 2016, the overall ML threats are taking a declining trend.
- 4.5.101. The assessment of the sectoral ML threat criteria allows conclude that the ML threats of the bureaux de change sector are medium low.
- 4.5.102. In the National Assessment Report the vulnerability of the bureaux de change sector to ML has been evaluated as medium. Considering that the ML vulnerability of the bureaux de change sector is medium and the ML threats of the bureaux de change sector are medium low, according to the Methodology, the ML risk of the bureaux de change sector is medium.

Non-bank lenders

ML risk level –MEDIUM

- 4.5.103. The CRPC indicates that the largest ML threats involving the non-bank lenders are associated with the origin of the equity capital paid in by the non-bank lenders.
- 4.5.104. One criminal action has been initiated in the Assessment period on ML involving non-bank lenders.²¹⁰ The predicate offence under the said criminal proceedings has been committed in Latvia.
- 4.5.105. The criminal proceedings on ML involving a non-bank lender are related to fraud, i.e. a non-bank lender was defrauded – after issuing the loan and transfer of the proceeds from crime to another person, the bank account into which the proceeds were transferred was closed.
- 4.5.106. Additionally it should be noted that in another case involving only the bank sector a private individual had approached persons with an offer to earn profit, accessed the bank accounts of third persons, filed applications for cash loans using their data and received the funds.
- 4.5.107. No ML charges involving the non-bank lenders have been brought in the Assessment period.²¹¹
- 4.5.108. Two convicting judgments on ML involving non-bank lenders have been issued in the Assessment period.²¹² In all of the mentioned cases the underlying offences have been related to fraud through identity theft aimed at obtaining proceeds from crime. The judgments on ML involving non-bank creditors also involved the banking sector.

Cash loans portal case

The judgment in a ML case involving an illegal non-bank lending services provider came into effect in 2013. The entity had posted advertisements on various internet sites, including: www.reklama.lv, www.draugiem.lv, www.ss.lv, www.zip.lv, containing intentionally false information that a non-existent company is issuing loans with a link to the website: <http://privatekredit.webnode.com>.

The website <http://privatekredit.webnode.com> contained an application form that had to be filled out by the potential borrowers, inter alia specify the given name, surname, personal ID number, place of residence, phone number, mobile network operator, e-mail address, the amount of the loan and the maturity, and pay a security deposit in the amount of 10% of the amount of the loan in the indicated account.

²⁰⁹ EC Supranational ML/TF Risk Assessment Report, 58 p.

²¹⁰ Table No 4.9.

²¹¹ Table No 4.9.

²¹² Table No 4.9.

After receipt of the security deposit, the offenders neither refunded the security deposit nor issued the loan applied for under <http://privatekredit.webnode.com>.

- 4.5.109. The predicate offences underlying the court judgments on ML involving the non-bank lenders were as follows: 1) CL Article 177 (fraud); 2) CL Article 193 (illegal activities with financial instruments and means of payment); 3) CL Article 193¹ (obtaining, manufacture, distribution, utilisation and storage of data, software and equipment for illegal acts with financial instruments and means of payment); 4) CL Article 241 (arbitrary access to the automated data processing system).
- 4.5.110. In the Assessment period five persons have been convicted on ML offences involving non-bank lenders.
- 4.5.111. The money laundering method that has been used in the non-bank lenders sector involves receipt of loans using the identity of another person.
- 4.5.112. There are only occasional public announcements on the involvement of non-bank lenders in ML offences.²¹³
- 4.5.113. According to the EC Supranational ML/TF Risk Assessment Report²¹⁴ the ML threats of the non-bank lending sector are not of particular relevance and therefore have not been evaluated.
- 4.5.114. The size of the non-bank lenders sector and its share in the economy should be regarded as low.
- 4.5.115. In the Assessment period, comparing the ML threats of the non-bank lending sector from 2013 to 2016, the overall money laundering threats remain constant.
- 4.5.116. The assessment of the sectoral ML threat criteria allows conclude that the level of ML threats to which the non-bank lenders are exposed are medium low.
- 4.5.117. In the National Assessment Report the vulnerability of the non-bank lenders sector to ML has been evaluated as medium. Considering that the ML vulnerability of the non-bank lenders sector is medium and the ML threats of the sector are medium low, according to the Methodology, the ML risk of the non-bank lenders sector is medium.

VAS "Latvijas Pasts"

ML risk level– MEDIUM LOW

- 4.5.118. The quantity of the payment services provided by LP is insignificant and the frequency of international transfers is equally low. The ML threats of LP are associated with the high amount of cash transactions²¹⁵ and the possibility offered to the customers to split a transaction into several parts and to complete it at several LP post offices over a short period, in case the threshold set in the AML/CTF law is not exceeded (EUR 15 000).
- 4.5.119. No criminal proceedings on ML involving LP have been initiated in the Assessment period.²¹⁶
- 4.5.120. One charge has been filed on ML involving LP.²¹⁷ The ML charge involving LP was associated with tax offences. The predicate offence underlying the charge has been committed in Latvia and concerns: CL Article 218 (evasion of tax payments and payments equivalent thereto).

Tax Fraud case

In 2013 a charge on large scale tax evasion was brought against an organized criminal group.

The group had set up several fictitious companies and had prepared documents for transactions that have not in-fact taken place, organizing cash flow for such non-existing transactions for

²¹³ For example: http://www.tvnet.lv/financenet/finansu_zinas/454153-naudas_atmazgataju_zelta_dzisl_a_trie_kreditu;

²¹⁴ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²¹⁵ Survey No 19.

²¹⁶ Table No 4.9.

²¹⁷ Table No 4.9.

operating companies to incur the right to make pre-tax deductions of that part of VAT that was payable into the state budget.

To complete the crime, the organizers opened a number of current accounts, including also at LP to create an artificial cash flow and to conceal the true substantiation of the transfers, the actual origin of the funds and the true beneficiary of these fictitious transactions.

- 4.5.121. The ML charge involving LP also involves non-resident and Domestic customer serving banks. The predicate offence underlying the charge has been committed in Latvia and concerns: CL Article 218 (evasion of tax payments and payments equivalent thereto).
- 4.5.122. No convicting judgments on ML involving Latvian Post have been issued in the Assessment period.²¹⁸
- 4.5.123. The identified ML method that was applied in the sector is the transfer of funds from fictitious companies to actually operating companies.
- 4.5.124. In the public domain there is no information on the involvement of LP in ML activities.
- 4.5.125. The EC Supranational ML/TF Risk Assessment Report²¹⁹ does not address the level of ML threats of Latvian Post.
- 4.5.126. The size of LP and its share in the economy should be treated as low.
- 4.5.127. In the Assessment period, comparing the ML threats of LP from 2013 to 2016, the overall money laundering threats remain constant.
- 4.5.128. The assessment of the sectoral ML threat criteria allows conclude that the ML threats of LP are low.
- 4.5.129. In the National Assessment Report the vulnerability of LP to ML has been evaluated as medium low. Considering that the ML vulnerability of LP is medium low and the ML threats of the sector are low, according to the Methodology, the ML risk of LP is medium low.

Debt collection service providers

ML risk level – MEDIUM LOW

- 4.5.130. The main ML threats of the sector are described in Paragraph 7.16.2. of the Report supplement.
- 4.5.131. No criminal proceedings on ML involving debt collection service providers have been initiated in the Assessment period.²²⁰
- 4.5.132. No ML charges involving debt collection service providers have been initiated in the Assessment period.²²¹
- 4.5.133. No convicting judgments on ML involving debt collection service providers have been rendered in the Assessment period.²²²
- 4.5.134. There is no public information on the involvement of the debt collection service providers in ML activities.
- 4.5.135. The EC Supranational ML/TF Risk Assessment Report²²³ does not address the debt collection service providers.

²¹⁸ Table No 4.9.

²¹⁹ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²²⁰ Table No 4.9.

²²¹ Table No 4.9.

²²² Table No 4.9.

²²³ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

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- 4.5.136. The size of the debt collection service providers sector and its share in the economy should be regarded as low.
- 4.5.137. In the Assessment period , comparing the ML threats of the providers of debt collection services from 2013 to 2016, the overall money laundering threats remain constant
- 4.5.138. The assessment of the sectoral ML threat criteria allows conclude that the ML threats of the debt collection service providers sector are low.
- 4.5.139. In the National Assessment Report the vulnerability of the licenced debt collection service providers to ML has been evaluated as medium low. Considering that the ML vulnerability of the licenced debt collection service providers is medium low and the ML threats of the sector are low, according to the Methodology, the ML risk of the debt collection service providers is medium low.

Life Insurance Sector

ML risk level – MEDIUM LOW

- 4.5.140. The information provided by the law enforcement institutions does not imply any inherently high ML risks of the life insurance sector.²²⁴
- 4.5.141. One criminal case on ML involving the life insurance sector has been initiated in the Assessment period.²²⁵
- 4.5.142. The criminal case on ML involving the life –insurance sector was connected with the corruptive actions of an official of a foreign law enforcement body under which the proceeds from crime were invested in life insurance attached to financial instruments.
- 4.5.143. The predicate offence underlying the criminal case on ML involving the life-insurance sector has been committed abroad.
- 4.5.144. No ML charges involving the life-insurance sector have been initiated in the Assessment period.²²⁶
- 4.5.145. No convicting judgments on ML involving the life-insurance sector have been rendered in the Assessment period.²²⁷
- 4.5.146. There is no public information on the involvement of the life insurance sector in ML.
- 4.5.147. According to the EC Supranational ML/TF Risk Assessment Report²²⁸, the ML risk of the life-insurance sector is medium.
- 4.5.148. According to the findings presented in the EC Supranational ML/TF Risk Assessment Report, the life-insurance sector²²⁹ is not commonly involved in ML. The main argument supporting the statement is the fact that ML would require in depth and specific knowledge on the management of the life insurance funds, e.g.: 1) knowledge on the bank accounts to which the insurance policy is attached; 2) opening and maintenance of several bank accounts in low tax or tax free countries or territories.²³⁰
- 4.5.149. The size of the life-insurance sector and its share in the economy should be regarded as low.
- 4.5.150. In the Assessment period, comparing the ML threats of the life-insurance sector from 2013 to 2016, the overall trend remains constant.

²²⁴ Information provided by the Ministry of Internal Affairs

²²⁵ Table No 4.9.

²²⁶ Table No 4.9.

²²⁷ Table No 4.9.

²²⁸ Available under:http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²²⁹ The EC Supranational ML/TF Risk Assessment Report does not address the IMC separately, however it analyses the level of ML threats of investment banks and investment brokerage firms.

²³⁰ The Regulations of the Cabinet of Ministers of 26.06.2001 No.276 "Regulations on Low Tax and Tax free Countries and Territories". Lost effect on 01.01.2018.

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- 4.5.151. The assessment of the sectoral ML threat criteria allows conclude that the ML threats of the sector are low.
- 4.5.152. In the National Assessment Report the vulnerability of the life-insurance sector to ML has been evaluated as medium low. Considering that the ML vulnerability of the life-insurance sector is medium low and the ML threats of the sector are low, according to the Methodology, the ML risk of the life-insurance sector is medium low.

Alternative Investment Fund Managers

ML risk level – LOW

- 4.5.153. No criminal proceedings on ML that would involve AIFM have been initiated in the Assessment period.²³¹
- 4.5.154. No ML charges involving AIFM have been initiated in the Assessment period.²³²
- 4.5.155. No convicting judgments on ML involving AIFM have been rendered in the Assessment period.²³³
- 4.5.156. There are no public announcements on the involvement of AIFM in ML.
- 4.5.157. The EC Supranational ML/TF Risk Assessment Report²³⁴ does not address the ML threats of AIFM.
- 4.5.158. The size of the AIFM sector and its share in the economy should be considered as low.
- 4.5.159. In the Assessment period, comparing the ML threats of the AIFM sector from 2013 to 2016, the overall money laundering threats remain constant.
- 4.5.160. The assessment of the sectoral ML threats criteria allows conclude that the ML threats of the AIFM sector are low.
- 4.5.161. In the National Assessment Report the vulnerability of the AIFM sector to ML has been evaluated as low. Considering that the ML vulnerability and the threats of the sector are low, according to the Methodology, the ML risk of the AIFM sector is low.

Private Pension Funds

ML risk level - LOW

- 4.5.162. At the end of 2016, the capital accumulated by PPF amounted to EUR 381 mln.²³⁵ The size of the PPF sector is insignificant.
- 4.5.163. The PPF sector serves low risk customers. The FCMC has not identified any cases where PPF would be used for ML or tax evasion purposes. No other signs have been identified that would imply that the PPF might be conveniently used for ML purposes.
- 4.5.164. No criminal proceedings on ML that would involve the PPF have been initiated in the Assessment period.²³⁶
- 4.5.165. No ML charges involving the PPF have been initiated in the Assessment period.²³⁷

²³¹ Table No 4.9.

²³² Table No 4.9.

²³³ Table No 4.9.

²³⁴ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²³⁵ Financial and Capital Market Report 2016, available under: http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

²³⁶ Table No 4.9.

²³⁷ Table No 4.9.

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- 4.5.166. No convicting judgments on ML involving the PPF have been rendered in the Assessment period.²³⁸
- 4.5.167. There are no public announcements on the involvement of PPF in ML.
- 4.5.168. The EC Supranational ML/TF Risk Assessment Report²³⁹ does not address the ML threats of PPF.
- 4.5.169. The size of the PPF sector and its share in the economy should be considered as low.
- 4.5.170. In the Assessment period, comparing the ML threats of the PPF sector from 2013 to 2016, the overall money laundering threats remain constant.
- 4.5.171. The assessment of the sectoral ML threats criteria allows conclude that the ML threats of the PPF sector are low.
- 4.5.172. In the National Assessment Report the vulnerability of the PPF sector to ML has been evaluated as low. Considering that the ML vulnerability and the threats of the sector are low, according to the Methodology, the ML risk of the PPF sector is low.

Credit unions

ML risk level – LOW

- 4.5.173. The sectoral size of CU is insignificant.
- 4.5.174. No criminal proceedings on ML that would involve CU have been initiated in the Assessment period.²⁴⁰
- 4.5.175. No ML charges involving CU have been initiated in the Assessment period.²⁴¹
- 4.5.176. No convicting judgments on ML involving CU have been rendered in the Assessment period.²⁴²
- 4.5.177. There are no public announcements on the involvement of CU in ML.
- 4.5.178. The EC Supranational ML/TF Risk Assessment Report²⁴³ does not address the ML threats of CU.
- 4.5.179. The size of the CU sector and its share in the economy should be considered as low.
- 4.5.180. In the Assessment period, comparing the ML threats of the CU sector from 2013 to 2016, the overall money laundering threats remain constant.
- 4.5.181. The assessment of the sectoral ML threats criteria allows conclude that the ML threats of the CU sector are low.
- 4.5.182. In the National Assessment Report the vulnerability of the CU sector to ML has been evaluated as low. Considering that the ML vulnerability and the threats of the sector are low, according to the Methodology, the ML risk of the CU sector is low.

AS "Attīstības finanšu institūcija Altum"

ML risk level – LOW

- 4.5.183. No criminal proceedings on ML that would involve Altum have been initiated in the Assessment period.²⁴⁴

²³⁸ Table No 4.9.

²³⁹ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²⁴⁰ Table No 4.9.

²⁴¹ Table No 4.9.

²⁴² Table No 4.9.

²⁴³ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²⁴⁴ Table No 4.9.

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- 4.5.184. No ML charges involving Altum have been initiated in the Assessment period.²⁴⁵
- 4.5.185. No convicting judgments on ML involving Altum have been rendered in the Assessment period.²⁴⁶
- 4.5.186. There have been no public announcements on the involvement of Altum in ML.
- 4.5.187. The EC Supranational ML/TF Risk Assessment Report²⁴⁷ does not address the ML threats of Altum.
- 4.5.188. The size of Altum sector and its share in the economy should be considered as low.
- 4.5.189. In the Assessment period, comparing the ML threats of the Altum sector from 2013 to 2016, the overall money laundering threats remain unchanged.
- 4.5.190. The assessment of the sectoral ML threats criteria allows conclude that the ML threats of Altum are low.
- 4.5.191. In the National Assessment Report the vulnerability of Altum to ML has been evaluated as low. Considering that the ML vulnerability and the threats of the sector are low, according to the Methodology, the ML risk of Altum is low.

Cash Collection Services Providers

ML risk level – LOW

- 4.5.192. Cash collection service provider's size of sector is small.
- 4.5.193. No criminal proceedings on ML involving cash collection service providers have been initiated in the Assessment period.²⁴⁸
- 4.5.194. No ML charges involving cash collection service providers have been initiated in the Assessment period.²⁴⁹
- 4.5.195. No convicting judgments on ML involving cash collection service providers have been rendered in the Assessment period.²⁵⁰
- 4.5.196. There have been no public announcements on the involvement of cash collection service providers in ML.
- 4.5.197. The EC Supranational ML/TF Risk Assessment Report²⁵¹ does not address the ML threats of cash collection service providers.
- 4.5.198. The size of the cash collection service providers sector and its share in the economy should be considered as low.
- 4.5.199. In the Assessment period, comparing the ML threats of the cash collection service providers sector from 2013 to 2016, the overall money laundering threats remain unchanged.
- 4.5.200. The assessment of the sectoral ML threats criteria allows conclude that the ML threats of cash collection service providers are low.
- 4.5.201. In the National Assessment Report the vulnerability of cash collection service providers to ML has been evaluated as low. Considering that the ML vulnerability and the threats of the sector are low, according to the Methodology, the ML risks of cash collection service providers are low.

²⁴⁵ Table No 4.9.

²⁴⁶ Table No 4.9.

²⁴⁷ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²⁴⁸ Table No 4.9.

²⁴⁹ Table No 4.9.

²⁵⁰ Table No 4.9.

²⁵¹ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

Lottery and Gambling Operators

ML risk level – MEDIUM

- 4.5.202. Two criminal cases on ML involving lottery and gambling operators have been initiated in the Assessment period.²⁵²
- 4.5.203. The predicate offence underlying the criminal cases on ML in the lottery and gambling sector was CL Article 179 (misappropriation).
- 4.5.204. No ML charges involving lottery and gambling operators have been initiated in the Assessment period.²⁵³
- 4.5.205. No convicting judgments on ML involving lottery and gambling operators have been rendered in the Assessment period.²⁵⁴
- 4.5.206. The ML method that has been identified in the lottery and gambling sector involves the transfer of the proceeds from crime to the account of the lottery or gambling operator in the form of the participation fee that is subsequently refunded in the form of a win.
- 4.5.207. There are several public notifications on the involvement of lottery and gambling operators in ML offences.²⁵⁵ For example an official from the SRS CPD had entered in its income return gambling wins in the amount of several tens of thousands EUR, 52 200 EUR in total. The information served as grounds for criminal proceedings, among other things on ML.
- 4.5.208. In the EC Supranational ML/TF Risk Assessment Report²⁵⁶ the ML risk level of lottery and gambling operators has been assessed as medium high.
- 4.5.209. According to the EC Supranational ML/TF Risk Assessment Report, the lottery and gambling sector²⁵⁷ is used for ML purposes. It is indicated in the report that the ML risks are present in relation to the lottery and gambling operators themselves, namely, the persons who render this service. The offenders may indirectly own or they may affect the operations of the lottery or gambling house. The lottery and gambling services are easily accessible.
- 4.5.210. The size of the lottery and gambling sector and its share in the economy should be regarded as low.²⁵⁸
- 4.5.211. In the Assessment period, comparing the ML threats of the lottery and gambling sector from 2013 to 2016, the overall money laundering threats remain constant.
- 4.5.212. The assessment of the sectoral ML threat criteria allows conclude that the ML threats of the lottery and gambling sector are medium low.
- 4.5.213. In the National Assessment Report the vulnerability of the lottery and gambling sector to ML has been evaluated as medium high. Considering that the ML vulnerability of the lottery and gambling sector is medium high and the ML threats of the lottery and gambling sector are medium low, according to the Methodology, the ML risk of the lottery and gambling sector is medium.

Real Estate Agents and Intermediaries

ML risk – MEDIUM

²⁵² Table No 4.10.

²⁵³ Table No 4.10.

²⁵⁴ Table No 4.10.

²⁵⁵ For example: <http://www.delfi.lv/news/national/politics/laimestus-deklarejusais-muitas-uzraugs-vinokurovs-atstadinats-no-amata.d?id=50042965>

²⁵⁶ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²⁵⁷ EC Supranational ML/TF Assessment Report does not separately deal with the IMC, but it provides an assessment of the level of ML threats of investment brokers and investment banks.

²⁵⁸ Survey No 54.

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- 4.5.214. The services of real estate agents or intermediaries may be provided by any person who is registered in the RE or in the SRS as a tax payer. It is important to notice, that only one tenth of all real estate transactions are made through real estate agents or intermediaries.²⁵⁹
- 4.5.215. The acquisition of a real estate is a favoured method for criminals to hide the proceedings from crime through the involvement of legal entities and arrangements. This means property may be purchased by a company used by the criminal or their associates in order to make it more difficult to identify the proceeds from crime or to trace the origin. There are cases when the employees of real estate agencies facilitate ML through arrangement of the purchase of a real estate.²⁶⁰
- 4.5.216. Five criminal cases on ML involving real estate agents or intermediaries have been initiated in the Assessment period.²⁶¹
- 4.5.217. The predicate criminal offences underlying the criminal proceedings on ML involving real estate agents or intermediaries are as follows: 1) CL Article 177 (fraud); 2) CL Article 179 (misappropriation) and 3) CL Article 218 (evasion of tax payments and payments equivalent thereto).
- 4.5.218. According to the criminal proceedings on ML involving real estate agents or intermediaries, ML is carried out, for example, through investments in the purchase of a real estate, using the banking sector, thus without involving real estate agents and intermediaries.
- 4.5.219. No criminal proceedings on ML involving real estate agents or intermediaries have been initiated in the Assessment period.²⁶²
- 4.5.220. No convicting judgments on ML involving real estate agents or intermediaries have been rendered in the Assessment period.²⁶³
- 4.5.221. The identified ML method in the real estate agent and intermediaries sector is the purchase of a real estate by using the proceeds from crime or by making other investments of the proceeds from crime in the real estate.
- 4.5.222. In the public domain there are occasional announcements on the involvement of real estate agents or intermediaries in ML.
- 4.5.223. According to the EC Supranational ML/TF Risk Assessment Report²⁶⁴, the ML risk level in the real estate agent and intermediaries sector is high.
- 4.5.224. It is indicated in the EC Supranational ML/TF Risk Assessment Report that the organized crime groups are again starting to involve real estate agents and intermediaries in the legalization of the proceeds from crime more frequently. In order to legalize the proceeds from crime through real estate agents and intermediaries, other sectors, e.g. the providers of legal services are also involved.
- 4.5.225. The size of the real estate agents and intermediaries sector and its share in the economy should be regarded as low.²⁶⁵
- 4.5.226. In the Assessment period, comparing the ML threats of the real estate agents and intermediaries sector from 2013 to 2016, the overall money laundering threats remain constant.
- 4.5.227. According to the Methodology and the information provided by the SRS, the level of ML threats of real estate agents and intermediaries is medium. The SRS maintains that real estate and its purchases are used for the legalization of the proceeds from crime. This is also confirmed by the information provided by the law enforcement institutions.²⁶⁶
- 4.5.228. In the National Assessment Report the vulnerability of the real estate agents and intermediaries sector to ML has been evaluated as medium. Considering that the ML vulnerability of the real estate agents and intermediaries sector and the ML

²⁵⁹ Survey No 22.

²⁶⁰ Survey No 22.

²⁶¹ Table No 4.10.

²⁶² Table No 4.10.

²⁶³ Table No 4.10.

²⁶⁴ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²⁶⁵ Survey No 14

²⁶⁶ Survey No 6, No 60, No 61, No 62

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threats of the sector are medium, according to the Methodology, the ML risk of the real estate agents and intermediaries sector is medium.

Sworn Advocates

ML risk level – MEDIUM

- 4.5.229. Some of the services provided by sworn advocates are attractive to the criminals seeking to conceal the origins of the criminal funds. There is a risk that the sworn advocate may be unaware of the involvement/use of ML, for example in case of preparation of the documents required for transactions, in establishing legal bodies to conceal the proceeds from crime and UBO. In Latvia, the court of first instance has ruled on the involvement of a sworn advocate in ML, however the judgment has not come into effect because it is under appeal.
- 4.5.230. The main sectoral ML threats are:
- a) complicit legal professionals facilitating ML;
 - b) criminals using sworn advocates as well as other legal professionals to secure property with criminal proceeds.
- 4.5.231. No criminal proceedings on ML that would involve sworn advocates have been initiated in the Assessment period.²⁶⁷
- 4.5.232. One ML charge involving sworn advocates has been initiated in the Assessment period.²⁶⁸
- 4.5.233. The charge on ML that involves sworn advocates is related to extortion. Namely a Latvian official acquired an interest in foreign undertakings through extortion. The dividends paid by the foreign company were transferred to other foreign companies controlled by the offender (official) with the aim of concealing the actual beneficiary.
- 4.5.234. The predicate offence was committed in Latvia. The predicate offence in the present case was the violation foreseen in the Criminal Procedure Law²⁶⁹ Article 164 (bribery).
- 4.5.235. In the Assessment period no persons have been convicted for ML offences involving sworn advocates, i.e. there are no convicting judgments that have come into legal force.²⁷⁰
- 4.5.236. The ML method that has been identified in the sworn advocate sector is the provision of legal advice aimed at legalization of the proceeds from crime.
- 4.5.237. There are a few public announcements on the involvement of sworn advocates in ML activities,²⁷¹ e.g. regarding the "Digital Gate" case.
- 4.5.238. According to the EC Supranational ML/TF Risk Assessment Report²⁷², the ML risk level in the sworn advocates sector is high.
- 4.5.239. It is indicated in the EC Supranational ML/TF Risk Assessment Report that sworn advocates operate as intermediaries ensuring the possibility to perform certain actions (*gate-keeper*), i.e. participate in the purchase of real estates, in setting up legal formations and providing legal advice for the purpose of a specific lawsuit.
- 4.5.240. The size of the sworn advocates sector and its share in the economy should be regarded as low.²⁷³
- 4.5.241. In the Assessment period, comparing the ML threats of the sworn advocates sector from 2013 to 2016, the overall money laundering threats remain constant.

²⁶⁷ Table No 4.10.

²⁶⁸ Table No 4.10.

²⁶⁹ No longer in effect.

²⁷⁰ Table No 4.10.

²⁷¹ For example: <https://www.lsm.lv/raksts/zinas/latvija/spriedums-digitalgeita-septini-cietumsodi-sesi-naudas-sodi-un-pieci-attaisnotie.a129664/>

²⁷² Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²⁷³ Survey No 44.

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- 4.5.242. The assessment of the sectoral ML threat criteria allows conclude that the ML threats of the sworn advocates sector are medium low.
- 4.5.243. In the National Assessment Report the vulnerability of the sworn advocates sector to ML has been evaluated as medium. Considering that the ML vulnerability of the sworn advocates sector is medium and the ML threats of the sector are medium low, according to the Methodology, the ML risk of the sworn advocates sector is medium.

Tax Advisers, External Accountant and Providers of Legal Services

ML risk level - MEDIUM

- 4.5.244. Tax advice commonly is provided in general form without specifying the actual circumstances of the case, the involved companies, and the amount of products/services. This encumbers the possible assessment of whether the provided advice is applied for evading tax obligations.²⁷⁴ Considering the in-depth knowledge of the professionals of the filed in economics and legislative aspects, there is a risk, including unintentional, of such being used for ML purposes.
- 4.5.245. The offenders can make use of the sectoral representatives for concealing the origin and/or legitimising assets in various forms, e.g. through the establishment of company and offshore structures, issuing fictitious agreements and other transaction documents, preparing and auditing the corporate financial statements.
- 4.5.246. Five criminal actions on ML involving tax advisers, external accountants and providers of legal services have been initiated in the Assessment period.²⁷⁵
- 4.5.247. The predicate offences of the criminal proceedings on ML involving tax advisers, external accountants and providers of legal services are as follows: 1) CL Article 177 (fraud); 2) CL Article 165 (living on the avails of prostitution); 3) CL Article 218 (evasion of tax payments and payments equivalent thereto); 4) CL Article 219 (avoiding submission of the income return); 5) CL Article 275 (forgery of a document, seal and stamp and the use and sale of a forged document, seal and stamp). In two of the mentioned cases the predicate offences have been committed abroad, in three cases - in Latvia.
- 4.5.248. It should be additionally noted that two of the cases on ML involving tax advisers, external accountants and providers of legal services were related to real estate transactions...
- 4.5.249. The criminal proceedings on ML involving tax advisers, external accountants and providers of legal services are related to the living on the avail of prostitution²⁷⁶, fraud and tax evasion, incl. tax evasion in Lithuania.
- 4.5.250. One of the cases on ML involving tax advisers, external accountants and providers of legal services was associated with the counselling on the misrepresentation of accounting data aimed at tax evasion.

On 2015 the SRS FPD initiated criminal proceedings against an organized criminal group which has evaded taxes and was engaged in large scale legalization of proceeds from crime in 2014 and 2015 through a scheme of mutually related transactions. During investigation of the case it was established that the scheme involved 15 functioning undertakings and 35 companies with the signs of fictitious entrepreneurship.

The criminal group had set up the scheme of fictitious transactions with the purpose of evading tax obligations and to legalize proceeds from crime. The participants of the group represented different sectors of economy – wood processing, building, construction, installation of security systems. To implement the scheme, the participants had set up a company whose principal area of operations was accounting services. The company provided accounting services to all participants of the scheme and also concealed the respective criminal activities.

²⁷⁴ Survey No 22

²⁷⁵ Table No 4.10

²⁷⁶ CL Article 165.

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The criminal offence was committed using the documents of different companies, stamps, bank accounts of legal entities, personal data and the persons concerned had entered into a number of fictitious agreements.

- 4.5.251. No ML charges that would involve tax advisers, external accountants and providers of legal services have been initiated in the Assessment period.²⁷⁷
- 4.5.252. In the Assessment period one judgment of conviction has been issued on ML involving tax advisers, external accountants and providers of legal services and one person has been convicted.²⁷⁸
- 4.5.253. The predicate offence underlying the judgment of conviction on ML involving tax advisers, external accountants and providers of legal services is the Criminal Law, Article 191 (unauthorized activities with goods and other valuable property subject to customs clearance).
- 4.5.254. The judgment on ML involving tax advisers, external accountants and providers of legal services concerns tax evasion, i.e. a provider of accounting services modified transaction documents, issued documents for allegedly effectuated transactions in order the fictitious transactions could be entered in the accounting records and could be included in the VAT returns.
- 4.5.255. The ML method identified in the tax advisers, external accountants and providers of legal services sector is the drafting of documents with the aim to use proceeds from crime for real estate transactions.
- 4.5.256. There are occasional public notifications on the involvement of tax advisers, external accountants and providers of legal services in ML.²⁷⁹ For example, in 2015 the SRS FPD initiated a ML case involving tax fraud. A criminal group had set up a scheme of fictitious transactions and from 2014 to 2015 evaded taxes and legalized proceeds from crime. The participants of the group represented different sectors of economy – wood processing, building, construction, installation of security systems. To implement the scheme, the participants had set up a company whose principal area of operations was accounting services. The company provided accounting services to all participants of the scheme and also concealed the respective criminal activities.
- 4.5.257. According to the EC Supranational ML/TF Risk Assessment Report²⁸⁰, the ML risk level in the tax advisers, external accountants and providers of legal services sector is high.
- 4.5.258. It is indicated in the EC Supranational ML/TF Risk Assessment Report that tax advisers, external accountants and providers of legal services are mostly involved in such ML activities that are related to the provision of consultations on the acquisition of a real estate, setting up of a fictitious company or another legal formation and with assistance in certain lawsuits. It is additionally stated in the report that the providers of legal services are involved in ML schemes.
- 4.5.259. The size of the tax advisers, external accountants and providers of legal services sector and its share in the economy should be considered as low.²⁸¹
- 4.5.260. In the Assessment period, comparing the ML threats of the tax advisers, external accountants and providers of legal services sector from 2013 to 2016, in general ML threats are taking a downward trend.
- 4.5.261. The assessment of the sectoral ML threats criteria allows conclude that the ML threats of tax advisers, external accountants and providers of legal services sector is medium low.
- 4.5.262. In the National Assessment Report the vulnerability of the tax advisers, external accountants and providers of legal services sector to ML has been evaluated as medium high. Considering that the ML vulnerability of the tax advisers, external accountants and providers of legal services sector is medium high and the ML threats of the sector are medium low, according to the Methodology, the ML risk of

²⁷⁷ Table No 4.10.

²⁷⁸ Table No 4.10.

²⁷⁹ For example: <https://www.vid.gov.lv/lv/vid-finansu-policijas-parvalde-partrauc-noziedziga-grupejuma-darbibu-piecas-personas-ari>

²⁸⁰ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²⁸¹ Survey No 22.

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the tax advisers, external accountants and providers of legal services sector is medium.

- 4.5.263. During the elaboration of the assessment, the SRS indicated to the necessity to include in the next sectoral ML/TF risk assessment also persons who provide services that are associated with the establishment of legal formations. As indicated by the SRS, the persons that render services that are connected with the foundation of legal formations are commonly used for ML activities as the providers of the given service do not possess sufficient knowledge on the AML/CTF provisions and requirements.

Car Dealers

ML risk level – MEDIUM

- 4.5.264. Car dealers become AML/CTF Law obliged entities when they meet the condition of a cash transaction amount (EUR 15 000).²⁸² However, according to the provisions of Article 30 of the Law "On Taxes and Fees", it is not allowed to carry out cash transactions in excess of EUR 7 200, irrespective of whether the transactions were made in one or more instalments, thus, car dealers do not encounter cash transactions of over EUR 7 200 on a daily basis, so they cannot theoretically be AML/CTF Law obliged entities.
- 4.5.265. Currently, car dealers register their sales locations with the SRS at the commencement of operations.
- 4.5.266. During the assessment period, three criminal proceedings were initiated on ML cases involving car dealers.²⁸³
- 4.5.267. Criminal proceedings on ML cases involving car dealers are related to tax avoidance and procuring (prostitution).²⁸⁴
- 4.5.268. Car dealers had set up affiliated companies, which formed a fictitious chain of transactions aimed at tax evasion, whereas the proceeds from crime obtained from procuring (prostitution) were legalized through car dealers, i.e. legal entities purchased vehicles and later, by falsifying documents, re-registered them in the name of private entities.
- 4.5.269. In the criminal proceedings on ML cases involving car dealers, the predicate COs includes the following: 1) CL Article 218 (evasion of tax payments and payments equivalent thereto); 2) CL Article 177 (fraud); 3) CL Article 193 (illegal activities with financial instruments and means of payment); 4) CL Article 318 (abuse of official position).

A criminal proceeding has been initiated against an OCG, which is suspected of a large amount of VAT fraud through companies trading in vehicles, as well as the use of the current account details and other documents of the companies involved in the above VAT fraud, i.e. illegal use of means of payment and ML. This CO also involved SRS officials who used their official position in bad faith.

- 4.5.270. During the Assessment period, no action related to ML was brought against car dealers.²⁸⁵
- 4.5.271. During the Assessment period, no judgements of conviction were rendered on ML cases involving car dealers.²⁸⁶
- 4.5.272. The ML method, the use of which has been identified in the car dealing sector, is the preparation of documents for the purpose of acquiring movable property, incl. vehicles.

²⁸² AML/CTF Law Article 3, Paragraph 1(9). The wording of the AML/CTF Law that was in effect at the moment of drafting the National Assessment Report.

²⁸³ Table No 4.10.

²⁸⁴ CL Article 165

²⁸⁵ Table No 4.10.

²⁸⁶ Table No 4.10.

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- 4.5.273. On few occasions, information on car dealers involved in ML cases appears in mass media.²⁸⁷ For example, OCG members purchased luxury cars by funds of unknown origin. Exclusive cars were purchased from official dealers in Latvia, paying for them in cash. Exclusive vehicles were originally registered in the name of fictitious companies owned by persons without a specific place of residence. Later these cars were "officially" bought from these companies at a reduced price.
- 4.5.274. The EC Supranational ML/TF Risk Assessment Report²⁸⁸ did not assess the ML threats posed by car dealers.
- 4.5.275. The size of the car dealing sector and its share in the economy is small.²⁸⁹
- 4.5.276. The comparison of the results over the assessment period, i.e. 2013-2016, shows an overall decrease in the level of ML threats posed by car dealers.
- 4.5.277. The assessment of sectoral ML threat criteria shows that the level of ML threats posed by car dealers is low.
- 4.5.278. The national assessment shows that the ML vulnerability of car dealers is medium high. Taking into account that the ML vulnerability of car dealers is medium high, while the ML threats are low, it follows from the Methodology that the ML risk of car dealers is medium.

Dealers of Precious Metals and Precious Stones

ML risk level – MEDIUM

- 4.5.279. Dealers in precious metals and precious stones become entities of the AML/CTF Law when they meet the condition of a cash transaction amount (EUR 15 000).²⁹⁰ However, according to the provisions of Article 30 of the Law "On Taxes and Fees", it is not allowed to carry out cash transactions in excess of EUR 7 200, irrespective of whether the transactions were made in one or more instalments, thus, dealers of precious metals and precious stones do not encounter cash transactions of over EUR 7 200 on a daily basis, so they cannot theoretically be AML/CTF Law obliged entities.
- 4.5.280. During the assessment period, four criminal proceedings were initiated on ML cases involving dealers of precious metals, precious stones and articles thereof.²⁹¹
- 4.5.281. Criminal proceedings on ML cases involving dealers of precious metals, precious stones and articles thereof are related to tax evasion and fraud. Namely, criminals purchased gold for criminal proceeds, thus trying to conceal the origins of the CP.
- 4.5.282. In the criminal proceedings on ML cases involving dealers of precious metals, precious stones and articles thereof, the predicate COs include the following: 1) CL Article 177 (fraud); 2) CL Article 218 (evasion of tax payments and payments equivalent thereto).
- 4.5.283. During the assessment period, one action related to a ML case was brought against dealers of precious metals, precious stones and articles thereof.²⁹²
- 4.5.284. The action brought on a ML case involving dealers of precious metals, precious stones and articles thereof, is related to tax evasion, i.e., a tax related CO committed by company officials.
- 4.5.285. In the action brought on a ML case involving dealers of precious metals, precious stones and articles thereof, the predicate offence is CL Article 177 (fraud).
- 4.5.286. During the assessment period, no judgements of conviction were rendered on ML cases involving dealers of precious metals, precious stones and articles thereof.²⁹³

²⁸⁷ For example: <http://www.delfi.lv/news/national/criminal/notver-cetrus-naudas-atmazgatajus-luksus-auto-pircejus.d?id=48228433>

²⁸⁸ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²⁸⁹ Survey No 22.

²⁹⁰ AML/CTF Law Article 3, Paragraph 1(9).

²⁹¹ Table No 4.10.

²⁹² Table No 4.10.

²⁹³ Table No 4.10.

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- 4.5.287. The ML method, the use of which has been identified among the dealers of precious metals, precious stones and products thereof, are payments for fictitious transactions.
- 4.5.288. No information on the involvement of dealers of precious metals, precious stones and articles thereof in ML cases appears in mass media.
- 4.5.289. In the EC Supranational ML/TF Risk Assessment Report²⁹⁴ the ML risk of dealers of precious metals, precious stones and articles thereof is rated as high.
- 4.5.290. With respect to the ML threats posed by dealers of precious metals, precious stones and products thereof, the EC Supranational ML/TF Risk Assessment Report points out that criminals often use dealers of precious metals, precious stones and articles thereof to legalize CP. Mainly, because this sector is easy to access and does not require specialist knowledge.
- 4.5.291. The size of the sector dealing in precious metals, precious stones and articles thereof and its share in the economy is small.²⁹⁵
- 4.5.292. The comparison of the results over the assessment period, i.e. 2013-2016, shows that the level of the ML threats posed by the dealers of precious metals, precious stones and articles thereof, generally remains unchanged.
- 4.5.293. The assessment of sectoral ML threat criteria shows that the level of ML threats posed by the dealers of precious metals, precious stones and articles thereof is medium low.
- 4.5.294. The national assessment shows that the ML vulnerability of the dealers of precious metals, precious stones and articles thereof is medium. Taking into account that the ML vulnerability of the dealers of precious metals, precious stones and articles thereof is medium, while the ML threats are medium low, it follows from the Methodology, that the ML risk of the dealers of precious metals, precious stones and articles thereof is medium.

Sworn Notaries

ML risk level – MEDIUM LOW

- 4.5.295. Sworn notaries may be used to certify agreements with no clear economical purpose (for instance, transactions concluded below or above the market price) which afterwards could be utilized as the ML tool, including the recovery of fictitious agreements or non-existing debts.
- 4.5.296. The LCSN points out that, when certifying a corroboration request, in most cases, other documents substantiating the request are not presented to the sworn notary, thus precluding the notaries from fully assessing the possibility of ML in the particular transaction. At the same time, LCSN believes that in order to allow sworn notaries to reduce the ML risks, and to strengthen ML control and identify cases of ML, the legislative enactments should stipulate that transactions involving the purchase of real estate and the purchase of shares of legal entities should be made in the form of a notarial deed.
- 4.5.297. Besides, a signature on a corroboration request²⁹⁶ may also be certified at the Orphan's court. So, there is a risk that the individuals wishing to legalize proceeds from crime would choose to certify the corroboration request at the Orphan's court instead of a sworn notary's office, given that the Orphan's court is not an AML/CTF Law entity.²⁹⁷
- 4.5.298. During the assessment period, no criminal proceedings were initiated on ML cases involving sworn notaries.²⁹⁸

²⁹⁴ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

²⁹⁵ Survey No 44.

²⁹⁶ Law on Orphan's and Custody Courts, Article 61(1).

²⁹⁷ Survey No 64.

²⁹⁸ Table No 4.10.

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- 4.5.299. During the assessment period, no action was brought on ML cases involving sworn notaries.²⁹⁹
- 4.5.300. During the assessment period, one judgement of conviction was rendered on a ML case involving a sworn notary³⁰⁰ and four persons were convicted.³⁰¹
- 4.5.301. In the sentencing judgment on a ML case involving a sworn notary, the predicate COs include the following: 1) CL Article 218 (evasion of tax payments and payment equivalent thereto); 2) CL Article 219 (avoiding submission of declaration); 3) CL Article 275 (forgery of a document, seal and stamp and use and sale of a forged document, seal and stamp); 4) CL Article 279 (arbitrariness).
- 4.5.302. The sentencing judgment on a ML case involving a sworn notary is related to the certification of documents on real estate transaction documents, without the notary knowing that immovable property has been obtained through a criminal proceeding. The real estate was then sold to third parties, thus legalizing the CP.
- 4.5.303. The ML method, the use of which has been identified in the notarial sector, is certification of transactions, including documents.
- 4.5.304. On few occasions, information on sworn notaries appears in mass media.³⁰² For example, in an attempt to carry out a real estate fraud scheme, an offender arrives at a notary with a will, stating that the offender receives the apartment and the property of the deceased. The will has been drawn up in such a way as to enter into force immediately. By law, heirs should be allowed to apply for at least a year. The notary did not comply with this deadline. The request for corroboration issued by the notary allowed the offender to register the apartment in his name.
- 4.5.305. In the EC Supranational ML/TF Risk Assessment Report³⁰³ the level of ML threats posed by sworn notaries has been rated as high.
- 4.5.306. In the EC Supranational ML/TF Risk Assessment Report sworn notaries were assessed together with lawyers and attorneys. As regards sworn notaries, it is pointed out that they act as intermediaries, providing the opportunity to carry out certain actions (*gate-keeper*), for example, certification of documents.
- 4.5.307. The size of the sector of sworn notaries and its share in the economy is small.³⁰⁴
- 4.5.308. The comparison of the results over the assessment period, i.e. 2013-2016, shows that the level of the ML threats posed by the sworn notaries remains unchanged.
- 4.5.309. The assessment of sectoral ML threat criteria shows that the level of ML threats posed by sworn notaries is medium low.
- 4.5.310. The national assessment shows that the ML vulnerability of sworn notaries is medium low. Taking into account that the ML vulnerability of sworn notaries and the ML threats posed by sworn notaries are medium low, it follows from the Methodology, that the ML risk of sworn notaries is medium low.

Certified Auditors

ML risk level – MEDIUM LOW

- 4.5.311. During the assessment period, no criminal proceedings were initiated on ML cases involving sworn auditors.³⁰⁵
- 4.5.312. During the assessment period, no action was brought on ML cases involving sworn auditors.³⁰⁶
- 4.5.313. During the assessment period, no judgements of conviction were rendered on ML cases involving sworn auditors.³⁰⁷

²⁹⁹ Table No 4.10.

³⁰⁰ Table No 4.10.

³⁰¹ Survey No 63.

³⁰² For example: <http://www.jelgavniekiem.lv/?act=4&art=37290>; <https://skaties.lv/zinas/latvija/neka-personiga/pec-neka-personiga-sizeta-par-izkrapu-mantojumu-notaru-padome-rosina-atstadinat-inaru-dobberman/>

³⁰³ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

³⁰⁴ Survey No 64.

³⁰⁵ Table No 4.10.

³⁰⁶ Table No 4.10.

³⁰⁷ Table No 4.10.

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- 4.5.314. No information on sworn notaries appears in mass media.
- 4.5.315. In the EC Supranational ML/TF Risk Assessment Report³⁰⁸ the level of ML threats posed by sworn auditors has been rated as high.
- 4.5.316. In the EC Supranational ML/TF Risk Assessment Report sworn auditors were assessed together with tax consultants, accountants. The report points out that sworn auditors act as intermediaries, providing the opportunity to carry out certain actions (*gate-keeper*), for example, providing guarantees.
- 4.5.317. The size of the sector of sworn auditors and its share in the economy is small.³⁰⁹
- 4.5.318. The comparison of the results over the assessment period, i.e. 2013-2016, shows that the level of the ML threats posed by the sworn auditors generally remains unchanged.
- 4.5.319. The assessment of sectoral ML threat criteria shows that the level of ML threats posed by sworn auditors is medium low.
- 4.5.320. The national assessment shows that the ML vulnerability of sworn auditors is medium low. Taking into account that the ML medium of sworn notaries and the ML threats posed by sworn auditors are medium low, it follows from the Methodology, that the ML risk of sworn auditors is medium low.

Entities carrying out transactions with the cultural monuments included in the Register of State Protected Cultural Monuments

ML risk level – LOW

- 4.5.321. According to the SIPCM, the largest ML threat within the sector is posed by the lack of supervision over the circulation of artistic (cultural) objects, where there is a higher probability of ML cases than in transactions with the cultural monuments included in the Register of State Protected Cultural Monuments. The law does not provide for the right of the SIPCM to monitor such transactions.³¹⁰
- 4.5.322. During the assessment period, no criminal proceedings have been initiated on ML cases involving entities carrying out transactions with cultural monuments.³¹¹
- 4.5.323. During the assessment period, no action was brought on ML cases involving entities carrying out transactions with cultural monuments.³¹²
- 4.5.324. During the assessment period, no judgements of conviction were rendered on ML cases involving entities carrying out transactions with cultural monuments.³¹³
- 4.5.325. No information on entities carrying out transactions with cultural monuments appears in mass media.
- 4.5.326. In the EC Supranational ML/TF Risk Assessment Report³¹⁴ the level of ML threats posed by entities carrying out transactions with cultural monuments has been rated as medium.
- 4.5.327. According to the EC Supranational ML/TF Risk Assessment Report, the ML threats posed by entities carrying out transactions with cultural monuments, are related to the purchase of such goods at airport tax-free zones. At the same time, it should be noted that this report also evaluates transactions related to the acquisition of artistic (cultural) objects, namely the purchase of items not monitored in Latvia by the SIPCM.
- 4.5.328. The size of the sector involving entities carrying out transactions with cultural monuments and its share in the economy is small.³¹⁵

³⁰⁸ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

³⁰⁹ Survey No 47.

³¹⁰ Survey No 17.

³¹¹ Table No 4.10.

³¹² Table No 4.10.

³¹³ Table No 4.10.

³¹⁴ Available under: http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=81272

³¹⁵ Survey No 17.

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- 4.5.329. The comparison of the results over the assessment period, i.e. 2013-2016, shows that the level of the ML threats posed by the entities carrying out transactions with cultural monuments generally remains unchanged.
- 4.5.330. The assessment of sectoral ML threat criteria shows that the level of ML threats posed by entities carrying out transactions with cultural monuments is low.
- 4.5.331. The national assessment shows that the ML vulnerability of entities carrying out transactions with cultural monuments is low. Taking into account that the ML vulnerability of entities carrying out transactions with cultural monuments and the ML threats posed by entities carrying out transactions with cultural monuments are low, it follows from the Methodology, that the ML risk of entities carrying out transactions with cultural monuments is low.

5. National ML Vulnerability

Aim of this section is to identify total state ML vulnerability and deficiencies in ability to combat ML, by considering all the measures necessary for strengthening work of the institutions towards AML combating.

5.1. Unified and Coordinated Strategy

- 5.1.1. In Latvia, policy makers in the area of AML/CTF since 2014³¹⁶ are both MF and MoJ.
- 5.1.2. FSDC is a coordinating institution, whose purpose of activity is to coordinate and improve cooperation between state institutions and the private sector for the promotion of financial sector development and AML/CTF. The tasks of FSDC, among others, are:
- a) to develop a work plan and determine priorities in promoting financial sector development and AML/CTF; and
 - b) at least once a year to review the work plan, so that the state priorities can be executed more efficiently.³¹⁷
- 5.1.3. The financial sector development plan for 2014 - 2016 was approved on 31.03.2014,³¹⁸ which underlines the work in combating ML, including taking into account the risks and recommendations stated in the 4th round Moneyval report about Latvia.
- 5.1.4. The Government activity plan³¹⁹ included the task to draw up a Development Plan for the Financial Sector for 2017-2019³²⁰ and to define the policy framework for the development of the financial market and international competitiveness, including the strengthening of the ML/TF risk combating system.
- 5.1.5. The evaluation found that taking into account the current urgent need to improve the ability to combat ML/TF and to reduce the vulnerability of the state, the potential to increase the effectiveness of FSDC operation should be assessed.
- 5.1.6. In order to facilitate action of the FIU and to coordinate its cooperation with LEA and obliged entities, the FIU Advisory Council has been established. The FIU Advisory Council responsibilities include; making recommendations to improve the operation of the FIU, coordinating cooperation of the obliged entities and supervisory bodies, developing and making recommendations to the FIU and informing the competent authorities.
- 5.1.7. Taking into account the dynamic development of ML/TF, countries should carry out more activities and should involve more representatives of the private and public sector in order to formulate AML/CTF policy and combat ML/TF. Also, the operation of the FIU Advisory Council should be made more intense, more regular and more effective. Thus, an invitation included in the 4th round Moneyval report on Latvia to reinforce cooperation with representatives of the private sector by creating policy in the area of AML/CTF would be fully addressed.
- 5.1.8. AML is set as a priority. It is included in the Work Plan of State Institutions for Limiting Shadow Economy for 2016 – 2020,³²¹ MF Strategy for Limiting Shadow Economy for 2015 – 2020,³²² SP plan of activity priorities for 2016,³²³ guidance for combating and preventing corruption for 2015 – 2020,³²⁴ CPCB activity strategy for

³¹⁶ Cabinet decision No 49 of 16.09.2014 "On preparation of the national ML/TF risk assessment"

³¹⁷ Cabinet regulation No 233 of 03.04.2007 "Regulation of FSDC"

³¹⁸ Cabinet order No 139 of 31.03.2014 "On Development Plan of Financial Sector for 2014-2016"

³¹⁹ Cabinet order No 275 of 03.05.2016 "Declaration regarding implementation of the actions planned by the Cabinet led by Māris Kučinskis"

³²⁰ Cabinet order No 126 of 21.03.2017 "On Development Plan of Financial Sector for 2017-2019"

³²¹ Action plan of state authorities for limiting the shadow economy for 2016-2020, of 10.06.2016

³²² MF presentation "Strategy for limiting shadow economy for 2015-2020"

³²³ Annex to SP order No 4981 of 29.12.2015 "Work Plan for State Police for 2016"

³²⁴ Cabinet order No 393 of 16.07.2015 "Guidance for Corruption Prevention and Combating for 2015-2020"

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2014 - 2016³²⁵ and the plan for combating and preventing organised crime for 2014 – 2016.³²⁶ By an order of the Chief Prosecutor of the Criminal Justice Department and the GPO, ML is determined as an especially topical criminal offence.³²⁷

- 5.1.9. Upon implementation of the 4th Directive, the requirement to carry out a risk assessment and to take measures in order to identify and mitigate ML risks will be implemented in the legal framework of the financial and non-financial sector subjects. Thus Latvia will have a legal requirement to continue periodic assessment of ML risks.
- 5.1.10. All previously mentioned measures are taken with the purpose of providing a unified and coordinated strategy and policy in the area of AML/CTF, which needs to be continued and improved to ensure that the actual and future ML/TF risks are regularly assessed and appropriate measures are taken in a timely manner to reduce the risks in policy making and lower levels.

5.2. ML definition effectiveness

- 5.2.1. In Latvia ML is subject to penalty, based on Section 195 of CL. ML definition is included in Section 5 of AML/CTF Law and it conforms to international requirements, including the UN Convention Against Transnational Organised Crime (Palermo convention) and the UN convention Against Illegal Turnover of Narcotic and Psychotropic substances (Vienna convention). ML definition of compliance with international requirements is also verified in the 4th round Moneyval report on Latvia. In the OECD 2nd stage report on Latvia flaws are found in the legislation that defines ML.
- 5.2.2. The range of applicable penalties for ML is wide and the penalties are severe enough and variable, so that an appropriate and fair penalty can be applied. Sanctions stated in Section 195 of CL are proportionate and consequent to sanctions in other CL sections. Penalties are determined by taking into account the potential harm caused to the public and priorities of interests threatened by the offence. The penalty applied for the mentioned CO, which is a serious CO, is imprisonment of up to 12 years, short term imprisonment, forced labour or a fine with or without confiscation of property and with or without probation supervision for up to three years. Criminal liability for ML can be applied to individuals. Entities can be sanctioned with forced influence measures.
- 5.2.3. In addition to criminal penalties for ML, Latvian legal framework provides administrative penalties for non-compliance with AML/CTF Law, as well as the possibility to take action against violators under civil procedures.

ML Criminal Penalties

- 5.2.4. Section 195 of CL consists of three parts, differentiating penalties for ML with a preliminary agreement that has been committed by a group of persons or an organised group, as well as of the size of the CO. There is no single list of predicate crimes in Latvia, all CO provided in CL can be predicate offenses for ML.
- 5.2.5. The assessment finds that although the definition of ML conforms to international standards, in practice it is hard to prove a ML crime. Therefore to improve the efficiency of the definition and the ability to prove a ML crime in practice, MoJ has developed amendments to AML/CTF Law, in order to expand the definition of intent of ML.³²⁸
- 5.2.6. The following penalty can be imposed for the afore mentioned CO:
- for ML or other property laundering - imprisonment of up to three years, or short term imprisonment, or forced labour or fine, with or without confiscation of property;
 - for ML or other property laundering if it has been committed by a group of persons with a preliminary agreement - imprisonment of up to five years, or

³²⁵ Operation strategy of CPCB for 2014-2016

³²⁶ Cabinet order No 276 of 5.06.2014. "On Organized Crime Prevention and Combating plan for 2014-2016"

³²⁷ Order of chief prosecutor of GPO's criminal department No 1 of 03.01.2017

³²⁸ Proposal of MoJ No 1-11/4464 of 15.12.2016 for draft law "Amendments to AML/CTF law". Available: [http://titania.saeima.lv/LIVS12/saeimalivs12.nsf/0/3b239b1cf9dbf91bc225808e0030ef5b/\\$FILE/2_3163-12_16.pdf](http://titania.saeima.lv/LIVS12/saeimalivs12.nsf/0/3b239b1cf9dbf91bc225808e0030ef5b/$FILE/2_3163-12_16.pdf)

short term imprisonment, or forced labour or fine, with or without confiscation of property, and

- c) for ML or other property laundering if it has been committed by an organised group - imprisonment of three to twelve years, with or without confiscation of property and with or without probation supervision for up to three years.

- 5.2.7. OECD representatives, carrying out inspections, have expressed that fines for ML provided in CL are too insignificant and not effective. Representatives are also recommended to increase the amounts of fines set in CL for CO ML.³²⁹ At the end of 2015 the amendments to the CL came into force,³³⁰ which provided amounts of fines recommended by OECD.
- 5.2.8. If the ML has been committed by an individual on behalf of a legal person, in favour of this person or due to inappropriate supervision or control, legal persons governed by private law can be subject to forced measures of influence - liquidation, restriction of rights, confiscation of property, fine.³³¹
- 5.2.9. In the 4th round Moneyval report, it was admitted that Section 195 of the CL conforms to the international obligations. This fact is also confirmed by the OECD Phase 2 report.

5.3. Confiscation framework

- 5.3.1. ML confiscation is a very effective way of combatting organised crime and other types of crime, the goal of which is to obtain illegal proceeds. By carrying out confiscation, ML can no longer be used for the financing of other CO, damaging trust in financial systems and spreading corruption in society. Confiscation has a preventative effect, clearly showing that "crime does not pay off".
- 5.3.2. The framework of Latvia in the area of confiscation and freezing of CP is mostly comprehensive and sufficient. Both local and foreign representatives of the LEA have appreciated the effectiveness of the confiscation regulation of CP. The effectiveness of the confiscation concept of the CP is confirmed by several cases of confiscation.³³²
- 5.3.3. In order to ensure proper handling of the property matters in a criminal proceeding, CPL provides for an opportunity to place arrest on the property until its confiscation. Freezing financial assets is also possible.
- 5.3.4. ML freezing in Latvia is successfully enforced by the FIU with the authority to issue a binding instruction to obliged entities or controller of the State Information System regarding the freezing of financial assets if there are justified suspicions that a CO or its attempt, including ML/TF is taking or has taken place.³³³ The FIU issues an instruction on its own initiative, based on a report of the obliged entities or at the request of foreign institutions. Every year the amount of criminally acquired assets, which have been frozen increases.³³⁴
- 5.3.5. The FIU cancels issued orders to freeze funds if the person has provided reliable information on the legality of origin of the funds.
- 5.3.6. According to CPL, it is possible to seize the property of the offender and any property due to such person from other persons, for the value of the CP, as well as on the yield acquired as a result of the use of CP.³³⁵
- 5.3.7. If further storage of CP is not necessary and if it should not be returned to the owner or lawful possessor, it shall be confiscated upon decision of the court, and included in the state budget.³³⁶
- 5.3.8. If CP has been alienated, destroyed, concealed or disguised, and the confiscation of such property is not possible, other property, and funds, to the value of the property being confiscated may be subjected to confiscation or recovery.

³²⁹ OECD report, p. 63

³³⁰ Amendments to CL, came into force on 03.12.2016.

³³¹ CL, Section 70.²

³³² See Paragraph 4.2.37 and 4.2.38 of the Report, Table 5.1, Table 5.6, Table 5.7, Table 5.11, Table 5.18

³³³ AML/CTF law, Section 32¹

³³⁴ Image No 5.1

³³⁵ CPL, Section 361

³³⁶ CPL, Section 358

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- 5.3.9. The court determines confiscation of the property and specifies what property should be confiscated.
- 5.3.10. Decision-making regarding confiscation of the CP is simultaneously possible with the final judgement in the case and also during the pre-trial process, by separating any materials regarding CP and the initiating procedure regarding CP.³³⁷
- 5.3.11. The working group of the project "Strengthening the National ARO unit: evaluation and improvement of identifying, tracing and investigating proceeds of crime" composed of representatives of SP, SRS FPD, SRS CPD, CPCB and GPO has carried out an evaluation, and concluded that the legal framework for confiscation of CP in Latvia is sufficiently effective.³³⁸
- 5.3.12. During the assessment, the necessity to supplement the legal framework has been established, in order to avoid a situation where the actual confiscated amount of CP is smaller than the one specified in the decision of the court. For example, in 2016 the court by applying Section 355 of CPL in 52 criminal cases adopted 66 decisions, as a result of which EUR 51.23 mln was confiscated, from which only EUR 46 mln was transferred into the State budget, i.e. a difference of EUR 5 mln.
- 5.3.13. In order to eliminate this deficiency and to also make enforcement of the confiscation of CP more effective, MoJ in 2016 prepared and submitted for review to parliament a draft Law on Enforcement of Confiscation of CP. It is planned that the new law will be adopted and will become effective in 2017.
- 5.3.14. In 2016, Latvia has eliminated the deficiency prescribed in the 4th round Moneyval report in respect of the framework regarding confiscation of the property provided under the judgement imposed by a foreign state to be enforced in Latvia. Regulation is specific, providing that confiscation of the property provided under the judgement imposed by a foreign state is to be enforced according to whatever proceedings (administrative procedure, civil procedure or criminal procedure) the confiscation in a foreign state is being applied.³³⁹
- 5.3.15. On 31.12.2016, Department 2 (ARO) was created in CCPD Criminal Intelligence Management Board of the SP, its basic functions being the search for, identification and recovery of the CP.
- 5.3.16. Drafting of the framework for establishing a Confiscation Fund has been taking place since 2014, allowing the resources of the Confiscation Fund to be used for training, supplementing of materials and technical means, and purchasing emergency equipment, vehicles and analytical software products for LEA, as well as fulfilling social goals.
- 5.3.17. Thus the confiscated CP would be used against the criminals themselves, by ensuring effective prevention, identification of the CP and punishment for ML. It is planned that an appropriate legal framework will be prepared by 30.12.2017, allowing the fulfilment of Recommendation 38 of the 4th round Moneyval report.

5.4. Quality of investigation and financial intelligence

Financial Intelligence Unit

- 5.4.1. The FIU is a specially established state institution, which operates under the supervision of the Prosecutor's Office and, inter alia, carry out the following activities:
- d) receives, collects, stores, accumulates, systematises and analyses reports of obliged entities³⁴⁰;
 - e) collects, processes, stores, analyses and provides information to LEA, which can be used for the prevention of ML/TF or its attempt.
- 5.4.2. The FIU is the responsible institution for carrying out ML/TF risk assessments.³⁴¹

³³⁷ CPL, Part 59

³³⁸ EC project "Strengthening the National ARO unit: evaluation and improvement of identifying, tracing and investigating proceeds of crime", HOME/2009/ISEC/AG/124

³³⁹ CPL, Section 791, (1)

³⁴⁰ Table 7.11

³⁴¹ Cabinet decision No 49 of 16.09.2014 "On preparation of the national ML/TF risk assessment"

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- 5.4.3. Statistics of the information exchange cases in recent years between the Latvian FIU and FIUs of other countries not only shows changes to the total work volume (significant increase in the last four years) but also a ratio of the number of information requests (Latvia/foreign countries).³⁴² The FIU has responded to all international requests received.
- 5.4.4. Cooperation on a national level is handled via the organisation of training and issuing of guidelines. Practice shows that guidelines and recommendations are included in quite a few documents, increasing their vagueness and reducing effectiveness of reporting. This deficiency is pointed out also in the 4th round Moneyval report. By facilitating cooperation on a national level, the FIU provides feedback to obliged entities on the reports submitted by the obliged entities. It is, however, observed in practice that the feedback is not sufficient, and does not provide obliged entities with the necessary information regarding quality and deficiencies of their submitted reports.
- 5.4.5. In 2016, the FIU in cooperation with banks issued 252 orders and frozen CP totalling more than EUR 36 mln. In 2015, there were 243 orders, freezing CP totalling EUR 21.6 mln.³⁴³ The FIU still forwards relatively few of its analysed suspicious transactions³⁴⁴ and unusual transactions³⁴⁵ reports to the LEA for criminal investigations. OECD report of October 2015 also points on this deficiency.³⁴⁶ In 2016, a number of transactions forwarded to LEA has not increased.
- 5.4.6. Report shows that in practice the FIU provides feedback to the obliged entities only regarding those transactions that have been forwarded to the LEA for criminal investigations. Such feedback to obliged entities regarding the suspicious transactions report an unusual transactions report is insufficient in order to improve the quality of reports and facilitate effectiveness of AML/CTF measures in the banking sector.
- 5.4.7. A number of measures were taken for the development of reporting effectiveness as follows:
- a) starting from April 2016, obliged entities have an opportunity to submit reports regarding unusual and suspicious transactions to the FIU online. In order to improve effectiveness and by continuing to comply with the OECD recommendation, in 2015 the FIU prepared draft amendments to the Regulation of the Cabinet of Ministers on the List of Indicators of Unusual Transactions and the Procedure according to which Reports on Unusual and Suspicious Transactions shall be made. The current reporting system is transformed as a result of these amendments, revising reporting criteria and thus increasing reporting quality and effectiveness;
 - b) by addressing deficiencies indicated by both OECD and Moneyval regarding insufficient human resources in FIU, from year 2013 number of FIU's employees have increased³⁴⁷. Also after assessment period the number of employees has increased, namely in year 2017 the number of employees has increased by 5 employees (from 24 employees in 2013), thus;
 - c) improvements in the IT solution for processing suspicious and unusual transactions were made. Work on this component will continue also after the assessment period.

During the training of obliged entities in 2016 a special attention was paid to the necessity to report certain suspicious transactions, the nature whereof is related to the current ML trends and typologies (for example, VAT "carousel" schemes, fraud of the resources of the EU funds, "phishing" fraud and other current types of fraud). A reduction in the number of

³⁴² Image No 5.2

³⁴³ Press release regarding summarised results of the FIU work of last year. Available: <http://www.juristavards.lv/zinas/269950-par-noziedzigi-iegutu-lidzeklu-legalizacijas-noversanas-dienesta-pagajusa-gada-apkopotajiem-darba-rezultatiem/>

³⁴⁴ Suspicious transaction – a transaction in respect of which suspicions have aroused regarding money laundering or terrorism financing or an attempt to carry out such actions, or another associated criminal activity.

³⁴⁵ Unusual transaction – a transaction complying with at least one indication included in the list of unusual transaction indications, e.g. amount of funds involved in the transaction exceeds certain threshold, person involved in the transaction is on terrorist list, etc.

³⁴⁶ Table No 7.11

³⁴⁷ Table No 5.3

reports regarding suspicious transactions is partially achieved as a result of the obliged entities training as shown by the statistics, making a positive impact on the reporting effectiveness and general reduction of resources spent.³⁴⁸

- 5.4.8. The FIU carries out effective international cooperation. As of 28.05.1999 the FIU is a member of the international organisation of Financial Intelligence Units. Egmont Group since 28.05.1999 and effectively uses a special, secured information exchange network. For cooperation with financial intelligence units of the member states of the EU another special, secured information exchange network is used – FIU – NET. Since 1998 the FIU has concluded 30 bilateral information exchange agreements with foreign FIU. In 2013 several such agreements were concluded, including with the FIU of Norway and Japan. In 2014, no new cooperation agreements were signed (an agreement with the FIU of the Russian Federation was updated). In 2016 agreements with the FIU of Israel and Kazakhstan were concluded, and negotiations regarding the conclusion of agreements has started with other FIU of foreign countries.
- 5.4.9. The majority of the materials prepared by the FIU are sent to SP ECB.³⁴⁹ In order to improve cooperation between the FIU and LEA, as well as in order to increase quality of the materials sent to LEA, the FIU has started to organise meetings, requesting participation from all LEA involved in the AML/CTF process. Given that the cooperation was only initiated in 2016, the efficiency will be seen in subsequent years.

Investigation Institutions

- 5.4.10. In Latvia the following investigation institutions combat ML:
- a) SP.
SP ECB and SP OCB mainly carry out investigation in the area of AML.
As of 2016 modified 1st division of SP ECB - ML division CO in credit institutions and for combating ML.
 - b) The following structural units of SRS carry out combating of ML:
 - i. SRS FPD, whose task is to solve and prevent CO in the sector of state revenues, as well as activities of officials and employees of SRS;³⁵⁰
 - ii. SRS CPA, whose task is to solve and prevent CO in the customs sector, including movement of goods and cash, when crossing the state border.
 - c) Under the supervision of the Cabinet of Ministers CPCB executes measures of combating and preventing corruption, as well as controls finances of political parties.
 - d) SP - the main coordinating institution in Latvia in counterterrorism sector. Performance of the function of counterterrorism is done by the Counterterrorism Center of SP.
- 5.4.11. As of 2017 a cooperation mechanism for the operation of the National Criminal Intelligence Model - unified system where state institutions involved in preventing and combating of crimes operate and, based on knowledge acquired as a result of criminal intelligence, shall adopt the optimal decisions in strategic, tactical and operational levels regarding required actions for preventing and combating crimes, as well as objectively define the prevention and combat of crime priorities.³⁵¹ Overall cooperation mechanism applies to the following LEA: SP, SBG, SRS FPD, SRS CPD, CPCB, PA, MP, FIU, SP ISB and GPO.

Activities of SP for combating ML

- 5.4.12. Combating of ML is set as one of the priority operational directions of the SP. Capacity of the SP ECB has been significantly improved in the area of ML offence

³⁴⁸ Image No 5.4

³⁴⁹ Image No 5.5

³⁵⁰ CPL, Section 389

³⁵¹ Cabinet instruction No 1 of 24.01.2017 "Cooperation of LEA in regards to preventing and combating crimes"

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investigation in 2016, modernizing and expanding a special Department 1 for combating of CO in banks and ML. As of 01.01.2017, all materials sent to FIU shall be reviewed and analysed in one structural unit - Department 1 of the SP ECED, thus improving and centralising analytical and investigative work. As of 2016 there are 23 staff positions in SP ECB.

- 5.4.13. As mentioned above, in 2016, Department 1 of SP ECB successfully initiated combating of such new phenomena in Latvia as "shell banks" (please see Paragraph 4.2.10 of the Report).
- 5.4.14. The work of SP ECB in relation to confiscation of CP should also be acknowledged. Statistics show that the financial assets recognised as the proceeds from crime paid into the State budget as a result of the SP ECB activity increases each year.³⁵² Owing to successful cooperation of the Department 1 of SP ECB with EUROJUST, each year an increasing number of criminal proceedings are being sent to the International Cooperation Division of the GPO, in the scope whereof persons are found to be suspects, and all evidence is gathered for criminal prosecution of these persons for ML for further transfer to foreign countries.³⁵³ Thus the recommendation No III (ii) of OECD as of 2009 is being successfully fulfilled.
- 5.4.15. The International Cooperation Bureau of the CCPD of the SP was created for the effectiveness of the international cooperation, successfully applying the Single Point of Contact (SPOC) principle, i.e., all received requests from Latvia and foreign countries will be reviewed and coordinated in one place. SPOC cooperates with contact points of other LEA, and it has a direct access to the majority of the information systems and registers in Latvia. Thus SPOC is able to efficiently satisfy the urgent requests of the foreign LEA.
- 5.4.16. By the statistical data collected within the assessment period it can be concluded that the amount of criminal proceedings initiated by SP ECB for ML is increasing, nevertheless within the assessment period there is no significant changes in the number of criminal cases sent to the prosecutor's office, which remains still at a low level.³⁵⁴ This is due to the fact that many criminal cases are not sent to the Latvian prosecutor's office but are passed abroad since majority of criminal proceedings initiated by SP ECB are regarding predicate CO committed abroad.
- 5.4.17. Within the assessment period the amount of passed criminal cases abroad with each year has increased. In general within the assessment period it has increased more than four times.³⁵⁵
- 5.4.18. Even though significant progress in combating ML may be observed in the country, especially in 2016, assessment shows individual, significant opportunities for development. It was established that in order to achieve better results, LEA of Latvia needs to create a common understanding regarding the combating of ML offences and shall organise regular meetings, improving discussions on current developments regarding AML.
- 5.4.19. In 2016 cooperation with SP ECB and FCMC has been started, as well as meetings with other LEA and parties involved in AML, for example: POIFEC and SPOCOS, FIU, BoL, LACB, SRS FPD, as well as the judges.
- 5.4.20. In order to ensure objective progress of criminal proceedings, investigators shall be denied participation in the criminal proceedings if they are personally interested in the result, or if conditions exist that justifiably give persons involved in the criminal proceedings a reason to believe that such an interest may exist.³⁵⁶ Investigators shall also comply with the Law on Prevention of Conflict of Interest in Activities of Public Officials. In order to ensure the independence of investigators, the CPL provides for the supervision of the investigations carried out by the investigator, performed by both the direct head as well as the supervisory prosecutor.
- 5.4.21. Examinations of the activity of investigators are performed by the SP Internal Control Office.

³⁵² Table No 5.6., 5.7.

³⁵³ CPL, Section 741, 744

³⁵⁴ Table No 5.8.

³⁵⁵ Table No 5.8.

³⁵⁶ CPL, Section 16

Activities of the FPD for AML

- 5.4.22. Priorities of SRS FPD is AML, combating of tax fraud and tax evasion if they are related to activities of organised crime and/or corruption of SRS state officials or employees, inter alia, in fight against ML.
- 5.4.23. As of 31.12.2016, SRS FPD has 71 investigators who carry out investigations in criminal proceedings, from which 14 employees carry out operational work (financial intelligence). SRS FPD does not divide investigators by type of CO but all investigators are authorised to perform investigation on CO in the area of state revenue if it is related with tax fraud or tax evasion.
- 5.4.24. In order to improve the work quality of the investigators of SRS FPD, investigators regularly participate in trainings both at a national as well as an international level.
- 5.4.25. By the statistical data collected it can be concluded every year the amount of the criminal proceedings initiated by SRS FPD regarding ML is decreasing. Also the amount of criminal proceedings passed to the prosecutor's office is decreasing.³⁵⁷
- 5.4.26. Statistics prove that funds seized as a result of activity of the SRS FPD significantly increase each year.³⁵⁸ It is also to be concluded from statistical data that the funds recognised as criminally acquired as a result of activity of SRS FPD and transferred to the state budget are increasing each year.³⁵⁹
- 5.4.27. The most significant investigations recently performed by the SRS FPD are reflected in Paragraph 4.2.55 of the Report.
- 5.4.28. SRS FPD implements international cooperation through a structural unit thereof for effective international cooperation. SRS has a designated communications officer in EUROPOL. The communications officer provides support and information not only to the SRS FPD, but also to the SRS CPD and other units of the SRS.
- 5.4.29. To make cooperation for the investigation of CO more effective, SRS FPA creates Joint Investigations Teams (JIT). So far several successful JIT have been created with the Lithuanian colleagues. Currently SRS FPD is the leader of JIT among the Latvian LEA.
- 5.4.30. In order to facilitate international cooperation with CIS countries, SRS FPD has participated in the meetings of heads of the CIS financial crimes investigation authorities in the status of observers.
- 5.4.31. Rules described in Paragraph 5.4.16 of the Report refer also to the investigators of the SRS FPD. Besides, in order to ensure supervision of the independence of investigators of the SRS FPD, SRS FPD performs inventory of criminal proceedings twice a year. Whereas investigation regarding CO, which has been detected in activities of officials and employees of SRS is carried out by SRS FPD Internal Security Department.

5.5. Quality of prosecution

- 5.5.1. The Prosecutor's Office is a judiciary body that independently exercises supervision over the observance of legality within the framework of its competence.
- 5.5.2. A prosecutor in criminal proceedings realises investigation supervision, investigation, criminal prosecution, the maintenance of state prosecution and other functions specified in the CPL. The prosecutor decides, in the cases determined by the law, the question regarding the commencement of criminal proceedings, and conducts investigations by himself.³⁶⁰
- 5.5.3. Two specialised Prosecutor's Offices are operating in relation to the prosecution of predicate offences and related ML offences - SPOOCOS (county level) and POIFEC (district level), as well as cases of predicate CO and ML cases can be in the record-keeping of prosecutors of district and county level of regions of Latvia.
- 5.5.4. Within assessment period the number of prosecutors has not significantly changed. Assessment has shown the extensive work load of the prosecutors realising investigation supervision, investigation, criminal prosecution of ML related offences.

³⁵⁷ Table No 5.9

³⁵⁸ Table No 5.10

³⁵⁹ Table No 5.11

³⁶⁰ CPL, Section 36

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It is attributed to the fact that mentioned prosecutors realises also cases of other categories. The increase in the numbers of prosecutors specialising in AML CO prosecution or decrease of the work load should be considered.

- 5.5.5. Within last two years of the assessment period the number of criminal cases received for the initiation of prosecution has decreased. Number of criminal cases adjudicated to the court within first three years of the assessment period has decreased and during the last year increased by one. Number of persons adjudicated to the court within the assessment period has decreased during the last two years.³⁶¹ It may be concluded that within the assessment period a significant progress regarding prosecution have not been identified.
- 5.5.6. CPL provides for an opportunity to apply an agreement process during the pre-trial process. The agreement process facilitates more effective application of CL provisions and ensures faster fair settlement of criminal law relations, including inevitability of penalty. By unburdening the prosecutors and courts, within two years of the assessment period the prosecutors have applied an agreement process in ML cases in 3 cases out of 16.³⁶²
- 5.5.7. As of 01.03.2016, the Prosecutor's Office started using the Prosecutor's Office Information System (ProIS), in which the possibility to request data from the following databases is ensured: Population register, RE, RSD register, as well as to enter and receive data from KRASS.
- 5.5.8. The prosecutors are provided with regular training, including in the area of ML.
- 5.5.9. The State effectively protects the independence of its prosecutors. Prosecutors in their activities shall be independent from the influence of other state authorities and official institutions or officials and shall only conform to the law.³⁶³ Guarantee of the prosecutors' independence is set both in the Law on Judicial Power,³⁶⁴ in the Law on Prosecutor's Office,³⁶⁵ and also in CPL.³⁶⁶ A low corruption level of prosecutors is observed in the state. Only one criminal proceeding was initiated against a prosecutor during the assessment period based on Section 320 of CL (bribery).
- 5.5.10. An international cooperation division of the Operation Analysis and Management Department is established within the GPO in order to ensure to ensure the execution of international cooperation requests, competence of which, inter alia, includes evaluation of judicial assistance requests and execution at pre-trial stage. Simultaneously, the prosecutor of the above mentioned department fulfils functions of national representative of Eurojust, by coordinating execution of the international cooperation requests within the competence of Eurojust.
- 5.5.11. In order to ensure the tracking and processing of international cooperation requests and information included thereof at a national level, in 2013 an information system of international cooperation requests in criminal matters - state information system, was established, the manager and the holder of which is MoJ, and the system covers records of cooperation requests at the disposal of three international cooperation central institutions in Latvia (MoJ, GPO and SP).
- 5.5.12. A representative of the Prosecutor's Office acts as a contact point and constantly operates in Camden Assets Recovery Interagency Network (CARIN). The European Anti-Fraud Office (OLAF), Consultative Council of European Prosecutors (CCPE), The Council of Europe's Committee of Experts on the Operation of European Conventions on Co-operation in Criminal Matters (PC-OC) could be mentioned as other international organisations, where the Prosecutor's Office participates, the work of which can be related to the analyses of problems related to the prevention of ML. A representative of the prosecution office has been designated also at EUROJUST as the national correspondent for terrorism matters.

³⁶¹ Image No 5.12

³⁶² Table No 5.13

³⁶³ Law on Prosecutor's Office, Section 6.

³⁶⁴ Law on Judicial Power, Section 106.1.

³⁶⁵ Law on Prosecutor's Office, Section 1, 6.

³⁶⁶ CPL, Section 459.

5.6. Quality of adjudication

- 5.6.1. The number of convictions for ML offences has not significantly changed during the assessment period, remaining constantly low.³⁶⁷ The average time for adjudication of ML cases has lengthened.³⁶⁸
- 5.6.2. Positive increase has been shown by the number of decisions regarding confiscation of CP, it has doubled during the assessment period, thus ensuring that the state has effective confiscation system.³⁶⁹
- 5.6.3. Although CL sets forth sufficiently harsh penalties for ML, in practice however, for the most part, conditional imprisonment,³⁷⁰ is imposed instead of a real imprisonment sentence.³⁷¹ Thus reducing its repressive nature. Sometimes court imposes less severe penalty or lower penalty threshold than prescribed in the sanction of the relevant section. In addition, the people who are considered as the owners or shareholders in fictitious companies may continue to establish new companies, as there is no restriction for registration of fictitious companies that may be used in ML schemes, because they are not subject to relevant restrictions.
- 5.6.4. The crucial problem is the unjustified high threshold of the courts for the origin of the proceeds from crime, which is showed by low number of convictions for ML. In general, the number of cases transferred to the court, is low.³⁷²
- 5.6.5. Even though judges regularly participate in training, including regarding ML, effectiveness of adjudication and imposed penalties has not yet achieved sufficient efficiency, and measures should be taken to ensure that the courts deal with the recently initiated cases properly and in high quality.
- 5.6.6. In order to ensure the independence of judges at the time of court judgment, the state has set up legal framework for the independence of judges, which is included in both the Constitution (Satversme)³⁷³ and in the Law on Judicial Power.³⁷⁴ Prohibition on interference with the work of a court is established by law.³⁷⁵ A judge has immunity during the time of fulfilment of his/her duties in relation to adjudication in court.³⁷⁶
- 5.6.7. Within the assessment period, there has been a matter in which criminal proceedings against the judge had been initiated. The case was closed by means of an agreement and a penalty of EUR 11 thous. was imposed. No infringements regarding ML were detected.

5.7. Border guard and customs

- 5.7.1. SBC is an armed direct administration within the supervision of the MoI, which ensures the inviolability of the state border, the prevention of illegal migration, the movement of goods traffic across the state border, as well as review of administrative violation matters, and carries out pre-trial investigations and imposes penalties within the scope of its competence.³⁷⁷
- 5.7.2. To reduce illegal border crossings of the border between Latvia and Russia, a 92 km fence is planned to be built in 2019. At the end of the assessment period, at the border between Latvia and Russia the fence has already been built to the length of 22.7 km. Financial means shall also be planned in order to commence the development of a project for the installation of the state border zone at the border of Belarus. In order to improve the capacity of SBC, it is planned to purchase additional border control equipment by 2022. More than 40 new generation border surveillance sensors were acquired in 2016.

³⁶⁷ Table No 5.14

³⁶⁸ Table No 5.15

³⁶⁹ Table No 5.16

³⁷⁰ CL, Section 49¹

³⁷¹ Table No 5.17

³⁷² Table No 5.13

³⁷³ Constitution of Republic of Latvia, Sections 83, 86

³⁷⁴ Law on Judicial Power, Section 10

³⁷⁵ Law on Judicial Power, Section 11

³⁷⁶ Law on Judicial Power, Section 13

³⁷⁷ State Border Guard regulations; Cabinet regulation No 122 of 15.02.2005. "Regulation of State border guard"

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- 5.7.3. The customs institution that executes the tasks stated in regulations in customs sector for implementing customs policy is SRS CD.³⁷⁸
- 5.7.4. One of the SRS CD delegated functions is cash movement control when crossing external EU border. SRS CD organises and takes control measures on state borders, including by the requests of SRS CPD and other LEA.
- 5.7.5. The functions of the competent authority SRS CD shall be performed by the SBG at border crossing areas where customs control points have not been established.

5.8. Quality of cross-border control of cash and similar instruments

- 5.8.1. Taking into account that Latvia is a member state of the EU and the Schengen Area, border control of all persons and vehicles is carried out only on the EU external borders (with Russia and Belarus, as well as in the airports and ports, except for the domestic boat and aviation traffic).
- 5.8.2. In Latvia there are two stated main mechanisms for control of cash movement:
- a) a duty of an individual to declare cash of EUR 10 thous. or more when crossing EU external border, including equivalent in another currency;³⁷⁹
 - b) a duty of tax payers³⁸⁰ to declare all cash operations executed in the previous month, sum of which exceeds EUR 1.5 thous.³⁸¹
- 5.8.3. The obligation to declare cash applies only when entering the EU or leaving it, but such obligation is not established for the transportation of cash between the EU Member States.³⁸²
- 5.8.4. It was established in the assessment that Latvia should possibly consider drafting a specific framework in respect of the control of cash transportation within EU. The framework for the situations when the amount of up to EUR 10 thous. is transported from/to other EU Member States or third countries is not provided for either.
- 5.8.5. SRS CD and SRS CPD may seize undeclared cash only by initiating criminal proceedings, which is a competence of SRS CD. Such a system artificially increases the number of initiated and terminated criminal proceedings, because essentially criminal proceedings should be initiated in cases, when there are suspicions of cash being related to CO. If there is such a system, the resources are spent inefficiently, because such initiated criminal proceedings are in practice often terminated. The assessment shows that Latvia must consider an opportunity to change this framework which would allow fulfilment of recommendation No 32.8 of the 4th round Moneyval report.
- 5.8.6. After the assessment period it is planned to merge SRS CD and SRS CPD with the aim to increase investigation in the area of state revenues and custom affairs.

5.9. Access to credible information and evidence

- 5.9.1. A single Register of the State Information systems has been created in the country, allowing the gathering of information regarding all state information systems in one place.
- 5.9.2. Databases of Latvia in respect of the personal identification in general are recognised as credible and safe. ID documents of Latvia are also considered as credible and safe. Credibility of the data included in the databases of Latvia is also proven by the fact that Latvia has an opportunity to participate in the US visa waiver

³⁷⁸ Regulation No 952/2013, Section 5, 1)

³⁷⁹ Laws and regulations that regulate control of cash turn-round when crossing EU border - European Parliament and Council Regulation of 26.10.2005 (EC) No 1889/2005 on controls of cash entering or leaving the Community, law "On Declaring Cash on State Border", and 19 June 2007 CM rules No 414 "Regulations regarding the Form of Declaration of Cash, the Procedures for Filling in and Submission Thereof and Verification of the Provided Information"

³⁸⁰ In the interpretation of the law "On Taxes and Duties", tax payers are natural or legal persons of the Republic of Latvia or foreign countries and groups of such persons or their representatives formed on the basis of contracts or agreements, who are engaged in performance of taxable activities or who have been guaranteed income in the future.

³⁸¹ Cabinet of Ministers regulations of 10.04.2007 No 237 "Regulations on Declaring Cash Operations", Section 30 of law "On Taxes and Duties"

³⁸² Regulation 1889/2005 of 26.10.2005.

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programme. A prerequisite for such participation was the US conclusion regarding credibility of the databases of Latvia.

- 5.9.3. In general, supervisory authorities and LEA have access to the necessary databases, however, work on necessary improvements continues in order to integrate separate databases, prevent the different use of input variables in different databases and thus make the obtaining and gathering of information more effective for the performance of analytical work.
- 5.9.4. Inconsistencies in respect of the input of data regarding foreigners in various databases were identified, for example, assigning different identification numbers to foreigners, which makes their identification more difficult.
- 5.9.5. Latvia ensures adequate and timely information regarding the UBO. Information regarding the UBO is included in the UBO Register maintained by the RE. The UBO Register contains information regarding UBO of limited liability companies and personal liability companies. A limited liability company and personal liability company has an obligation to provide information regarding the UBO and any changes to it to the RE, thus ensuring that the RE UBO Register has the updated data regarding the UBO.
- 5.9.6. A joint stock company information shall provide to RE, information regarding the UBO, if a shareholder acquires at least 25% shares of joint stock company on behalf of another person. Also companies included in the group have an obligation to provide information regarding the UBO of the respective company to RE.
- 5.9.7. Information regarding the UBO is also available to LEA and control authorities for tax administration and to other institutions mentioned in Commercial Law. Information shall become available also to entities after the complete introduction of the requirements of the 4th Directive.
- 5.9.8. RE shall submit the information regarding the UBO to the competent authorities upon request within 15 days. In case of urgency, RE shall provide the information pursuant to the deadline indicated in the request.
- 5.9.9. In the event of a failure to provide information regarding a UBO, the person may be subjected to administrative liability, by a warning or fine up to EUR 700. Evaluating a need for true and updated information regarding UBO, the effectiveness of the existing administrative penalty should be assessed. The 4th round Moneyval report also points at the need for such an assessment.
- 5.9.10. From the statistics collected by RE within the assessment period it shall be concluded that each year the number of received applications regarding UBO decreases: in 2013 – 18, in 2014 – 11, in 2015 – 13 and in 2016 – 7 applications.
- 5.9.11. As of 2013 criminal liability is provided for legal person, which is not public authority, for failure to provide information³⁸³ or provision of false information³⁸⁴ regarding UBO.
- 5.9.12. According to statistics from the Court information system within the assessment period no person is convicted or acquitted based on Section 195¹ of CL, as well as criminal proceeding have not been terminated for any person. Further, based on Section 272 of CL no person has been convicted of giving false information regarding UBO.

Shadow economy and tax collection

- 5.9.13. The government is taking all actions necessary to reduce the shadow economy each year. The tax gap has decreased by 2.1% since 2013.³⁸⁵
- 5.9.14. The Shadow Economy Combating Council - a coordination institution with a purpose of coordinating and supervision of the activities carried out by the responsible institutions - state authorities and non-governmental institutions in the area of combating of shadow economy was established in 2014. In practice active operation of the Shadow Economy Combating Council occurs.
- 5.9.15. On 10.06.2016, an action plan of state authorities for limiting the shadow economy 2016 - 2020³⁸⁶ was approved in Latvia, which provides for measures for limiting the

³⁸³ CL, Section 195¹

³⁸⁴ CL, Section 272

³⁸⁵ Table No 5.18

³⁸⁶ Action plan of state institutions to limit the shadow economy in 2016-2020.

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shadow economy in fields of construction and services, transportation, trade, imposing of penalties, communication and education and improving of institutional capacity.

- 5.9.16. The main portion of the shadow economy in Latvia is formed by failure to declare business income or tax avoidance. The second largest proportion of the shadow economy in Latvia is formed by so called "envelope" salaries. The statistics show that in the last years of the assessment period cash transaction amount has not significantly changed.³⁸⁷
- 5.9.17. In 2016 administrative and criminal liability was introduced for combating "envelope" salaries in Latvia.³⁸⁸ Effective preventive measures in the scope of the data credibility assessment and also in respect of potential unregistered economic activity were taken in 2016.³⁸⁹ 92 educating seminars for the tax payers were organised in 2016 in relation to illegal employment and "envelope" salaries.
- 5.9.18. In 2016 an obligation for banks and PI to provide information to SRS regarding residents' suspicious transactions in the area of tax was provided, in order to combat the shadow economy, including to improve work effectiveness of the SRS with respect to detection and prevention of the CO for tax evasion.³⁹⁰
- 5.9.19. In order to prevent registration of fictitious companies and tax evasion, the RE is entitled to request an opinion regarding tax risks of a legal entity from the SRS. In event of a negative opinion by the SRS, registration shall not be made.³⁹¹
- 5.9.20. In 2014, a list of risk persons was introduced, which is held by the SRS in order to restrict the activities of business entities, which are actually established for the fulfilment of the role of intermediaries in ML and tax fraud schemes and organisers of which, as well as the UBO cannot be identified within administrative proceedings.³⁹²
- 5.9.21. Persons, which have acted in bad faith, have caused damage to the state budget, have distorted the business environment and undermined the well-being of society as a whole shall be included in the list of risk persons. The RE shall refuse the registration of a company to those persons. The RE shall also refuse to register such persons in management positions of a company.
- 5.9.22. A comprehensive legal framework for collection of taxes has been designed in the state, including the right of SRS to receive the necessary information and the right to impose sanctions for breach of the laws and regulations in respect of payment of taxes. The amount of collected taxes increases each year, however, the total tax debt compared to the tax debt to be recovered is still much higher.³⁹³
- 5.9.23. SRS carries out exchange of information among the OECD Member States in the area of direct and indirect taxes. Purpose of information exchange is to combat cross-border tax evasion.
- 5.9.24. To reduce the possibility to carry out fraudulent transactions and prevent ML, on 23.11.2016, amendments to the Law "On Taxes and Duties" were adopted, which provided for restrictions in transactions in cash of individuals, if the amount of transaction exceeds EUR 7.2 thous.

Financial integrity

- 5.9.25. On 01.07.2016, Latvia became a member of the OECD. The OECD has established that the Latvian corporate governance legal framework largely corresponds to the OECD Principles of Corporate Governance, including public companies have implemented most of the recommendations of the guidelines for the disclosure of information.³⁹⁴

³⁸⁷ Table No 5.19

³⁸⁸ CL, Section 217¹, AVC 159¹⁰

³⁸⁹ Table 5.20

³⁹⁰ Amendments to the Law on Taxes and Duties of 01.04.2016

³⁹¹ Law on RE of Republic of Latvia, Section 14 (6)

³⁹² Law on Taxes and Duties, Section 18 (1) 21)

³⁹³ Image No 5.21, 5.22

³⁹⁴ OECD Review of the Corporate Governance of State-Owned Enterprises: Latvia, Annex 1 of 2015

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- 5.9.26. However, during the accession process, OECD provided recommendation to Latvia to ensure the protection of whistleblowers and to establish reporting channels within private and public sectors.
- 5.9.27. In 2014, working group for drafting Whistleblowers' protection law was created. Draft law has been brought before the parliament (Saeima) in March, 2017.
- 5.9.28. An effective whistleblowing mechanism, inter alia, enables the combating corruption more effectively in the state. In 2013, during Eurobarometer public opinion survey on corruption in the EU countries,³⁹⁵ respondents, who were confronted with corruption, to the question whether one has reported to someone regarding the experienced, in EU average of 74% answered "no", but Latvia had one of the highest rates – 92% would not report, mostly arguing that reporting simply is useless. According to the "Latvian Facts" survey on corruption in December, 2015 40% of the respondents were ready to report. These results show current insufficient awareness about whistleblowing.

³⁹⁵ Eurobarometer public opinion survey on corruption in the EU countries. Available: http://ec.europa.eu/public_opinion/archives/ebs/ebs_397_en.pdf

6. Use of legal persons and entities in ML

- 6.1. Latvian authorities point out that legal persons are often involved in ML/TF schemes and therefore are vulnerable to ML/TF risks. Both, fictitious and existing business operators are involved in ML/TF schemes.
- 6.2. The legal framework for commercial activities in Latvia is specified in the Commercial law and the Civil law. In addition to legal framework, detailed information on the establishment and the types of legal persons is publicly available in the homepage of RE.³⁹⁶
- 6.3. The Commercial law establishes five types of businesses operators – an individual merchant, which after registration is considered as a natural person, two types of capital companies and two types of partnerships. Registration of business operators and other economic operators and maintenance of relevant registers is carried out by the RE.
- 6.4. Capital companies may be registered as LLC or JSC. Minimum amount of the share capital for establishing a LLC is EUR 2.8 thous. Minimum amount of the share capital of JSC is EUR 35 thous. LLC is a closed company. JSC is an open company, which shares may be publicly traded.
- 6.5. Partnerships may be registered as general and limited partnerships, they do not have the status of a legal person but they have rights similar to a legal person.
- 6.6. In respect of the commercial activity, branches of the Latvian companies and foreign companies, shall be registered in the RE. Branches are not considered as legal persons.
- 6.7. According to statistical data, the most common type of companies in Latvia are LLC, but limited partnership and joint stock companies are considered to be less often registered companies in Latvia.³⁹⁷
- 6.8. As the competent authorities pointed out Latvian legal persons – LLC (~ 52%) and foreign legal entities registered in low or tax-free countries (“off-shore companies”), are mostly involved in ML/TF schemes. Due to high registration costs and requirements JSC are least likely to be used in ML/TF schemes (~2%).
- 6.9. In order to prevent the use of legal persons in ML/TF, the state must ensure that the required information is timely provided to the competent authorities and is up to date.
- 6.10. RE maintains and manages the Commercial Register where the information and documents registered by the companies are stored. The Commercial Register is a public register, and the information and documents stored therein, may be inspected by any person. The information available in the RE in general is accurate and reliable; it is one of the main sources of information for the competent authorities.
- 6.11. Information on the shareholders of the company, as well as any information regarding changes in the information should be submitted to the RE and are publicly available online.³⁹⁸ RE gathers information and provides it to the competent authorities.³⁹⁹

³⁹⁶ Available: <http://www.ur.gov.lv/>

³⁹⁷ On 2016 following amount of companies are registered in Latvia: capital companies - 251716; JSC - 2249; limited partnerships – 364 and general partnerships - 792. Statistical data available at: <http://www.ur.gov.lv/statistika.html?a=1098>

³⁹⁸ For example, Lursoft, www.lursoft.lv

³⁹⁹ The term “competent authorities” is used to describe the subjects prescribed in Section 17.¹ of the Commercial law, which are entitled to get acquainted with the information regarding UBO of the partnership and capital companies - TAI and supervisory authorities in the area of tax administration, public procurement or public and private partnership.

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- 6.12. In addition to the information regarding shareholders of the company registered in Latvia, information regarding persons who are entitled to represent the company shall be publicly available as well.⁴⁰⁰
- 6.13. Therefore, it may be concluded that the information regarding the absolute majority of capital companies, including information on shareholders legal representatives of capital companies registered in Latvia is easily accessible and publicly available.
- 6.14. Responsible persons ensure that the available information in the RE is up to date. Merchants in the event of specific changes, for instance, changes to the information on shareholders, shall inform and register changes in the RE.
- 6.15. The RE imposes an administrative penalty if it establishes that the person has not provided necessary information or documents. In case the person fails to submit the information, RE shall impose a warning or a fine of up to EUR 700.⁴⁰¹
- 6.16. In general, Latvia fulfils the requirements of the FATF recommendation No 24 regarding the transparency of legal entities and the UBO. Relatively low administrative fines (up to EUR 430 and EUR 700 during the year of infringement) may reduce the topicality of the available information in the Commercial register.⁴⁰²

⁴⁰⁰ Commercial law, Section 8

⁴⁰¹ AVC, Section 166.³

⁴⁰² AVC, Section 166.³

7. Vulnerability of financial sector

7.1. Entry controls for the financial institutions

Obligated entities supervised by FCMC

- 7.1.1. There are effective entry controls in place for the obliged entities supervised by FCMC to prevent criminals or their associates from entering and operating in the financial sector of Latvia. They are defined in accordance with the requirements of international standards.
- 7.1.2. All obliged entities under supervision of FCMC should be licensed to perform activities, except PI/EMI and AIFM which in exceptional cases defined in PSEML and Law on alternative investment funds and their managers can perform commercial activities being registered without being licensed by FCMC.
- 7.1.3. For registered PI/EMI, which do not obtain a license from FCMC, the territory of Latvia shall be the place for carrying out its commercial activity. Besides, the average value of the payments made during the previous 12 months by the registered PI should not exceed EUR 500 thous.⁴⁰³ The average outstanding electronic money within the commercial activity of the registered EMI should not exceed EUR 2 mln.⁴⁰⁴
- 7.1.4. There are also restrictions set for registered AIFM with regard to the volume of managed fund assets.⁴⁰⁵
- 7.1.5. Given the restrictions applicable to the volumes of commercial activity of registered PI/EMI and AIFM, the registration procedure, i.e. entry controls, for these obliged entities is simplified compared to the licensing procedure set for other financial institutions under FCMC supervision, except for requirements to develop adequate ICS.
- 7.1.6. The Latvian legal framework in general, provides detailed procedures, according to which FCMC grants licenses to the financial institutions, including assesses compliance of the entity undergoing licensing procedure with AML/CTF requirements. Entry controls are also considered to be effective in order to ensure that:
- a) qualifying holdings in the financial institution cannot be acquired by criminals or persons with improper reputation (*fit and proper test*);
 - b) senior management of the financial institution have appropriate education and professional experience;
 - c) the financial institution has developed the appropriate ICS, including the appointment of qualified compliance staff to ensure effective ML/TF risk management.
- 7.1.7. Within the registration process of AIFM and PI/EMI, FCMC assesses whether the senior management of the financial institution has appropriate education and

⁴⁰³ An exception applies where a registered PI provides money remittance services. In this case the average value of the payments made during the previous 12 months by the registered PI should not exceed EUR 3 mln (PSEML, Sections 5 and 7).

⁴⁰⁴ In accordance with Section 5.¹ and 7.¹ of PSEML, a restriction is applied to the arithmetic average value of the payments made during previous 12 months. If a registered EMI, in addition to the issue of electronic money, also provides payment services, the maximum average value should not exceed EUR 500 thous. An exception applies where a registered EMI, in addition to electronic money services, also provides money remittance services. In this case the average value of the payments made during the previous 12 months should not exceed EUR 3 mln.

⁴⁰⁵ Registered AIFM is entitled to manage fund assets (including any assets, acquired through use of financial leverage), that in total do not exceed a threshold of EUR 100 mln, or fund assets, that in total do not exceed threshold of EUR 500 mln, provided that portfolios of alternative investment funds consist of alternative investment funds that are unleveraged and have no redemption rights exercisable during a period of five years following the date of initial investment in each alternative investment fund (Law On alternative investment funds and their managers, Section 7).

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professional experience, as well as assesses whether ICS are developed. However, FCMC does not assess the fitness and probity of a person acquiring a qualifying holding in the financial institution (fit and proper test). FCMC also does not verify the source of funds invested in share capital of registered AIFM and PI/EMI.

- 7.1.8. Deficiencies can be found in the licensing process of the CU. Regulatory enactments do not provide the requirements on reputation and absence of criminal records for CU members. This may restrict the possibilities and authority of the FCMC to prevent a person, who would like to use a CU for ML purposes, from becoming a member of a CU.
- 7.1.9. FCMC possesses a good understanding of ML/TF risks faced by the financial institutions supervised by FCMC. It has the necessary resources, including qualified and trained staff to carry out licensing, registration and AML/CTF supervision of the obliged entities under the AML/CTF Law. Given the number of the registration applications or requests for granting a licence of the financial institutions within the assessment period⁴⁰⁶, the number of qualified and well-trained FCMC employees⁴⁰⁷ is considered to be sufficient to ensure effective implementation of entry controls.⁴⁰⁸ Staff from the FCMC Compliance Control Department is also involved in the licensing and registration process. Within the licensing process they take necessary measures to verify UBO of the financial institution and source of funds invested in share capital. They also assess the quality of ICS developed by the entities undergoing licensing or registration, including assessing whether developed ICS is commensurate to anticipated business model and level of ML/TF risks inherent to financial institution's customer portfolio.
- 7.1.10. Accordingly the licencing controls performed by FCMC allows the state to effectively reduce the possibility that criminals or their associates could become the shareholders of, hold qualifying holding in, control interest of, or perform a management function of the financial institutions supervised by FCMC. In its turn registration controls could be improved to ensure adequate test of UBO of registered AIFM and PI/EMI, as well as verification of funds invested in capital of registered AIFM and PI/MI.
- 7.1.11. Additionally effective entry controls ensure that FCMC, within the licensing and registration process, gains a comprehensive understanding of the anticipated business model of the respective financial institutions and ICS capacity required to manage ML/TF risks inherent to the anticipated business model of the obliged entity supervised by FCMC. This makes any subsequent AML/CTF supervision of the obliged entity easier and more effective.

Bureaux de change

- 7.1.12. BoL issues licenses for purchasing and selling cash of foreign currencies and carries out AML/CTF supervision of bureaux de change.⁴⁰⁹ BoL possesses a good understanding and appreciation of the business carried out by the bureaux de change, as well as ML/TF risks faced by bureaux de change. It also has adequate resources to perform licensing and AML/CTF supervision of the bureaux de change.⁴¹⁰
- 7.1.13. BoL verifies compliance of the bureaux de change with the requirements of the AML/CTF Law, reviewing applications for granting a licence for purchasing and selling of cash of foreign currencies. BoL licensing commission by reviewing an application also verifies criminal records of the entity's shareholders holding a qualifying holding and senior management, and also verifies conformity of ICS documents developed by entity to the requirements of the regulatory enactments in the area of AML/CTF.⁴¹¹
- 7.1.14. It all together enables the state to effectively reduce a possibility that criminals or their associates could become the shareholders of the bureaux de change, or acquire qualifying holding therein, control their interests or perform senior management functions.
- 7.1.15. Additionally, effective entry controls ensure that BoL gains a comprehensive understanding regarding compliance of the relevant market participant with

⁴⁰⁶ Table No 7.1

⁴⁰⁷ Table No 7.2

⁴⁰⁸ Survey No 5

⁴⁰⁹ Law on Bank of Latvia, Section 11 (2), AML/CTF Law, Section 45 (1) 6).

⁴¹⁰ Table No 7.8

⁴¹¹ BoL regulations No 36 on foreign currency cash purchase and sale rules of 13 May 2009

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AML/CTF requirements from the outset. This makes any subsequent AML/CTF supervision of bureaux de change easier and more effective.

Other financial institutions

- 7.1.16. Altum and LP are state-owned companies, the operation of each is regulated by the Development Financial Institution law and the Postal law respectively. All Altum shares with the voting rights are owned by the Latvian state - the MF (40%), ME (30%) and MA (30%). The shareholder of the LP is the MoT (100%). State shareholder ensures nomination of a candidate for a managerial position of Altum and LP.⁴¹² Higher requirements have been set to members of the executive board and supervisory board of state-owned companies, for instance, a person, who does not have a higher education, who has been punished for intentional CO, regardless of extinguishment or removal of the criminal record, or who's right to carry out specific or all types of commercial or other professional activities has been deprived, cannot be a candidate for a member of the executive or supervisory board. Accordingly, the appointment prerequisites of the board members are considered to be effective enough to reduce a possibility that criminals hold a position in executive board or supervisory board of LP or Altum. In its turn entry controls for operations are not required, since Altum and LP are operating legal entities.
- 7.1.17. Deficiencies identified in entry controls for other financial institutions are related to entities providing cash collection services, consumer lenders and other non-bank lenders. State authorities issuing licenses for the provision of cash collection security services (SP) and licenses for the provision of consumer lending services (CRPC) do not verify compliance of the applicant to the AML/CTF Law requirements, including ICS developed by the entity, prior to the issuing of the license.
- 7.1.18. However, within the licensing process the SP assesses whether the entity applying for a license for provision of cash collection security services is not convicted for CO, does not have a status of accused person in a criminal procedure, and in addition assesses whether the management of the entity or its shareholder is not engaged in anti-government or illegal organisation or is not a member thereof, being able to cause threat to the state or public safety.⁴¹³ While CRPC verifies an origin of the funds invested in the share capital of the entity applying for a license for provision of consumer lending services.
- 7.1.19. Accordingly, the entry controls which are in place for these obliged entities reduce the possibility that criminals or their associates could become owners of these financial institutions or hold a qualifying holding therein, control their interests or perform management functions, even though could be improved.
- 7.1.20. It should be noted, that separate non-bank lenders can carry out their business activities without obtaining a license or special permit, for instance, lenders, who provide lending services to legal entities. Therefore, there are no entry controls performed in practice for initiation of operation of such entities.

7.2. AML/CTF supervision and control of the financial institutions

General conclusions on AML/CTF supervision of obliged entities supervised by FCMC

- 7.2.1. FCMC has appropriate authority and mandate to carry out AML/CTF supervision of financial institutions. A wide range of administrative penalties, including but not limited to monetary penalties and suspension/withdrawal of licence, is available to FCMC in the case of non-compliance with AML/CTF requirements. FCMC also exercises its powers to impose the administrative penalties. FCMC also applies corrective measures, which are defined according to identified deficiencies in IKS.
- 7.2.2. FCMC carries out its AML/CTF inspections of supervised financial institutions in accordance with the internal methodology and FCMC regulation and supervision strategy⁴¹⁴, applying a risk-based approach. FCMC allocates the supervisory resources commensurate with the level of ML/TF risk associated with the supervised financial institutions. Overview of the number of AML/CTF inspections carried out by FCMC is presented in a table below.

⁴¹² Law on governance of capital shares of a public person and capital companies, Section 31 (1)

⁴¹³ Survey No 24

⁴¹⁴ Law on the financial and capital market commission, Section 7 (1)

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	2013	2014	2015	2016
<i>Domestic customer serving banks</i>				
Total number of domestic customer serving banks	14	13	12	10
Full on-site inspections and follow-up inspections	0	1	1	1
Targeted on-site inspections	0	0	0	0
Targeted off-site inspections	0	1	0	1
Off-site inspections of internal AML/CTF procedures	0	1	0	6
The total number of inspections	0	3	1	8
The total number of inspections, during which the deficiencies in the area of AML/CTF are identified	0	1	1	2
<i>Foreign customer serving banks</i>				
Total number of foreign customer serving banks	14	14	13	13
Full on-site inspections and repetitive inspections	5	4	1	2
Targeted on-site inspections	9	3	4	2
Targeted off-site inspections	2	9	4	7
Off-site inspections of internal AML/CTF procedures	4	9	8	19
The total number of inspections	20	25	17	30
The total number of inspections, during which the deficiencies in the area of AML/CTF are identified	12	16	9	11
<i>AIFM</i>				
Total number of AIFM	0	8	12	13
The total number of inspections	1	4	1	0
The total number of inspections, during which the deficiencies in the area of AML/CTF are identified	0	0	0	0
<i>Life insurance companies</i>				
Total number of life insurance companies	Not available	Not available	2	2
The number of inspections	0	1	0	0
The total number of inspections, during which the deficiencies in the area of AML/CTF are identified	0	0	0	0
<i>IMC</i>				
Total number of IMC	11	12	12	12
The total number of inspections	0	5	1	1
The total number of inspections, during which the deficiencies in the area of AML/CTF are identified	0	1	0	0

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	2013	2014	2015	2016
<i>CU</i>				
Total number of CU	n/a	Not available	34	34
On-site inspections	n/a	0	3	1
Off-site inspections	n/a	0	0	2
The total number of inspections in the area of AML/CTF (excluding inspections of internal AML/CTF procedures)	n/a	0	3	3
The total number of inspections, during which the deficiencies in the area of AML/CTF are identified	n/a	0	3	3
The number of CU, which ICS have been examined with regard to compliance with AML/CTF requirements	2	5	3	8
<i>PI</i>				
Total number of PI	36	34	36	29
On-site inspections	5	3	2	0
Off-site inspections	0	0	1	0
Off-site inspections of ICS procedures	5	8	10	10
The total number of inspections, during which the deficiencies in the area of AML/CTF are identified	5	3	3	0
<i>EMI</i>				
Total number of EMI	11	13	15	15
On-site inspections	0	0	0	2*
Off-site inspections	0	1	0	0
Off-site inspections of ICS procedures	4	5	5	7
The total number of inspections, during which the deficiencies in the area of AML/CTF are identified	0	1	0	1
<i>PPF</i>				
Total number of PPF	7	6	6	6
The total number of inspections	2	1	4	1
The total number of inspections, during which the deficiencies in the area of AML/CTF are identified	0	0	0	0
<i>Securities sector</i>				
Total number of IBS	Not available	Not available	4	4
The total number of inspections	4	9	3	4
Examination of the AML/CTF procedures	2	2	0	4
The total number of inspections, during which the deficiencies in the area of AML/CTF are identified	0	1	0	0

* In 2016 FCMC carried out one AML/CTF on-site inspections of registered EMI and initiated one AML/CTF on-site inspections of licensed EMI.

Source: FCMC

7.2.3. FCMC, based on assessment of supervised financial institution's risk profile, which allows to obtain a clear understanding regarding ML/TF risks, for the purpose of AML/CTF supervision divides participants of banking and PI/EMI sectors, where higher ML/TF risks are present compared to other sectors supervised by FCMC, in risk categories.⁴¹⁵ The banks and PI/EMI are classified depending on the ML/TF risk level that is inherent to the business of the respective bank or PI/EMI, degree of the institutions' understanding regarding these ML/TF risks, as well as the ability to

⁴¹⁵ Table No 7.3; Table No 7.4

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effectively manage them. The risk levels applied to the banks are regularly revised, including based on a business model of the bank, real exposure to risk, risk management quality, as well as results of the AML/CTF inspections carried out in banks by FCMC and the results of implementation of corrective measures.⁴¹⁶ The frequency of the revision of the risk level assigned to a registered PI/EMI should be improved, since it is not performed frequently enough.

- 7.2.4. At the end of each year, FCMC prepares an AML/CTF supervision and inspection plan of the supervised financial institutions for the next year. The inspection plan is approved by the council of the FCMC and is signed by chairman of the FCMC. Type⁴¹⁷, frequency, duration and scope of AML/CTF inspections is determined based on and proportionally to ML/TF risks inherent to the business of respective financial institution and its ability to manage these ML/TF risks. AML/CTF inspections plan for banks and PI/EMI is prepared based on the risk category in which the respective financial institution has been placed. On 31.12.2016, there were ten Foreign customer serving banks that fall into higher ML/TF risk category. FCMC carries out AML/CTF on-site inspections of these banks annually. On 31.12.2016, two Foreign customer serving banks and one Domestic customer serving bank fall into medium ML/TF risk category. AML/CTF on-site inspections of these banks are carried out by FCMC once every two years. FCMC carries out AML/CTF on-site inspections of the banks which fall into lower ML/TF risk category at least once every three years. On 31.12.2016, there were nine Domestic customer serving banks that fall into this risk category.⁴¹⁸
- 7.2.5. In addition to the inspections as defined in the inspection plan, FCMC carries out AML/CTF targeted inspections of the supervised financial institutions, including if a complaint is received regarding the supervised obliged entity or FCMC receives information that demonstrates a need to carry out an AML/CTF inspection of the obliged entity. AML/CTF targeted inspections are also carried out, if FCMC receives information regarding involvement of the supervised financial institution in ML/TF.
- 7.2.6. If deficiencies in the ICS of the financial institution are identified during the inspections carried out by FCMC, FCMC imposes an administrative penalty that is proportional to severity of identified deficiencies, as well as impose an obligation to take corrective measures to address identified deficiencies within timeframe defined by FCMC. FCMC monitors the implementation of a corrective measure plan for the addressing of deficiencies, as well as carries out follow-up inspections to assess implementation status.⁴¹⁹ Thus, the AML/CTF inspections carried out by FCMC are not only aimed at identifying the deficiencies or imposing administrative penalties, but also at improving ICS of the obliged entities supervised by FCMC and increasing its effectiveness.
- 7.2.7. As required by FATF Recommendation No 27 a wide range of administrative penalties is available to FCMC, which it may impose on the supervised obliged entities that do not comply with AML/CTF requirements as defined in the regulatory enactments. This also includes suspension/withdrawal of licence when serious non-compliance with AML/CTF requirements is identified. In its turn if serious breach of AML/CTF requirements is identified in banking sector, FCMC has the right to initiate that the European Central Bank withdraws or suspends a banking licence.
- 7.2.8. Since the end of 2014 FCMC has the appropriate authority and mandate to impose significant monetary penalties and other types of administrative penalties on the banks and also the bank's employees and/or executive board members that are responsible for compliance with AML/CTF requirements. In its turn, since July 2016 amount of monetary penalties for non-compliance with AML/CTF requirements in banking sector meets the requirements of 4th Directive.⁴²⁰
- 7.2.9. However, within the assessment period the amount of monetary penalties that according to Latvian regulatory enactments may be imposed on other FCMC supervised obliged entities, except of banks (as of July 2016), does not reach the amount specified in the 4th Directive, and falls behind the maximum amount of the monetary penalties applicable to banks. Following the assessment period the

⁴¹⁶ Survey No 5

⁴¹⁷ FCMC carries out full on-site inspections, targeted on-site and off-site inspections, off-site inspections of the internal AML/CTF procedures of the obliged entities supervised by FCMC

⁴¹⁸ Survey No 5

⁴¹⁹ Survey No 5

⁴²⁰ Credit institutions law, Section 198¹

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amount of monetary penalties applicable to PI/EMI in cases of non-compliance with AML/CTF requirements have already been increased as required by 4th Directive.⁴²¹

- 7.2.10. As of 2014 FCMC publishes information on the administrative penalties imposed on the banks and banks' employees for non-compliance with AML/CTF requirements. The publicly available information includes the name of the bank, the nature of breach, the penalties imposed, information on appeal status and the decision of the FCMC, as well as additional obligations imposed on the bank.
- 7.2.11. Another deficiency with regard to the availability and enforcement of administrative penalties is the fact that FCMC, within the assessment period, was not entitled to impose administrative penalties for non-compliance with AML/CTF requirements on the employees and management of the supervised institutions, except the banks. It should be noted that this deficiency will be addressed by implementing the 4th Directive requirements. This deficiency has already been addressed in respect of PI/EMI.⁴²²
- 7.2.12. The total level of awareness regarding imposed criminal penalties for ML in the financial sector is low.⁴²³ It may be explained by the fact that criminal penalties for ML in practice are imposed rather seldom. It can reduce effectiveness of the preventive function of the criminal penalties.

Banking sector

- 7.2.13. Even though FCMC has the appropriate authority to carry out AML/CTF supervision of financial institutions, the supervisory measures carried out by FCMC in the banking sector during the period from 2013 to November 2015, especially in the Foreign customer serving banking sector, including imposed administrative penalties for non-compliance with AML/CTF requirements, were not proportional to the ML/TF risk inherent to the banks' business, if they serve foreign customer money flows.
- 7.2.14. OECD experts had already expressed concerns regarding the effectiveness of the supervisory procedures and practice in the banking sector. In October 2015, OECD pointed out that there are insufficient inspections of banks' compliance with AML/CTF Law requirements, especially in those banks specialising in foreign customer deposits. Deficiencies in the effectiveness of the supervisory procedures in the OECD opinion were mostly related to inadequate resources of FCMC.⁴²⁴
- 7.2.15. The Report has found that prior to 2016 the number of AML/CTF inspections of Foreign customer serving banks carried out by FCMC was insufficient and not commensurate to the level of ML risks associated with serving the foreign customers, as well as constantly increasing volume of transactions in the Latvian banking sector (see Paragraph 7.2.2. of the Report).
- 7.2.16. Since FCMC's AML/CTF supervisory activity, using a risk-based approach, was focused on the banks, the commercial activity whereof poses the higher ML risks, mostly on the Foreign customer serving banks, the number of AML/CTF inspections carried out in Domestic customer serving banks prior to 2016 was also low (see Paragraph 7.2.2. of the Report). In 2016 FCMC had identified deficiencies in the ICS of the largest Domestic customer serving bank – insufficient CDD and transaction monitoring. An administrative penalty for non-compliance with AML/CTF requirements was imposed in amount of EUR 1.4 mln. This points out the need to strengthen AML/CTF supervision also in the Domestic customer serving banks sector.
- 7.2.17. Until the first quarter of 2016, FCMC carried out a number of measures aimed at implementing recommendations provided by OECD experts.⁴²⁵ FCMC indicates that OECD already in 2016 has noted that a substantial progress in performing AML/CTF supervision of obliged entities supervised by FCMC has been made.
- 7.2.18. In 2016, FCMC has strengthened its capacity. A new structural unit, Compliance Control Department, has been set up in the FCMC in 2016. The new FCMC department performs supervision of financial and capital market participants focusing on the prevention of ML/TF, develop regulatory framework in this scope,

⁴²¹ PSEML, Section 56 (2)

⁴²² PSEML, Section 56 (2)

⁴²³ Survey No 3; Survey No 8; Survey No 10; Survey No 12; Survey No 29; Survey No 32; Survey No 36

⁴²⁴ OECD Report, pg.31-32

⁴²⁵ Survey No 5

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as well as ensure compliance with the national and international sanctions requirements.⁴²⁶ The number of employees in FCMC Compliance Control Department, who perform AML/CTF supervision of the obliged entities, has been increased by almost four times in 2016.⁴²⁷ On 31.12.2016, there were 18 employees in Compliance Control Department. It is also planned to continue increasing the number of employees in the coming years. It must be noted that FCMC, when recruiting new employees in the Compliance Control Department, hires employees with prior professional experience in the financial sector.

7.2.19. Employees of the FCMC Compliance Control Department continue to intensively improve their AML/CTF knowledge. Over the past years, the number of attended AML/CTF training courses has increased by more than five times – from five AML/CTF courses in 2015 to 27 AML/CTF courses in 2016.⁴²⁸ Several FCMC's employees carrying out AML/CTF supervision of obliged entities are also internationally certified AML specialists.⁴²⁹ It is planned to at least double the number of certified AML specialists in the coming years.

7.2.20. The increase in the number of employees conducting AML/CTF supervision of the obliged entities has positively impacted effectiveness of the supervisory measures in the banking sector, including in the Foreign customer serving banks, where a higher ML/TF risk present:

- a) a number of AML/CTF inspections carried out in the Foreign customer serving banks has doubled – from 17 inspections in 2015 to 30 inspections in 2016 (see Paragraph 7.2.2. of the Report);
- b) a number of AML/CTF inspections carried out in the Domestic customer serving banks has increased eight times – from one inspection in 2015 to eight inspections in 2016 (see Paragraph 7.2.2. of the Report);
- c) a number of corrective measure plans developed by the banks for addressing the deficiencies identified during the AML/CTF inspections carried out by FCMC has increased. Corrective measure plans are developed in all cases when AML/CTF deficiencies are identified (see Paragraph 7.2.2. of the Report).

A number of AML/CTF inspections of other financial institutions supervised by FCMC remains at the existing level, given that FCMC, applying a risk-based approach, allocates FCMC resources to strengthen AML/CTF supervision in the banking sector where the most significant ML/TF risks are present.

7.2.21. Besides, it should be noted that FCMC collects and analyses information on the new ML typologies identified during AML/CTF inspections of banks. FCMC also informs banks on them to promote banks' understanding of ML/TF risks. This may assist the banks to a great extent to draw attention to the current ML schemes and report on them to the FIU on a timely basis. However the statistical data on the number of suspicious transactions reported to the FIU and the number of transactions forwarded by the FIU to the LEA have not yet reflected improvements.

7.2.22. In accordance with the OECD recommendations, in order to increase the number of AML/CTF inspections of the Foreign customer serving banks carried out by FCMC, independent external audits of ICS have been carried out in 2016 in addition to the AML/CTF inspections carried out by FCMC. The external audits were conducted according to the requirements and procedures as defined by FCMC.⁴³⁰

7.2.23. In 2016 external AML/CTF audits were carried out by independent US consultants⁴³¹ with extensive experience in the assessment of bank operations compliance with US AML/CTF requirements. All audited Foreign customer serving banks had already received audits results in 2016 and developed a remediation plan for addressing the deficiencies identified during external audits performed by US consultants. FCMC supervises the implementation of these remediation plans. It ensures that identified

⁴²⁶ <http://www.fctk.lv/en/publications/press-releases/5798-compliance-control-department-set-up-in-fcmc.html>

⁴²⁷ Table No 7.6

⁴²⁸ Table No 7.6

⁴²⁹ ACAMS certifies certified anti-money laundering specialist (CAMS). ICA issues certificates in anti-money laundering.

⁴³⁰ <http://www.fctk.lv/lv/mediju-telpa/pazinojumi-masu-informacijas-l/arhivs/2016/6047-javeicina-uzticamiba-latvijas-banku-sektoram-ka-stabilam-sadarbibas-partnerim-pasaules-vadoso-finansu-instituciju-acis.html>

⁴³¹ Navigant Consulting Inc., Exiger LLC un Lewis Baach Kaufmann Middlemiss

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AML/CTF deficiencies are addressed in 12 Foreign customer serving banks, as well as measures are taken to improve banks ICS in accordance with the requirements of international AML/CTF standards.⁴³² FCMC carrying out AML/CTF inspections of Foreign customer serving banks should continue to assess whether and to what extent implementation of actions aimed to address the deficiencies has promoted improvement and effectiveness of Foreign customer serving banks' ICS. In addition, it should be mentioned that pursuant to FCMC regulations No 154,⁴³³ banks on the regular basis (not less than once in 18 months period) have to conduct independent check of ICS operation. FCMC by performing inspections of the banks within area of AML/CTF has to inspect if the deficiencies identified during independent checks have been eliminated, as well as if the elimination of the deficiencies have encourage development and effectiveness of banks' ICS.

- 7.2.24. OECD has also expressed significant concerns regarding the effectiveness of the administrative penalties of Latvia in the situations when AML/CTF regulatory enactments are violated, emphasising that penalties imposed in practice for the non-compliance with AML/CTF requirements are insufficient. In October 2015, OECD examiners pointed out that the penalties imposed are too low to have a deterrent effect. Deterrent characteristics of an administrative penalties is also minimised by the fact that employees or senior management of financial institutions have not been criminally sanctioned for involvement or assistance in ML since 2010.⁴³⁴
- 7.2.25. Improvement of the effectiveness of supervision procedures being carried out by FCMC for the banking sector in the end of 2015 – 2016, has also significantly strengthened the deterrent effect of administrative penalties in the banking sector. Thus, addressing the deficiencies identified by OECD. It was achieved by imposing more severe administrative penalties for non-compliance with AML/CTF requirements on the banks compared to the penalties imposed to the banks prior to 2015 and imposing monetary penalties for non-compliance with AML/CTF requirements also on the banks' senior management:
- a) the amount of monetary penalties imposed on Foreign customer serving banks for non-compliance with AML/CTF requirements has increased by thirty times. In 2013 monetary penalties for non-compliance with AML/CTF requirements were imposed on four Foreign customer serving banks, a total amount of imposed monetary penalties was EUR 327 thous., in 2014 – monetary penalty for non-compliance with AML/CTF requirements was imposed only on one Foreign customer serving bank in amount of EUR 70 thous., in 2015 – on four Foreign customer serving banks, total amount of imposed monetary penalties - EUR 2.2 mln, in 2016 – on three Foreign customer serving banks, but a total amount of monetary penalties imposed on Foreign customer serving banks in 2016 has reached EUR 4.6 mln;⁴³⁵
 - b) at the end of 2015, FCMC has imposed monetary penalties for non-compliance with AML/CTF requirements on board members of Foreign customer serving banks for the first time.⁴³⁶
- 7.2.26. Strengthening of the deterrent effect of administrative penalties is also confirmed by the fact that a level of awareness regarding an administrative penalty in cases of non-compliance with AML/CTF requirements has significantly increased in 2017⁴³⁷ compared to the low awareness level at the beginning of 2016.⁴³⁸
- 7.2.27. Representatives from the banking sector believe that administrative penalties for non-compliance with AML/CTF requirements are sufficiently severe to facilitate improvement of ICS.⁴³⁹ This leads to the conclusion that administrative penalties imposed on the banks for the non-compliance with AML/CTF requirements do not

⁴³² Action and task plan for fulfilment of OECD recommendations, WGB Phase 2, pg. 16

⁴³³ FCMC regulations No 187 of 23.09.2016 "Normative regulation on ML/TF risk management"

⁴³⁴ OECD Report, pg.31

⁴³⁵ Table No 7.5

⁴³⁶ Table No 7.5

⁴³⁷ Survey No 3: All Domestic customer serving banks believe that administrative penalties for the failure to comply with AML/CTF requirements are sufficiently severe to preclude employees from involvement in ML as well as to facilitate ICS improvement. 98.06% of the Foreign customer serving banks believe that administrative penalties for the failure to comply with AML/CTF requirements are sufficiently severe to preclude employees from involvement in ML. 93.73% of respondents believe that administrative penalties are also sufficiently severe to facilitate ICS improvement.

⁴³⁸ Survey No 2: 65% of the surveyed bank employees do not know of any cases when administrative penalties for non-compliance with AML/CTF requirements have been imposed to the bank employees.

⁴³⁹ Survey No 3

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only promote improvement of penalised banks' ICS but also impact those banks, which are not penalised for the non-compliance with AML/CTF requirements.

- 7.2.28. In addition, it should be noted that FCMC implementing OECD recommendations has performed or has initiated AML/CTF targeted inspections of the banks that according to information reported in the media have been involved in ML. Inspections are carried out with an objective to identify deficiencies/ assess bank's ICS and verify the factors that point to the potential involvement of the bank in ML (identified deficiencies are analysed in Paragraph 7.4.17. of the Report). For instance, FCMC has carried out:
- a) an inspection of AS "Privatbank". Given the identified deficiencies the following administrative penalties and corrective measures were imposed: removal of bank's executive board, the maximum possible monetary penalty in amount of EUR 2 mln was imposed on the bank. While the members of the executive board were penalised with monetary penalties in amount of EUR 96.5 thous., EUR 25.9 thous., EUR 15.4 thous. and EUR 7.6 thous. FCMC also imposed an obligation on the bank to improve ICS, carry out an independent audit and perform revision of the customer database;⁴⁴⁰
 - b) follow-up inspections of AS "Trasta komercbanka". Taking into account repeated and sustained breaches of AML/CTF requirements as well as significant deficiencies in the bank's ICS which have not been addressed in a long time, as well as involvement of the bank in Moldovan case, including involvement of the bank's executive board in suspicious transactions, the European Central Bank adopted a decision to withdraw the bank license of AS "Trasta komercbanka" on 04.03.2016 based on the proposal submitted by the FCMC;⁴⁴¹
 - c) inspection in the AS "Baltic International Bank" in relation to defrauding of financial assets from the Ukraine Delta Bank, using FOREX transaction scheme. FCMC has identified non-compliance with AML/CTF requirements and significant deficiencies in the bank's ICS, as well as involvement of chairman of the executive board in suspicious transactions. Chairman of the executive board of AS "Baltic International Bank" was penalised with monetary penalty in amount of EUR 25 thous. FCMC also imposed a monetary penalty on the bank in amount of EUR 1.1 mln;⁴⁴²
 - d) inspections in AS "ABLV Bank" and AS "Latvijas Pasta banka". FCMC also imposed administrative penalties for the deficiencies in the ICS operation of the banks, as a result of which the banks were involved in a large-scale ML schemes: on AS "ABLV Bank" the monetary penalty in amount of EUR 3.2 mln and a warning issued to the responsible executive board member and on AS "Latvijas Pasta banka" the monetary penalty in amount of EUR 305 thous.⁴⁴³
- 7.2.29. In addition to administrative penalties, criminal procedures against the employees of several banks involved in the ML were initiated. Even though criminal penalties on employees for involvement and/or participation in ML have not yet been imposed in practice⁴⁴⁴, initiation of criminal procedures against the employees of the bank is an important step in the improvement of the effectiveness of criminal penalties. However, given that the criminal procedures are still at the investigation stage, detailed information thereof cannot be provided in the Report.⁴⁴⁵
- 7.2.30. In order to improve effectiveness of the supervision in the banking sector in accordance with requirements of FATF Recommendations No 26 and 27, FCMC has drafted and approved the Regulation No 197⁴⁴⁶. Regulations' objective is to ensure uniform and transparent consolidation of the information and data on banks' customers and their transactions, as well as provision of such information to FCMC in timely manner. This is required for FCMC to identify higher ML/TF risks and perform AML/CTF supervisory procedures for the banking sector as appropriate. It

⁴⁴⁰ Action and task plan for fulfilment of OECD recommendations, WGB Phase 2, pg. 16; Survey No 5

⁴⁴¹ Action and task plan for fulfilment of OECD recommendations, WGB Phase 2, pg. 16; Survey No 5

⁴⁴² Action and task plan for fulfilment of OECD recommendations, WGB Phase 2, pg. 16; Survey No 5

⁴⁴³ Action and task plan for fulfilment of OECD recommendations, WGB Phase 2, pg. 16; Survey No 5

⁴⁴⁴ Survey No 38

⁴⁴⁵ Survey No 55

⁴⁴⁶ 29.11.2016 FCMC Regulations No 197 "Regulations on the collection of information on customers of a credit institutions and their transactions, and submission of the information to the financial and capital market commission"

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is expected that this regulatory improvement will significantly increase effectiveness of the day-to-day AML/CTF supervisory procedures and practices for the banking sector and will enable to prevent Latvian banks from being involved in ML. Furthermore this will also promote banks' compliance with AML/CTF requirements.

- 7.2.31. However, despite all the activities undertaken, the last correspondent bank has decided to suspend correspondent banking services for the US dollar payments to a part of Foreign customer serving banks.⁴⁴⁷ This caused an outflow of foreign customer funds.

Payment service institutions/Electronic money institutions

- 7.2.32. The PI are identified as the institutions that also often serve foreign customers and whose commercial activity therefore is subject to higher ML risks. Therefore, FCMC performing risk-based supervision has focused on AML/CTF on-site inspections of PI within assessment period. Besides, FCMC also carried out AML/CTF off-site inspections of PI/EMI on a regular basis (see Paragraph 7.2.2. of the Report). During off-site inspections FCMC examines conformity of developed ICS policies and procedures to the AML/CTF requirements as defined in the regulatory enactments, operations of the respective PI/EMI, business model and other specific characteristics.
- 7.2.33. The AML/CTF on-site inspections of EMI were not carried out prior to 2016.⁴⁴⁸ Since EMI in addition to issuing of electronic money are entitled to provide also the payment services, including to foreign customers, FCMC would have to strengthen AML/CTF supervision in EMI sector. This especially relates to EMI which in addition to issuing of electronic money are providing the payment services, especially to foreign customers. In 2016 FCMC carried out one AML/CTF on-site inspections of registered EMI and initiated one AML/CTF on-site inspections of licensed EMI.
- 7.2.34. Although a number of FCMC employees performing AML/CTF supervision of obliged entities under FCMC supervision has significantly increased in 2016⁴⁴⁹, this additional capacity mainly promoted AML/CTF supervisory activities in the banking sector, including Foreign customer serving banks. The Report has therefore revealed that the number of AML/CTF on-site inspections in the PI/EMI sector within the assessment period, including in 2016, is insufficient taking into account the priority of PI/EMI inspections. Vulnerability of PI/EMI sector is increased by PI/EMI that serves mainly the foreign customers in cooperation with the Foreign customer serving banks. AML/CTF supervisory activities should be therefore strengthened in this sector by continuing to focus on PI/EMI serving foreign customer money flows.
- 7.2.35. Results of AML/CTF inspections in PI/EMI revealed that not all PI/EMI implemented an effective ICS, including having appointed an employee or executive board member that is responsible for the fulfilment of AML/CTF Law's requirements, to ensure effective management of ML/TF risks inherent to the business of PI/EMI, especially those serving foreign customer money flows. Monetary penalties for non-compliance with AML/CTF requirements are seldom imposed on PI/EMI.⁴⁵⁰ Within the assessment period, FCMC imposed relatively low monetary penalties on PI for non-compliance with AML/CTF requirements three times, the average monetary penalty being EUR 7 thous.⁴⁵¹ However, there are no administrative penalties imposed on EMI.⁴⁵² As of March 2017 legal framework provides FCMC with authority to impose sufficiently severe monetary penalties for non-compliance with AML/CTF requirements on PI/EMI, as well as their employees and executive board members responsible for fulfilment of AML/CTF Law requirements.⁴⁵³ It is expected that enforcement of new monetary penalty regime for non-compliance with AML/CTF requirements will strengthen deterrent effect of administrative penalties.

⁴⁴⁷ Following the assessment period, in 2017, the last correspondent bank has suspended correspondent banking services for the US Dollars payments to all Foreign customer serving banks.

<http://www.fktk.lv/en/media-room/other-publications/6238-fcmc-opinion-on-deutsche-bank-decision-to-discontinue-handling-of-us-dollar-settlements-in-latvian-commercial-banks.html>.

⁴⁴⁸ Survey No 5

⁴⁴⁹ Table No 7.6

⁴⁵⁰ Following the assessment period, FCMC annulled entry in PI register for one PI for non-compliance with AML/CTF requirements in 2017.

⁴⁵¹ Table No 7.5

⁴⁵² Survey No 5

⁴⁵³ PSEML, Section 56 (2)

Other obliged entities supervised by FCMC

- 7.2.36. Administrative penalties for non-compliance with AML/CTF requirements have not been imposed on AIFM, IMS, PPF, life insurance companies and CU within the assessment period.
- 7.2.37. Statistics of past administrative penalties imposed on securities market participants show that FCMC actively exercises its authority to impose administrative penalties for non-compliance with AML/CTF requirements. Monetary penalties for non-compliance with AML/CTF requirements have been imposed three times within the assessment period - in the amount of LVL 75 thous. (equivalent to EUR 107 thous.), EUR 25 thous. and EUR 72 thous.⁴⁵⁴
- 7.2.38. FCMC had not imposed the maximum monetary penalty available to it on securities market participants.⁴⁵⁵ It shows that serious deficiencies in the area of AML/CTF that would require to impose the maximum monetary penalty have not been identified during AML/CTF inspections. Besides, FCMC has also the right to cancel entries in the register of the respective obliged entity or suspend/withdraw a license for non-compliance with AML/CTF requirements. This is considered to be an effective and dissuasive enough administrative penalty which is also imposed in practice when required.⁴⁵⁶ Thus, it may be concluded that an authority and mandate to impose administrative penalties for non-compliance with AML/CTF requirements on securities market participants which was granted to FCMC were sufficient within the assessment period to ensure that effective and proportionate administrative penalties are imposed for identified AML/CTF deficiencies.

Bureaux de change

- 7.2.39. BoL has a procedure developed for carrying out AML/CTF inspections of bureaux de change. It has also established criteria based on which BoL evaluates the ability of the supervised bureaux de change to effectively manage the ML/TF risks of this sector and comply with AML/CTF requirements. BoL also develops an annual AML/CTF inspection plan that ensures that AML/CTF inspections of at least 30% of stores of purchasing and selling cash of foreign currencies are carried out annually.
- 7.2.40. AML/CTF supervision of bureaux de change is performed applying a risk-based approach. Results of the carried out AML/CTF inspections are documented. BoL also monitors implementation of actions aimed to address the deficiencies identified during AML/CTF inspections.⁴⁵⁷ Within the assessment period BoL has carried out 148 AML/CTF inspections of the bureaux de change. Overview of the number of AML/CTF inspections carried out by BoL is presented in a table below.

	2013	2014	2015	2016
Total number of bureaux de change	66	58	50	42
The number of AML/CTF on-site standard inspections with control purchases	1	3	33	17
The number of AML/CTF on-site standard inspections (including AML/CTF inspections with control purchases)	41	41	33	23
The number of AML/CTF on-site enhanced inspections	1	3	2	4
The total number of AML/CTF on-site inspections, during which the deficiencies in the areas of AML/CTF are not identified	30	32	17	18

⁴⁵⁴ Assessment of Securities sector prepared by the FCMC for the needs of Report (not publicly available), pg.45

⁴⁵⁵ Table No 7.5

⁴⁵⁶ Table No 7.5

⁴⁵⁷ Survey No 27

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	2013	2014	2015	2016
The total number of AML/CTF on-site inspections, during which the deficiencies in the area of AML/CTF are identified	12	12	18	9

Source: BoL

- 7.2.41. BoL has the right to suspend or withdraw a license for purchasing and selling cash of foreign currencies in the case of non-compliance with AML/CTF requirements. However, there are no monetary penalties in place that BoL can impose on bureaux de change or their employees for non-compliance with AML/CTF requirements. Moneyval experts pointed out to this deficiency in legal framework already in 2012. This deficiency will be addressed by implementing the 4th Directive requirements.
- 7.2.42. BoL has identified breaches in the area of AML/CTF in 35% of AML/CTF inspections. Within the assessment period, BoL has withdrawn four licenses and suspended eight licenses for purchasing and selling cash of foreign currencies for non-compliance with AML/CTF requirements. Significant deficiencies in ICS of bureaux de change identified by BoL that required to withdraw licenses of four bureaux de change within the assessment period include the following: non-compliance of ICS documents with requirements of AML/CTF Law, insufficient AML/CTF skills and knowledge of cashiers, inadequate fulfilment of customer identification and CDD requirements, non-compliance with reporting obligation, non-performance of ICS audit, including assessment of ICS effectiveness, non-compliance with record-keeping requirements.
- 7.2.43. However, BoL indicates that deficiencies identified during the rest of AML/CTF inspections were mainly minor and related to, for instance, cashiers of bureaux de change having insufficient knowledge of ICS, amendments of ICS not being prepared in the defined timeline and employees have not been trained in the area of AML/CTF in timely manner. For such deficiencies, BoL issues a notice of warning.⁴⁵⁸
- 7.2.44. It should be additionally noted that BoL gathers information on deficiencies in the area of AML/CTF identified during AML/CTF inspections of bureaux de change. BoL provides information to bureaux de change on identified deficiencies during AML/CTF training held by BoL once every two years. Furthermore all bureaux de change have a contact person – BoL employee who *inter alia* provides consultation regarding AML/CTF requirements and fulfilment of AML/CTF obligations when questions from the employees of bureaux de change have been received. Such an approach promotes the bureaux de change understanding of AML/CTF requirements.

Latvian Post

- 7.2.45. In 2012 Moneyval experts have expressed concerns regarding the ability of the MoT to carry out effective AML/CTF supervision of LP. They concluded that MoT lacks technical resources as well as trained and qualified staff.⁴⁵⁹
- 7.2.46. Latvia, taking into account the recommendations of Moneyval to revise the AML/CTF supervision model of LP, has evaluated different scenarios for improvement of AML/CTF supervision of LP. In 2016, a decision to place LP under AML/CTF supervision of FCMC was adopted. Work on drafting amendments to the laws and regulations that will introduce these changes has been started in 2016. After implementation of the new framework, LP will be required to obtain a PI license or register in the PI register in accordance with Section 4 of PSEML. It is expected to approve amendments by 26.06.2017, providing an appropriate transition period which would also ensure effective transfer of supervisory function from the MoT to FCMC.
- 7.2.47. With regard to the supervision of LP within the assessment period, it should be noted that the MoT has not taken any supervisory measures directed at the inspection of the application of ICS in practice. This does not allow the assessment of the effectiveness of LP's ICS, or the assessment of compliance with AML/CTF requirements in practice. However, MoT assesses the ICS policies and procedures

⁴⁵⁸ Table No 7.9

⁴⁵⁹ 4th round Moneyval report, pg.172

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compliance with AML/CTF Law requirements. Moreover MoT possesses a good understanding of the LP operation and the ML risks faced by LP in its operation (see Paragraph 7.10.2. of the Report). It has also developed internal legal framework regarding AML/CTF supervision and control of LP.⁴⁶⁰ The MoT verifies compliance with AML/CTF Law requirements by carrying out one AML/CTF on-site inspection of LP annually and at least one AML/CTF off-site inspection each year. Results of the inspections are documented. MoT also monitors implementation of actions aimed to address the deficiencies identified during the inspections.⁴⁶¹

Other financial institutions

- 7.2.48. Significant identified deficiencies and inconsistencies in the AML/CTF supervision and control of other obliged entities in financial sector, including implementation of administrative penalties are as follows:
- a) financial leasing service providers, payment service providers as defined in sub-clauses f, g and h of the Section 1(7) of the AML/CTF Law, and the entities providing cash collection services are unsupervised for AML/CTF purposes, since AML/CTF supervisory body is not identified within the regulatory enactments;
 - b) SRS is a supervisory body of the consumer lenders and Altum for AML/CTF purposes.⁴⁶² However, SRS has not carried out AML/CTF supervision of consumer lenders and Altum within the assessment period. The main reason for this is a lack of resources. Given the plan to increase a number of SRS employees carrying out AML/CTF inspections of obliged entities, SRS should take necessary steps to ensure AML/CTF supervision of named obliged entities. SRS should hire new employees with professional experience in financial sector and the area of AML/CTF. SRS staff should also intensively improve knowledge in the area of AML/CTF, to promote understanding of ML risks inherent to operations of supervised entities, as well as to strengthen AML/CTF supervision of obliged entities, including financial institutions.

7.3. Banking sector

Introduction

- 7.3.1. The total number of banks in Latvia has decreased within the assessment period - from 28 banks in 2013 to 23 banks in 2016.⁴⁶³ On 31.12.2016, there are 16 banks and seven branches of EU banks operating in the market of Latvia. Foreign capital plays an important role in the shareholder structure of the banks of Latvia. At the end of December 2016 the share of the foreign capital in the shareholders' structure of the banks comprised 81.8%. The structure of shareholders is following: Latvia - 18%, Sweden - 43%, Norway - 11%, Russia - 4%, Ukraine - 3%, US -5%, Great Britain - 4% and other countries - 12%.
- 7.3.2. Decline of the amount of the banking sector assets was observed in 2016 - the amount of assets in general reduced by EUR 2.4 bln or 7.6% and at the end of December declined to EUR 29.5 bln.⁴⁶⁴
- 7.3.3. Providing services to foreign customers is a significant part of Latvian banking sector. The share of foreign customer deposits in Latvian banks at the end of 2015 comprised 53.4%, reaching EUR 12.4 bln. It should be noted that a proportion of the foreign customer's deposits in 2016 reduced by more than one forth or by EUR 3.3 bln.⁴⁶⁵

⁴⁶⁰ Issued in accordance with Section 72 (1) 1) of the State administration structure law and Section 45 (1) 5) and Section 46 (1) 3) of AML/CTF Law

⁴⁶¹ A report on corrective measures taken to address the deficiencies identified during the inspections prepared and submitted by LP to MoT in accordance with the Section 14 of 03.10.2011 regulations No 01-02/1 On supervision and control of LP of 3 January 2011

⁴⁶² AML/CTF Law, Section 45 (2) 6)

⁴⁶³ Table No 7.10

⁴⁶⁴ Report on the finance and capital market in 2016. Available: http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

⁴⁶⁵ Report on the finance and capital market in 2016. Available: http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

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- 7.3.4. The level of ML/TF risks inherent to the business of the bank significantly differs based on the structure of the attracted resources, profile of customer base, as well as the range of provided services. Therefore in order to get a correct overview regarding the vulnerability of the Latvian banking sector, the sector is divided into two segments for the purpose of the national ML/TF risks assessment:
- a) the 1st group "Foreign customer serving banks"⁴⁶⁶ includes the banks which are focused on serving foreign customers. Foreign customer serving banks have amassed 94.4% of the total foreign customer deposits of the banking sector.⁴⁶⁷
 - b) The 2nd group "Domestic customer serving banks"⁴⁶⁸ includes the banks which focus on the local market and serving domestic customers. Concentration of foreign customer deposit in Domestic customer serving banks is only 5.6% of total foreign customer deposits of the banking sector.⁴⁶⁹

ML risks

- 7.3.5. Serving foreign customers' money flow increases threats in the banking sector. Most of the deposits of foreign customers originate from CIS, and they are mostly denominated in USD. Serving of foreign customer money flow is characterised by different factors, that increase inherent threats of the business serving the foreign customers:
- a) risks of a country and geographical risk inherent to foreign customers and business partners (off-shore, low tax and tax-free countries). According to the Methodology customer base profile of Foreign customer serving banks is assessed as very high risk. In its turn customer base profile of Domestic customer serving banks is assessed as medium risk;
 - b) risks of a country and geographical risk inherent to UBO of foreign customers (mainly CIS countries);
 - c) ML risks of the services and products used by the foreign customers (for example, fiduciary trusts, loans against collateral, current accounts and wire transfers etc.);
 - d) risks of delivery channels of the services and products to foreign customers (e-commerce, corporate cards with unreasonably big number of card users etc.);
 - e) risks of legal form and ownership structure used by the foreign customers (complex company group structure, use of shell companies);
 - f) average transaction size performed by foreign customers is significantly larger than the average transaction size performed by domestic customers. Average transaction size using current accounts in Foreign customer serving banks according to the Methodology is assessed as high, but in Domestic customer serving banks it is assessed as low.⁴⁷⁰
- 7.3.6. Systematic deficiencies in the banking sector ICS, which were identified during inspections carried out by FCMC, point to inadequate ML/TF risk management, especially related to servicing of foreign customers, which precludes effectively eliminate involvement of Latvian banking sector in ML.

⁴⁶⁶ Banks of Latvia where the total share of foreign customer deposits exceeds 50% of the total amount of deposits of the bank customers ("Foreign customer serving banks"). In accordance with the decision of the Working group in 2015, one bank is qualified as a Foreign customer serving bank, despite the fact that the share of the foreign customers deposits does not exceed 50% of the total amount of deposits of the bank customers. The share of the foreign customers deposits is calculated based on the data submitted by FCMC.

⁴⁶⁷ Report on the finance and capital market in 2016. Available: http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

⁴⁶⁸ Banks of Latvia where the share of domestic customer deposits exceeds 50%⁴⁶⁸ of the total amount of deposits of the bank customers, except of one bank which was qualified as a Domestic customer serving bank, despite the fact that the share of the foreign customer deposits does not exceed 50% of the total amount of deposits of the bank customers. Share of the domestic customer deposits is calculated based on the data submitted by FCMC.

⁴⁶⁹ Information submitted by FCMC

⁴⁷⁰ Survey No 4

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- 7.3.7. Therefore ML/TF vulnerability associated with serving foreign customer money flow are medium high. They also significantly increase the risk that Latvian banks could be involved in transactions related to ML.
- 7.3.8. Therefore the Foreign customer serving banks shall be aware of higher ML/TF risks associated with serving the foreign customers and:
- shall manage and limit these risks as appropriate, including dedicating adequate staff and financial resources, ensuring appropriate employee training, as well as performing sufficient ML/TF risk mitigating measures, or
 - shall reduce vulnerability inherent to Foreign customer serving banks, for instance, reducing of number of high risk customers and volume of deposits of these customers.
- 7.3.9. In 2016, the value of foreign customer deposits significantly decreased by almost one third EUR 3.3 bln.⁴⁷¹ The decrease in the value of foreign customer deposits was affected by the following:
- the new AML/CTF regulatory requirements applicable to banks have been introduced in 2015-2016;
 - the last correspondent bank has decided to suspend correspondent banking services for the US dollars payments to a part of Foreign customer serving banks;⁴⁷²
 - weak economic conjuncture and complex geopolitical situation in some of the countries of origin of foreign customers.⁴⁷³
- 7.3.10. Within the assessment period several criminal proceedings were initiated for ML, where the Foreign customer serving banking sector was involved.⁴⁷⁴ This also points to higher ML/TF risk of Foreign customer serving banking sector.
- 7.3.11. Products offered by the Foreign customer serving banks with high ML risks, are as follows: current accounts that include keeping of monetary funds in a bank account both for a specified or unspecified period of time, with or without interest, wire transfers and private banking services, as well as correspondent accounts. Factors that increase the risk of ML for the named products are as follows: very high risk customer base profile for these products, high or medium high funds turnover associated with the named products, high or medium-frequency of international transactions involving these products, availability of non-face-to-face use of these products, as well as existence of ML typologies on the abuse of these products. In its turn asset management, including fiduciary transactions, payment cards and loro correspondent accounts are identified as products of medium high risk. Factors that increase risk are following: very high risk customer base profile of these products or medium risk customer base profile for payment cards, medium funds turnover associated with the named products, availability of non-face-to-face use of these products, as well as existence of ML typologies on the abuse of these products. The risk of correspondent accounts is increased also by high-frequency of international transactions involving this product.⁴⁷⁵
- 7.3.12. Foreign customer serving banks maintain a broad network of loro correspondent banking relationships (correspondent accounts are opened by banks licensed in both RP and other countries, for instance CIS countries) and a broad network of nostro correspondent banking relationships,⁴⁷⁶ including in CIS countries where the requirements of regulatory enactments in the area of AML/CTF are not equal with the requirements of the regulatory enactments of the EU, including Latvia. Given the differences in AML/CTF regulations as well as transactions of a large scale

⁴⁷¹ Report on the finance and capital market in 2016. Available:

http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

⁴⁷² Following the assessment period, in 2017, the last correspondent bank has suspended correspondent banking services for the US Dollars payments to all Foreign customer serving banks.

⁴⁷³ Report on the finance and capital market in 2016. Available:

http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

⁴⁷⁴ Survey No 55

⁴⁷⁵ Survey No 4

⁴⁷⁶ Loro accounts – accounts opened by a bank for its correspondent banks subject to the agreement on opening the correspondent account for crediting this account and executing payments on behalf of correspondent banks. Nostro accounts – correspondent accounts of a credit institution opened with the correspondent banks and reporting mutual settlements between the banks and customers.

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performed through these correspondent banks accounts, the Foreign customer serving banks are subjected to higher ML risks.⁴⁷⁷

- 7.3.13. ML inherent vulnerability of the products offered by the Domestic customer serving banks are lower than the inherent vulnerability of the products offered by Foreign customer serving banks. Products offered by the Domestic customer serving banks with medium high ML inherent vulnerability, are as follows: current accounts which include the keeping of monetary funds in a bank account both for a specified or unspecified period of time, with or without interest, as well as wire transfers. Factors that increase inherent vulnerability of ML for the named products are following: high or medium funds turnover associated with the named products, availability of non-face-to-face use of these products, as well as existence of ML typologies on the abuse of these products. However, it should be indicated that the average transaction size using current accounts in the Domestic customer serving banks is significantly lower than the average transaction size using current accounts in the Foreign customer serving banks.⁴⁷⁸

Compliance of banks with AML/CTF requirements

- 7.3.14. All banks have implemented ICS and appointed a member of the board and an employee responsible for fulfilment of AML/CTF Law requirements. Banks indicated that they regularly assess the compliance and effectiveness of ICS in order to make sure that developed policies and procedures as well as ICS enables management of ML/TF risks and ensure compliance with AML/CTF requirements. Almost all banks indicate that they conduct assessment of ML/TF risks at their bank.⁴⁷⁹ Generally banks also consider that their ICS is effective and enables detection of suspicious and unusual transactions.
- 7.3.15. However, results of AML/CTF inspections carried out by FCMC reveal that ICS of banks are not always commensurate to the level of ML risks inherent in the business of the banks, especially those risks that are associated with servicing foreign customer money flows. Also high ML/TF risk appetite is to be observed in the Foreign customers serving banks, which does not correspond with the capacity and ability of the Foreign customer serving banks to efficiently and sufficiently manage the ML/TF risks they face. Within the assessment period AML/CTF deficiencies were identified in 50% of all inspections carried in banking sector (see Paragraph 7.2.2. of the Report).
- 7.3.16. During the interview, the FCMC indicated that the ICS of Foreign customer serving banks fail to ensure effective and adequate ML/TF risk management. This is demonstrated by several cases of non-compliance with AML/CTF requirements as well as deficiencies identified during AML/CTF inspections carried out by FCMC. Significant deficiencies in banks' ICS identified by FCMC are as follows:
- a) inappropriate IT systems for ML/TF risk management (see Paragraph 7.3.17. of the Report);
 - b) inadequate fulfilment of requirements for ECDD and transaction monitoring (see Paragraphs 7.3.17. and 7.3.26 of the Report);
 - c) inadequate ICS staff resources and insufficient skills and knowledge of the ICS staff (see Paragraph 7.3.32 of the Report);
 - d) deficiencies in the management and corporate governance area, including inadequate observance of the ICS independency principle (see Paragraphs 7.3.36.-7.3.42 of the Report).⁴⁸⁰
- 7.3.17. FCMC indicates that IT systems of the banks for ML/TF risk management are inappropriate in order to ensure effective ML/TF risk management, to detect complex suspicious transactions and prevent involvement of the bank in ML. Significant deficiency in the effectiveness of customer transaction monitoring is caused by the fact that bank employees, responsible for fulfilment of AML/CTF requirements, are not able to identify complex related relations of customers and analyse activities of participants of the groups of companies operating through the bank. In order to facilitate AML/CTF and to prevent involvement of banks in ML, it

⁴⁷⁷ Survey No 4

⁴⁷⁸ Survey No 4

⁴⁷⁹ Survey No 3

⁴⁸⁰ Survey No 5

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is necessary to improve transaction monitoring systems of banks to enable appropriate and timely detection of complex financing schemes, through which significant volumes of CM are laundered.⁴⁸¹

- 7.3.18. FCMC indicates that results of AML/CTF inspections revealed that Latvian banks were involved in ML reported in the media (“Magnitsky case”, “Laundromat” and “Moldova case”) because of the deficiencies in their ICS and transaction monitoring systems of the banks, as well as inadequate independence of ICS as specified above.
- 7.3.19. It should be noted that in 2016 a number of measures have been implemented in the banking sector in order to establish and address deficiencies, as well as to improve the ICS of the banks, including AML/CTF IT systems, and thus preventing possible involvement of banks in ML. Results of taken measures will be assessed during 2017.
- 7.3.20. In 2016, Latvian banks have initiated activities on improvements of their ICS:
- a) all banks initiated implementation or have already implemented IT solutions which automatically identify the risk increasing factors and performs calculations for the customer's risk assessment scoring;⁴⁸²
 - b) 12 Foreign customer serving banks started to address deficiencies identified by independent US consultants in the area of AML/CTF, improving effectiveness of ICS and its compliance with requirements of international standards;
 - c) Foreign customer serving banks have started to implement the necessary improvements in their transaction monitoring IT systems. It is planned to complete the implementation of IT solutions in 2017.⁴⁸³
- 7.3.21. These are very important steps to improving banks’ ICS. However there is still an issue with defining the appropriate risk tolerance thresholds in respect of ML/TF risk appetite that banks are not only willing but also are able to accept. Therefore it will be possible to consider these steps as a turning point in decreasing sectoral vulnerability, if the banks will be able to understand the risks inherent to their business and maximum admissible thresholds of ML/TF risk exposure, which the bank deems possible to assume and is able to manage, including using implemented IT systems. However, it will be possible to assess effectiveness of the activities as listed above, including an impact on effectiveness of banks’ ICS, only when implementation of new AML/CTF requirements will be fully completed and identified deficiencies will be fully addressed, and AML/CTF inspections in the banks will be carried out by FCMC.
- 7.3.22. Within the assessment period, the FIU received reports from banks about 57233 suspicious transactions and 21618 unusual transactions. However the FIU forwarded information to the LEA for criminal investigations only on 12813 transactions or 16% from the total number of transactions reported by banks to the FIU.⁴⁸⁴ One of the reason for this is insufficient number of employees compared to the high number of suspicious and unusual transactions reported to the FIU. Although the FIU has increased its resources within the assessment period⁴⁸⁵, the workload is still high and may result in backlog or insufficient analysis.
- 7.3.23. In practice the FIU provides feedback to banks only regarding those transactions that have been forwarded to the LEA for criminal investigations. Such feedback to banks regarding the suspicious transactions report and unusual transactions report is insufficient in order to improve the quality of reports and facilitate effectiveness of AML/CTF measures in the banking sector.⁴⁸⁶
- 7.3.24. Identification of PEP is one of the most significant issues faced by 60.07% of Domestic customer serving banks and 88.61% of Foreign customer serving banks. In 2017 banks identify PEP using commercial databases and banks’ internal PEP

⁴⁸¹ Survey No 5

⁴⁸² Survey No 3: 98.06% Foreign customer serving banks and only 24.45% Domestic customer serving banks implemented automatic customer risk scoring system. However, banks indicate that they are planning to complete implementation by the end of 2017

⁴⁸³ Action and task plan for fulfilment of OECD recommendations, WGB Phase 2, pg. 16

⁴⁸⁴ Table No 7.11

⁴⁸⁵ Table No 5.3

⁴⁸⁶ OECD Report, pg. 29

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lists, as well as they rely on the self-declaration provided by customers themselves to the bank.⁴⁸⁷ It should be noted that OECD experts also admitted that such methods in combination with "Know-Your-Customer" principle for identifying PEP hardly seem adequate according to requirements of international standards.⁴⁸⁸

- 7.3.25. To address the deficiency pointed out by OECD experts, on 02.30.2016 FCMC has developed and approved recommendations for identification of PEPs, their family members and persons closely related to them.⁴⁸⁹ It facilitates CDD performed by banks reducing a possibility that PEP, including using their family members, will access the banking system and involve bank in ML.
- 7.3.26. Over the past years, due to the correspondent banks that process US dollar payments, Foreign customer serving banks experience strong pressure to meet international AML/CTF standards. In 2016⁴⁹⁰, the market pressure increased, because the sole large international bank that continued to process US dollar transactions, cut off dollar-clearing facilities to several Foreign customer serving banks.⁴⁹¹ These banks have established alternative correspondent relationships with other banks to process US dollar payments. Efforts of Foreign customer serving banks to maintain correspondent relationships and establish new correspondent relationships with West Europe banks promotes improvements of ICS, including its compliance with requirements of international standards.
- 7.3.27. Since Domestic customer serving banks use their parent banks for processing US dollar transactions, the Domestic customer serving banks are subjected to less market pressure to have effective AML compliance functions compared to the Foreign customer serving banks.
- 7.3.28. Despite identified deficiencies in banks' ICS, survey revealed that banks in general believe that they have a sufficient number of trained employees to ensure compliance with AML/CTF requirements. Banks have implemented internal AML/CTF trainings for employees of the bank, including employees of the representative offices and bank's agents.⁴⁹² Within the framework of internal trainings employees of the bank are informed, *inter alia*, on their rights, obligations and responsibility in the area of AML/CTF, as well as AML/CTF policies and procedures of the bank.⁴⁹³
- 7.3.29. On 31.12.2016 all largest Domestic customer serving banks⁴⁹⁴ have appointed a specialist responsible for fulfilment of the requirements of AML/CTF Law, having an international AML/CTF certificate. It should be noted that this indicator is lower in Foreign customer serving banks – six banks have appointed AML/CTF responsible specialists that have international AML/CTF certificates.⁴⁹⁵ Statistics show that the number of employees having international AML/CTF certificates is increasing in banking sector each year.⁴⁹⁶ That suggests that bank employees continue to further improve their AML/CTF knowledge and banks invest funds in education of their employees.
- 7.3.30. However, results of AML/CTF inspections carried out by FCMC show that the internal AML/CTF training programme of certain banks for employees is insufficient.
- 7.3.31. Although FCMC regularly informs banks on the current ML/TF typologies, banks indicate that they do not have information on the current ML/TF risks and typologies

⁴⁸⁷ Survey No 3

⁴⁸⁸ OECD Report, pg. 29

⁴⁸⁹ 02.03.2016 FCMC Recommendations No 55 "Recommendations for credit institutions and finance institutions for ascertainment, research of politically exposed persons, their family members and persons closely related to them and supervision of transactions".

⁴⁹⁰ After the assessment period, in 2017 the last correspondent bank has ceased servicing US dollar payments for all Latvian Foreign customer serving banks.

⁴⁹¹ <https://www.bloomberg.com/news/articles/2016-07-28/deutsche-bank-said-to-end-latvian-lenders-dollar-market-access>

⁴⁹² Survey No 3: All Foreign customer serving banks, having representative offices, provide AML/CTF training to all employees of the representative office, when hiring an employee and during the employment relations. Domestic customer serving banks do not have representative offices. All Foreign customer serving banks which use agents provide AML/CTF trainings to all agents when commencing business relations with agents and during the relations. Only 0.69% of Domestic customer serving banks use agents, but data on the frequency of trainings are not available.

⁴⁹³ Survey No 3

⁴⁹⁴ Which represent 94.08% of Domestic customers serving bank market.

⁴⁹⁵ Which represent 45.95% of Foreign customer serving bank market

⁴⁹⁶ Table No 7.12

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that are related to the Latvian market.⁴⁹⁷ Lack of knowledge of bank employees in the area of AML/CTF, including insufficient understanding on the current ML/TF risks in the banking sector of Latvia, especially the ones related to attraction of funds of foreign customers, makes banking sector more vulnerable and reduces efficiency of bank ICS.

- 7.3.32. In order to improve the knowledge of bank employees in the area of AML/CTF that will also facilitate effectiveness of AML/CTF measures of banks, FCMC has developed and adopted regulations, the objective of which is to ensure that banks, pursuant to the ML/TF risk inherent to the commercial activity thereof, conduct necessary measures for ensuring of staff resources and staff qualification, as well as training and substitution thereof in order to manage the ML/TF risk.⁴⁹⁸
- In order to be able to fully apply the requirements of the above mentioned regulation banks shall ensure performance of all necessary measures by 30.04.2017.
- 7.3.33. It is expected that the application of the requirements of the regulation in conjunction with increased monetary penalties for non-compliance with AML/CTF requirements will significantly improve the AML/CTF knowledge of bank employees, as well as ensure that banks have the necessary staff available for effective and comprehensive ML/TF risk management. Additionally it will promote understanding of banks' management of ML/TF risks, role and responsibility of the management in the area of AML/CTF that is one of the most significant aspects in development of efficient ICS.
- 7.3.34. With regards to integrity of bank employees, the Report shows that within the assessment period criminal proceedings regarding ML were initiated against employees of five Foreign customer serving banks (there have been initiated several criminal proceedings against employees of one bank).⁴⁹⁹ Initiated criminal proceedings on ML against the employees of banks confirm that bank employees not always comply with all ICS requirements of the bank in good faith.⁵⁰⁰
- 7.3.35. However, the banks in general consider that employees are loyal and will not become involved in criminal activities as well as they comply with all AML/CTF procedures and policies.⁵⁰¹ Additionally it is ensured, *inter alia*, by conducting a background check of the employee before employment thereof. Within the framework of employee background check, all banks assess such factors as education and reputation, and besides almost all banks⁵⁰² assess criminal records of the candidate.⁵⁰³
- 7.3.36. In 2016, the number of disciplinary cases against bank employees on non-compliance with AML/CTF procedures and/or policies decreased from 43 cases in 2015 to four cases in 2016 in the Domestic customer serving banks, and from 31 cases in 2015 to 17 cases in the Foreign customer serving banks.⁵⁰⁴ As only one bank among the Domestic customer serving banks has reported on several disciplinary sanctions, it is difficult to assess the practice of Domestic customer serving banks regarding the application of disciplinary sanctions and whether the decrease in the number of violations in the market of the Domestic customer serving banks is to be considered as significant.⁵⁰⁵

⁴⁹⁷ Survey No 3: 65.89% of Domestic customer serving banks and 72.01% of Foreign customer serving banks consider that there is little information on the current ML/TF typologies and risks in Latvia

⁴⁹⁸ FCMC 28.12.2016 regulations No 214 "The money laundering and terrorism financing risk management, staffing and staff training regulations"

⁴⁹⁹ Table No 7.13

⁵⁰⁰ Survey No 55

⁵⁰¹ Results of the Survey No 3: to the question "Do you consider that your employees are loyal and will not get involved in criminal activities?" 57.11% of Domestic customer serving banks on the market and 98.06% of Foreign customer serving banks on the market replied with 'yes' and 42.89% of Domestic customer serving banks on the market and 1.94% of Foreign customer serving banks on the market replied with "rather yes, than no". Results of the Survey No 3: to the question "Do you consider that your employees comply with all AML/CTF procedures and policies?" 38.72% of Domestic customer serving banks on the market and 70.49% of Foreign customer serving banks on the market and respondents replied with "yes", and 61.27% of Domestic customer serving banks on the market and 3.11% of Foreign customer serving banks on the market replied with "rather yes, than no".

⁵⁰² Survey No 3. 99.87% of Domestic customer serving banks and all Foreign customer serving banks.

⁵⁰³ Survey No 3

⁵⁰⁴ Table No 7.14

⁵⁰⁵ Survey No 3

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- 7.3.37. During AML/CTF inspections of the Foreign customer serving banks, FCMC has identified integrity breaches, including the actions of bank management that evidences the necessity to implement improvements regarding integrity principles.⁵⁰⁶ It should be taken into account that breaches *per se* do not always indicate lack of honesty or integrity but can be related to lack of knowledge.⁵⁰⁷
- 7.3.38. Within the assessment period several interviews with representatives of the Foreign customer serving banks were carried out, in which bank management violations of integrity were identified, e.g. in some Foreign customer serving banks management of the bank has approved business relationship with a customer regardless of negative decision of compliance function on acceptance of the customer. Bank representatives have described instances when management of Foreign customers serving bank has overruled the decision of bank employees responsible for compliance with AML/CTF requirements to not carry out transactions that are incompliant with bank's internal AML/CTF risk procedures and policies.
- 7.3.39. That indicates that significant AML/CTF principles are not always observed in Foreign customer serving banks.⁵⁰⁸
- 7.3.40. Significant deficiencies in the organisational structure, including insufficient compliance with the corporate management principles, involvement of shareholders of the bank in the operation of ICS, as well as the wrong tone at the top significantly endanger the efficiency of the compliance function of the Foreign customer serving banks. Another shortcoming that should be mentioned is the fact that until 2016 bank management rarely participated in AML/CTF trainings. By implementing requirements of FCMC regulations No 214⁵⁰⁹, bank management shall be required to confirm that it has participated in regular AML/CTF trainings. This will improve bank managements' understanding of ML/TF risks.
- 7.3.41. The Report shows that in future FCMC should continuously check whether mandatory AML/CTF training has improved bank management's understanding of ML/TF risks and whether conduct of banks' management sets the right tone at the top as regards to the fulfilment and awareness of AML/CTF requirements.
- 7.3.42. The Report shows that in at least one Foreign customer serving bank there was a case when bank employees had not been protected from negative consequences, i.e. threat or malevolent activities, after reporting.⁵¹⁰
- 7.3.43. In 2015, OECD also stated that current framework for whistle-blower protection in Latvia is not sufficient.⁵¹¹ Resolution of this issue and assurance of adequate whistle-blower protection in the private sector is a significant activity in improving integrity in the state.
- 7.3.44. The banking sector has significantly strengthened the protection of whistle-blowers during 2016, taking into account the recommendations given by OECD. All Domestic customer serving banks and 86.47% of Foreign customer serving banks have implemented the mechanism, enabling employees to anonymously report on the possible violations in the area of AML/CTF, including on the possible cases of corruption, fraud, malevolence or unethical conduct.⁵¹²
- 7.3.45. Introduction of anonymous reporting mechanisms in the Foreign customer serving banks can be noted as a positive aspect. In comparison with the results of the survey in 2016, when only a part of representatives of the Foreign customers

⁵⁰⁶ Survey No 5: For example, the bank has not decided on termination of business relations with a customer, without obtaining the documents substantiating transactions requested from the customer, or the bank has reported to the FIU regarding suspicious transactions performed by customers, failing to comply with the time-limits set in the internal regulatory enactments, or the bank has failed to perform sufficient customer due diligence and supervision of transactions, as well as has violated the requirements stipulated by the Credit Institution Law in relation to information provision.

⁵⁰⁷ Survey No 5

⁵⁰⁸ Available: <http://www.bis.org/bcbs/publ/d353.pdf>

⁵⁰⁹ FCMC 20.12.2016 regulations No 214 "The money laundering and terrorism financing risk management, staffing and staff training regulations"

⁵¹⁰ Survey No 3. One Foreign customers serving bank replied to the question "Are you aware of cases, when employees have not been protected from threat or malevolent activities after reporting?" with "yes". There were no such cases established in the Domestic customer serving banks.

⁵¹¹ OECD Report, page 14

⁵¹² Survey No 3

serving bank group indicated that such a mechanism has been implemented, now this number has significantly increased.⁵¹³

Scope and quality of customer research

- 7.3.46. The personal identification document infrastructure of Latvia is sufficiently developed and safe, facilitating the work of banks, when performing identification of customers, who hold Latvian ID documents. Individuals in Latvia are identified by verifying their identity pursuant to the ID documents, i.e. personal identity card or passport.⁵¹⁴
- 7.3.47. Latvian ID documents are secure which is also evidenced by statistics. Within the assessment period, Latvian border control has encountered forged Latvian ID documents only eight times.
- 7.3.48. The Invalid Documents Register⁵¹⁵, where any person may verify whether the ID document is valid, is publicly available online in Latvia. It should be taken into account that in cases, when for instance, the document is lost or stolen, but the owner has failed to notify the relevant state authorities, there will not be a notice included in the Invalid Documents Register that such a document is invalid. Also the Population Register is available to the banks which contains information on a person's name, surname, its change, place of residence, ID documents.⁵¹⁶
- 7.3.49. Identification of the customers is more complicated in cases when foreign customers or customers identified non-face-to-face are served. Such cases are much more common for Foreign customer serving banks.
- 7.3.50. Given the large number of bank customers, it can be concluded that banks rarely encounter forged ID documents – within the assessment period only 20 times (includes both Latvian and foreign ID documents).
- 7.3.51. AML/CTF Law grants the right to the banks to obtain information free of charge from various registers maintained by the State - registers maintained by the RE, registers maintained by the SRS, Invalid Documents Register, Penal Register, State Unified Computerised Land Register, Vehicle State Register and Population Register.⁵¹⁷
- 7.3.52. Report shows that banks experiences certain issues when using several registers
- a) Registers maintained by the RE are not available online free of charge;
 - b) Statements from the Penal Register are issued only in a hard copy;
 - c) It is not possible to search for information on the real estate owned by a person in the State Unified Computerised Land Register. It is possible to verify only the owners of certain real estate;
 - d) Invalid Documents Register does not contain information on the lost or stolen ID documents, if the owner has not reported the fact to the authorities;
 - e) Registers maintained by the SRS are not available.
- 7.3.53. In general, it may be concluded that the above-mentioned factors have a greater effect on the Domestic customer serving banks, as respective registers contain information on domestic clients of the banks.
- 7.3.54. Banks use various commercial databases to obtain information on their customers. These include for instance Factiva, World Compliance, Accuity, Lursoft, KYC360, Worldcheck and SPARK, etc.
- 7.3.55. It is more challenging for the Foreign customer serving banks to obtain independent information regarding shareholders and UBO of companies, if the information on shareholders and UBO of companies is not publicly available in their country of registration. Insufficient availability of independent information sources may delay CDD, because the banks are not able to verify the information provided by customers in the independent data registers. As a result of that CDD is not always performed in appropriate manner as required by AML/CTF requirements, significantly increasing the risk that the bank may be involved in ML.

⁵¹³ Survey No 2

⁵¹⁴ Personal identification documents law, Section 4 (1)

⁵¹⁵ Available: <https://www.latvija.lv/epakalpojumi/ep22>

⁵¹⁶ AML/CTF Law, Section 41 (2) 7)

⁵¹⁷ AML/CTF Law, Section 41 (2)

7.4. Securities sector

- 7.4.1. Participants of the securities market are credit institutions providing investment services or ancillary investment services, investment brokerage companies, issuers, investors, companies entitled under the law to administer collective investment undertakings, market-makers, the Latvian Central Depository and other persons performing activities regulated by the Financial instrument market law.⁵¹⁸
- 7.4.2. In this section banks that provide investment services and ancillary investment services as well as IBS that provide investment services and ancillary investment services are assessed. All assessed entities are entitled to hold securities. One of the assessed IBS does not hold securities, however securities of its customers are held by parent bank of this IBS, therefore within one group of companies. These obliged entities were chosen for assessment because in the area of AML focus is on monitoring of customers' flows of funds. Thus obliged entities that are holding securities and processing customer fund flows are able to identify potentially suspicious or unusual transactions.
- 7.4.3. FCMC carries out AML/CTF supervision of the securities sector.
- 7.4.4. By the end of the assessment period, 28 market participants were operating in Latvian security market sector:
- c) four IBS;
 - d) two Latvian branches of IBS licensed in the EU Member States;
 - e) 15 banks and five bank branches in Latvia that have received a permit to provide investment services.⁵¹⁹
- 7.4.5. ML inherent vulnerability of the securities sector is medium high. Value of securities sector may be considered to be medium low, however inherent vulnerability is increased by high risk client base, as well as medium high number of international transactions.⁵²⁰
- 7.4.6. Half of the companies providing investment services in Latvia are either Foreign customer serving banks or their subsidiaries, thus client base of these market participants largely consists of foreign customers that are characterised by increased ML risk. Therefore ML risks in securities sector are related to foreign customer flows of funds. Risk of foreign customers increased by the factors such geography risk (off-shore countries and tax havens, UBO residency in CIS country), legal form, shareholder structure risk (complex structure of group of companies, use of shell companies).
- 7.4.7. Within the assessment period, the FCMC has performed 20 inspections of participants of the securities market and eight times have reviewed the procedures outside of inspections.⁵²¹ During such inspections, violations that were significant enough to require imposing of administrative penalty were found only three times. Which indicate that in general the ICS of participants of the security market are compliant with regulatory requirements (see Paragraph 7.2.2. of the Report).
- 7.4.8. The most common violations identified by the FCMC are insufficient record keeping of CDD results, insufficient information on the UBO declared by the customer, actual UBO and source of wealth, that could evidence that person acts in interests of third parties, including client file may lack obliged entities acquired information (independently from customer's provided information) on customer's UBO and its business.
- 7.4.9. Almost all participants of the securities market have introduced the IT system for transaction monitoring. There have been cases when FCMC, during AML/CTF inspections, has identified that the market participant has failed to detect and report the suspicious or unusual transaction to the FIU.⁵²² In such cases, FCMC submits a report on transactions not reported to the FIU.

⁵¹⁸ Financial instrument market law, Section 1 (1) 19)

⁵¹⁹ Table No 7.10

⁵²⁰ Survey No 9

⁵²¹ Survey No 5, Securities market assessment prepared by the FCMC for the needs of Report (not publicly available), page 45.

⁵²² Survey No 5

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- 7.4.10. The Report shows that the statistical data collected by the FIU does not allow to extract, from the total reports on suspicious and unusual transactions submitted by banks to FIU, the number of transactions, which the bank has detected when providing investment services or ancillary investment services.⁵²³ Therefore it is more difficult to assess the effectiveness of suspicious activity monitoring and reporting of the securities sector.
- 7.4.11. The increasing international pressure from business partners has promoted the improvement of ICS of participants of the securities market by the end of the assessment period. Due to the correspondent banks and payments processed in US dollars, the pressure to meet AML/CTF standards on the Foreign customer serving banks is high (see Paragraph 7.3.26. of the Report).
- 7.4.12. Participants of the securities market sector in general consider their employees to be honest. The Report shows that securities market participants are confident that employees will not engage in unlawful activities. The statistics and results of the AML/CTF inspections carried out by FCMC do not indicate on the large number of integrity breaches by staff. However it should be taken into account that quite often it is difficult to determine during inspection the reasons for identified case of non-compliance (lack of knowledge, lack of integrity, etc.). Therefore, the integrity of employees and its impact on efficiency of ICS of the security sector should be assessed with caution, taking into account the overall integrity of Latvian society, as evidenced by the corruption perceptions index compiled by Transparency International.⁵²⁴
- 7.4.13. Participants of the securities sector conduct regular AML/CTF trainings for their employees. Training programmes are of sufficient quality, which was indicated by the results of surveys in the respective sector. Compared to other assessed sectors, a large number of employees of securities sector has acquired international AML/CTF certificates.⁵²⁵
- 7.4.14. Notwithstanding the fact that FCMC regularly informs participants of the security sector on topical ML/TF typologies, participants of the securities sector states that the most important issue, faced by participants of the securities market in the area of AML/CTF training, is the lack of knowledge regarding the current ML/TF typologies in Latvia. It would be advisable to facilitate participation of the FIU in describing topical ML/TF typologies and informing of market participants.

7.5. Life insurance sector

- 7.5.1. In 2016, 22 entities – eight insurance companies as well as 14 branches of insurers of EU or EEA member states - were entitled to provide insurance services in Latvia in accordance with the Insurance and reinsurance law.⁵²⁶ From those, six entities have the right to provide life insurance in Latvia – two insurance companies and four branches of insurers of EUR or EEA member states. In Latvia there is no operating reinsurance company. At the end of 2016, the FCMC had received 519 submissions from supervisory bodies of other Member States regarding the right to use the principle of freedom to provide services in Latvia (the AML/CTF supervisory of these institutions is performed by authorities of the respective member state).⁵²⁷
- 7.5.2. The total volume of gross premiums signed by insurance companies registered in Latvia and Member States insurer's branches in Latvia constitutes EUR 391.9 mln in 2016, including the gross premiums signed for life insurance EUR 97.1 mln and gross premiums signed for non-life insurance EUR 294.8 mln.⁵²⁸
- 7.5.3. Insurance intermediaries - insurance agents, insurance brokers and tied insurance agents also operate in the insurance sector of Latvia.⁵²⁹ 82 insurance brokers - legal persons (including 55 insurance brokers, who have the right to provide life insurance

⁵²³ Information provided by FIU

⁵²⁴ In 2016, Latvia ranked 44th in the corruption perception index compiled by *Transparency International* with a rating of 57 (0 – high corruption, 100 – low corruption)

http://www.transparency.org/news/feature/corruption_perceptions_index_2016

⁵²⁵ 44 employees, who have acquired CAMS certificates, were employed by brokerage firms and banks, providing investment services, in 2016.

⁵²⁶ Table No 7.10

⁵²⁷ Available: <http://www.fktk.lv/lv/tirgus-dalibnieki/apdrosinasana/pakalpojumu-sniedzaji-no-eez/pakalpojumu-sniegsanas-briviba.html>

⁵²⁸ Available: <http://www.laa.lv/tirgus-dati/>

⁵²⁹ Activities of insurance and reinsurance intermediaries law, Section 1 (1) 4)

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mediation services) have the right to provide insurance mediation services in 2016⁵³⁰. In its turn, the number of insurance agents reached almost 500 in 2016.⁵³¹

- 7.5.4. FCMC performs the AML/CTF supervision of life insurance companies, which are registered in Latvia, as well as insurance intermediaries, which provide life insurance services.⁵³²
- 7.5.5. ML inherent vulnerability of the offered life insurance products are medium. Use of cash, cross-border transactions and foreign customers are not common in the life insurance sector. Distribution of life insurance products through agents is a common practice.⁵³³ Information provided by LEA does not indicate to any high ML risks inherent to life insurance sector. Within the assessment period, no criminal proceedings have been initiated regarding ML, involving the life insurance sector.⁵³⁴ Also the number of suspicious transactions reported in the life insurance sector and the number of transactions sent by FIU to the LEA is low.⁵³⁵
- 7.5.6. Life insurance companies' responses to questions of the survey suggests that life insurance companies have implemented requirements of AML/CTF Law.⁵³⁶ In 2014 there was carried out one onsite inspection during which AML compliance of life insurance company was reviewed.
- 7.5.7. Life insurance companies rarely submit reports on suspicious transactions to the FIU - nine times within the assessment period. In comparison, reports on unusual transactions are submitted much more often - 296 times within the assessment period. It should be noted that effectiveness of reports is not high, because FIU very rarely sends information regarding reported transactions to LEA - ten times within the assessment period.⁵³⁷
- 7.5.8. The Report shows that almost all respondents consider that the pressure of the international market to comply with the AML/CTF standards is high. Such an opinion of the life insurance companies could be explained with the high pressure of international market in the banking sector, considering the fact that a half of life insurance companies are part of the bank companies groups.
- 7.5.9. Life insurance companies in general consider their employees to be honest and they are confident that employees will not engage in unlawful activities. The information collected within the Report does not indicate on any significant circumstances that might doubt the integrity of employees of the life insurance companies.
- 7.5.10. In general, it may be considered that employees of the life insurance companies are sufficiently well trained in order to ensure effective functioning of ICS, in accordance with the ML risks present in the life insurance sector. Life insurance companies have indicated that insufficient information on the current ML typologies as well as non-existence of high quality external trainings as the most significant deficiencies for employee training.⁵³⁸

7.6. Investment management companies

- 7.6.1. There were 12 IMC in Latvia at the end of 2016, of which nine is part of company groups of banks.⁵³⁹ The largest proportion of assets under management by IMC consist of the funds of the state funded pension plans (2nd tier pension scheme), which reached EUR 2.8 bln at the end of the assessment period.⁵⁴⁰ In addition, IMC manage also investment fund assets, PPF assets (3rd tier pension scheme) and investment portfolios of customers.
- 7.6.2. There are significant differences between the risk levels of different products offered by Latvian IMC – funds of 2nd and 3rd tier pension are low ML risk, considering that in 2nd tier pension schemes funds that are acquired from social security contributions are managed and in 3rd tier pension schemes funds that are acquired from domestic

⁵³⁰ Available: <http://www.fktk.lv/lv/tirgus-dalibnieki/apdrosinasana/apdrosinasanas-starpnieki.html>

⁵³¹ Available: <http://www.fktk.lv/lv/tirgus-dalibnieki/apdrosinasana/apdrosinasanas-starpnieki.html>

⁵³² AML/CTF Law, Section 45 (1) 1)

⁵³³ Survey No 11

⁵³⁴ Information provided by the Ministry of Interior

⁵³⁵ Information provided by FIU

⁵³⁶ Survey No 10

⁵³⁷ Survey No 6

⁵³⁸ Survey No 10

⁵³⁹ Table No 7.10

⁵⁴⁰ Summary of financial and capital market in 2016. Available:

http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

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customers are managed. Most significant ML risks are related to management of investment funds and investment portfolios, particularly when funds of foreign customers are managed.

- 7.6.3. Five out of 12 IMC licensed in Latvia are part of Foreign customer serving bank groups. ML inherent vulnerability of such IMC is increased by the fact that their customer base largely consists of high risk customers (foreign customers part of which conduct their business through shell companies) and they manage large amounts of foreign customer funds. Thus, a large part of IMC encounter similar ML inherent vulnerability as Foreign customer serving banks.
- 7.6.4. ML inherent vulnerability level in IMC sector may be considered to be medium high. IMC do not conduct cash transactions and volume of international transactions is medium high. It is possible to use IMC services non-face-to-face.⁵⁴¹ Large number of typologies involving securities exist, for example, profits made by a person purchasing securities at a price, which is substantially lower than the market price and then selling these securities for a market price, may give the impression of legally acquired funds.⁵⁴² There are no ML cases involving IMC detected in Latvia.
- 7.6.5. All IMC have implemented ICS and appointed a member of the board and an employee responsible for fulfilment of AML/CTF Law requirements.⁵⁴³ No violations in the operation of IMC have been detected during AML/CTF inspections carried out by FCMC in respect of transaction monitoring or identification and reporting of suspicious transactions.
- 7.6.6. Assessment of the effectiveness of the suspicious transaction monitoring and reporting for IMC is difficult due to the fact that the FIU does not maintain statistics on the number of reports on suspicious and unusual transactions submitted by IMC to FIU and reported transactions.⁵⁴⁴
- 7.6.7. Integrity of IMC employees is demonstrated by the fact that no disciplinary or criminal proceedings have been initiated against them. The management of IMC believe that their employees act fairly and ethically, and they have no knowledge of cases where their employees have acted otherwise.⁵⁴⁵
- 7.6.8. Responses of IMC indicate that regular AML/CTF staff training is performed. Within the assessment period, the employees of IMC have participated in 15 trainings performed by external experts and 72 internal trainings after which the knowledge of employees is tested. Employees have high level of knowledge.
- 7.6.9. Considering the large amount of foreign customers served by IMC it is advisable to promote IMC awareness of ML risks in the securities sector to enhance capacity of IMC to recognise suspicious and unusual transactions.

7.7. PI/EMI

- 7.7.1. As at the end of 2016, there are 29 PI, three were licensed and 26 registered, and 15 EMI, three were licensed and 12 registered, operating in Latvia.⁵⁴⁶ After the assessment period two PI⁵⁴⁷ and one EMI⁵⁴⁸ are removed from the registers of PI and EMI kept by FCMC.
- 7.7.2. A PI is a company which provides payment services⁵⁴⁹ under Section 1 (1) of the PSEML and has received license for PI operations, or an individual or entity registered

⁵⁴¹ Survey No 32

⁵⁴² Available:

[https://www.coe.int/t/dghl/monitoring/moneyval/Activities/MONEYVAL\(2008\)24Reptyp_securities.pdf](https://www.coe.int/t/dghl/monitoring/moneyval/Activities/MONEYVAL(2008)24Reptyp_securities.pdf)

⁵⁴³ Survey No 31

⁵⁴⁴ Survey No 6

⁵⁴⁵ Survey No 31

⁵⁴⁶ Table No 7.10

⁵⁴⁷ Available: <http://www.fktk.lv/en/market/payment-institutions/cancelled-entries-in-the-register-of-payment-institutions-and-entries-regarding-suspension-of-paymen/4748-2014-08-07-cancelled-entries-in-the-register-of-payment-institution.html>

⁵⁴⁸ Available: <http://www.fktk.lv/en/market/electronic-money-institutions2/cancelled-entries-in-the-register-of-electronic-money-institutions-and-entries-regarding-suspension/4751-2014-08-07-cancelled-entries-in-the-register-of-electronic-money-institution.html>

⁵⁴⁹ A service enabling cash to be placed on a payment account and cash withdrawal from a payment account; execution of payments, including direct debit payments and also one-off direct debit payments, execution of payment transactions through a payment card or a similar device, execution of credit transfers and standing

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with the FCMC and according to the PSEML is not required to hold a license to commence the operation of a PI.

- 7.7.3. An EMI is a company which has received a licence to issue electronic money, or an individual or entity which has been registered with the FCMC and according to the PSEML is not required to hold a license to issue electronic money.
- 7.7.4. With continued development of mobile technologies, instant payments and contactless payments, PI and EMI are taking an increasingly active part in the provision of payment services – their total volume of payments made in 2016 was EUR 402 mln, which is 58.8% higher compared to the previous year.⁵⁵⁰ In 2016, the average outstanding electronic money of EMI increased by EUR 1.5 mln or 31% to EUR 6.4 mln.⁵⁵¹
- 7.7.5. ML inherent vulnerability in PI/EMI sector is medium high. Value of PI/EMI sector is low, however ML inherent vulnerability is increased by high risk client base, frequent use of agents, medium number of international transactions, as well as possibility to use services anonymously.⁵⁵²
- 7.7.6. The Report shows that, by taking into account the aforementioned factors and the relevant ML risks, which are described in the report, it is necessary to substantially strengthen the AML/CTF supervision of PI/EMI.
- 7.7.7. Rapid increase in payment services amount in past years have also increased ML risks in PI/EMI sector. There are PI/EMI operating in the Latvian market which, in cooperation with Foreign customer serving banks, provide payment services mainly to foreign customers. Such economic activity of PI/EMI is not related to the Latvian market and there is no clear economic justification for establishing a presence in Latvia instead of in any of the countries of the customers of which they are serving. Statistical data shows that the number of foreign customers in the PI/EMI sector is small, i.e. 6% of the total PI/EMI customer base.⁵⁵³ However, FCMC notes that regardless of the small share of foreign customers, the average amount of foreign customer transactions carried out by PI is significantly higher than that of domestic customers performed by PI/EMI. FCMC also notes that transactions made by foreign customers are usually not transparent. Therefore, increased ML/TF risks are inherent in PI/EMI serving foreign customer cash-flows.
- 7.7.8. ICS implemented by PI/EMI do not always ensure efficient ML/TF risk that relates to serving of foreign customers management. Insufficient management of ML risks, especially those related to serving foreign customers, including inadequate CDD and transaction monitoring, significantly increases overall vulnerability of PI/EMI. At the same time Foreign customer serving banks where such PI/EMI have opened their accounts are also exposed to increased ML risks.
- 7.7.9. There are two criminal proceedings on ML initiated against employees of a registered EMI in 2016, evidencing potential involvement of EMI in ML.⁵⁵⁴
- 7.7.10. All PI/EMI have ICS in place. However, 37% of the respondents note that improvements in the ICS are necessary. PI/EMI generally believe that they have a sufficient number of trained employees to ensure AML/CTF compliance. Responses provided by PI/EMI also show that they have introduced quality employee AML/CTF training programme.⁵⁵⁵
- 7.7.11. Nevertheless, the results of AML/CTF inspections carried out by FCMC show that PI/EMI do not have efficient ICS in place to ensure effective management of ML/TF risks inherent to business of PI/EMI, particularly when serving foreign customer funds.⁵⁵⁶ In PI/EMI inspections FCMC has found that competency and knowledge in the area of AML/CTF of responsible employees is not always sufficient to develop an

orders, including where a credit limit is applied to the money available to the payment service user; issuing or receipt of a payment instrument; money remittance, etc.

⁵⁵⁰ Report on the finance and capital market in 2016. Available:

http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

⁵⁵¹ Report on the finance and capital market in 2016. Available at:

http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

⁵⁵² Survey No 13

⁵⁵³ 4th round Moneyval report, p.27.

⁵⁵⁴ Survey No 55

⁵⁵⁵ Survey No 12

⁵⁵⁶ Survey No 5

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ICS that is sufficient and adequate to the ML/TF risk level and business specifics of PI/EMI.

- 7.7.12. During PI/EMI inspections, the FCMC has detected suspicious transactions not identified by PI/EMI and not reported to FIU. Four such cases have been detected within the assessment period, with three cases of deficiencies in the operations of PI found in 2013, and one case of deficiency found in the operations of an EMI in 2016.⁵⁵⁷ This is an indication that the knowledge level of PI/EMI employees is insufficient for adequate monitoring of customer transactions and timely detection of suspicious and unusual transactions that PI/EMI are obliged to report to FIU.
- 7.7.13. Other typical deficiencies identified in the operations of PI/EMI within the assessment period include:
- a) no AML/CTF training that is adequate to business and inherent ML/TF risk level has been conducted;
 - b) no efficiency assessment of ICS has been carried out;
 - c) no employee and/or board member responsible for the compliance with the AML/CTF Law requirements has been appointed;
 - d) performed CDD is not in line with regulatory framework;
 - e) CDD record keeping are of poor quality;
 - f) no adequate ML/TF risk management IT system has been implemented;
 - g) absence of clearly defined procedures for detection and reporting of suspicious and unusual transactions to FIU.⁵⁵⁸
- 7.7.14. Some of the above deficiencies can be also inferred from the responses of surveys, which were performed for the needs of Report, provided by PI/EMI. Responses provided by PIs/EMIs, for example, show that 14% of the respondents have failed to appoint a board member responsible for fulfilment of AML/CTF Law requirements and 26% of the respondents have failed to appoint an employee responsible for fulfilment of AML/CTF Law requirements. However, 100% of the respondents which are licensed PI and EMI have appointed both a board member and an employee responsible for compliance with the requirements of the AML/CTF Law.⁵⁵⁹
- 7.7.15. Within the assessment period, EMI have reported to FIU 207 suspicious transactions and 2448 unusual transactions. The number of unusual transactions reported to the FIU by EMI, has a steady upward trend, in 2013 EMI reported only 11 unusual transactions, however in 2016 EMI reported 1 071 unusual transaction, reaching 8% of the total number of unusual transactions reported to FIU.⁵⁶⁰ However, it should be noted that in the relevant year the total number of transactions reported by EMI⁵⁶¹ and included in the materials sent to LEA by FIU to decide on initiation of criminal proceedings is very low: 11 transactions in 2015 and 6 transactions in 2016.⁵⁶²
- 7.7.16. For PI, the assessment of the effectiveness of suspicious transactions monitoring and reporting is made difficult by the fact that statistics on the number of submitted reports and reported suspicious and unusual transactions was not available at the time when the Report was prepared.⁵⁶³
- 7.7.17. PI/EMI generally consider that their employees are honest, and are confident that they will not engage in criminal activities.⁵⁶⁴ No criminal proceedings for ML have been initiated against PI/EMI employees until 2016. However, two criminal proceedings for ML were initiated against employees of a registered EMI in 2016. Consequently, the integrity of employees and the impact thereof on the efficiency of ICS of PI/EMI securities sector should be assessed with caution, taking into account

⁵⁵⁷ Survey No 5

⁵⁵⁸ Survey No 5

⁵⁵⁹ Survey No 12

⁵⁶⁰ Survey No 6

⁵⁶¹ Irrespective of the year when suspicious transaction report was received.

⁵⁶² Table No 7.11

⁵⁶³ Survey No 6

⁵⁶⁴ Survey No 12: To the question "Do you believe that your employees are loyal and would not engage in criminal activities?" 94% of the respondents answered "yes", and 6% of the respondents answered "rather yes than no". To the question "Do you believe that your employees comply with all the AML/CTF procedures and policies?" 78% of the respondents answered "yes", and 22% of the respondents answered "rather yes than no".

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the overall integrity of Latvian society, as evidenced by the corruption perceptions index compiled by Transparency International.⁵⁶⁵

7.8. Non-bank lenders

- 7.8.1. Non-bank lenders are obliged entities under the AML/CTF Law since 16.09.2014, when amendments to the AML/CTF Law came into force, expanding the definition of finance institutions.
- 7.8.2. It is complicated to determine the precise number of non-bank lenders. 305 capital companies, the type of commercial activity of which is "other crediting services" according to NACE classifier, are registered in Latvia. Non-bank lenders have an obligation to receive a license only in the case if they perform crediting of consumers, thereby only a part of them are licensed. Consumer lending license is issued by CRPC. By the end of the assessment period, CRPC had issued a consumer lending license to 59 entities.⁵⁶⁶
- 7.8.3. The evaluation is based on the analysis of the information provided by entities licensed for consumer lending unless specified otherwise.
- 7.8.4. The largest non-bank lending market participants are leasing companies and consumer lenders. In accordance with the data from the Latvian leasing association, the leasing portfolio of its members was EUR 1.3 bln at the end of 2016.⁵⁶⁷ The nine largest leasing companies in Latvia are members of the Latvian leasing association.⁵⁶⁸ They are all included in the company groups of banks, thus their ICS should correspond with the AML/CTF policy and requirements of group wide policies of the banks. On 30.06.2016 the credit portfolio of the consumer lenders was EUR 487 mln.⁵⁶⁹
- 7.8.5. The amount of loans that may be received from non-bank lenders is varies significantly, considering the broad range of services, such as consumer loans, mortgages, leasing as well as the fact that customers are both, individuals as well as entities.
- 7.8.6. ML inherent vulnerability level in non-bank lender sector is medium. There is a small number of international transactions, also the volume of cash transactions is average low. Anonymous use of the product is not possible, however services mostly are provided non-face-to-face, including through agents.⁵⁷⁰ It should be noted that one criminal proceeding regarding ML was initiated, which is related to non-bank lenders. Currently the specific ML typologies for non-bank lenders are not known. Fraud schemes, where criminals who have acquired personal data and access to bank accounts receive loans from consumer lenders, are topical in Latvia.
- 7.8.7. Only half of consumer lenders have introduced ICS.⁵⁷¹ Taking into account the fact that AML/CTF inspections in the consumer lending companies have not been carried out, it is not possible to obtain clear understanding on the existence and efficiency of ICS. Besides, a significant part of the consumer lending companies have not appointed a member of the board or an employee responsible for fulfilment of AML/CTF Law requirements.⁵⁷² Information and data gathered within the Report suggests that ICS of consumer lenders requires significant improvements.
- 7.8.8. Efficiency of consumer lender suspicious and unusual transaction monitoring and reporting is questionable. It is also evidenced by reporting results – within the assessment period consumer lenders have not submitted to the FIU any report on suspicious or unusual transactions.⁵⁷³
- 7.8.9. The majority of the consumer lenders indicate that they are not aware of cases, when employees have been dishonest or unethical.⁵⁷⁴ Before recruiting employees,

⁵⁶⁵ Survey No 55

⁵⁶⁶ Table No 7.10

⁵⁶⁷ Available: <http://www.llda.lv/lv/par-asociaciju/statistika.html>

⁵⁶⁸ Available: http://www.llda.lv/lv/par-asociaciju/par_mums.html

⁵⁶⁹ Available:

http://www.ptac.gov.lv/sites/default/files/2016_i_pusgads_parskats_par_nebanku_kredit_tirgu.pdf

⁵⁷⁰ Survey No 15

⁵⁷¹ Survey No 14

⁵⁷² Survey No 14

⁵⁷³ Survey No 6

⁵⁷⁴ Survey No 14

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employee background checks are performed assessing their education, experience and criminal records.

- 7.8.10. Consumer lenders organise AML/CTF trainings to their employees. The number of trained employees is increasing each year (external trainings - 2013 - 1; 2014 - 2; 2015 - 2; 2016 - 18; internal trainings - 2013 - 11; 2014 - 14; 2015 - 14, 2016. - 231).⁵⁷⁵ Failure to carry out inspections of consumer lenders precludes to ascertain the effectiveness and quality of trainings.

7.9. Bureaux de change

- 7.9.1. By the end of the assessment period there are 42 bureaux de change operating in Latvia. The operation of three of them is suspended.⁵⁷⁶
- 7.9.2. Criminals use Bureaux de change to convert cash into smaller bundles of high denomination foreign notes to conceal the origins of funds and as a precursor to cash movement or cash smuggling across borders.
- 7.9.3. ML inherent vulnerability level in this sector are medium. Value of this sector is low, however ML inherent vulnerability is increased by high risk client base, high amount of cash in this sector as well as possibility to use services anonymously.⁵⁷⁷ Additionally it should be noted that within the assessment period ML charges have been brought against five employees of Bureaux de change which indicates an increased ML risk in this sector.⁵⁷⁸
- 7.9.4. Bureaux de change is obliged to perform identification of customers, if the value of the transaction exceeds a certain threshold. In 2016 this threshold has been raised from EUR 2 thous to EUR 8 thous. This increases one of relevant ML/TF risks present in this sector - the risk that customers could potentially split one transaction into several transactions so that the volume of one transaction would not exceed the limit set by regulatory enactments and thereby being able to avoid the need for identification. Therefore, it should be necessary to evaluate if setting a lower threshold could reduce the number of customers avoiding the identification required by AML/CTF Law. When evaluating this option, other market participants, which engage in the trading of foreign currency cash, should be taken into account, ensuring compliance with the principle of equality.⁵⁷⁹
- 7.9.5. All bureaux de change have introduced ICS and appointed an employee responsible for fulfilment of the requirements of the AML/CTF Law.⁵⁸⁰ ICS procedures and policies of supervised bureaux de change correspond with the requirements of the AML/CTF Law. The AML/CTF inspections of bureaux de change carried out by BoL also include regular examination of application of ICS in practice.
- 7.9.6. Bureaux de change often reports unusual and suspicious transactions to the FIU. During the assessment period reports on 942 suspicious transactions and on 10 997 unusual transactions have been reported to FIU. Reported unusual transactions comprised 23% of total number of unusual transactions, which were reported to the FIU within the assessment period.⁵⁸¹ Bureaux de change reported to the FIU unusual transactions for total amount of EUR 140.2 mln. This is considered to be a high indicator compared to the total amount of transactions of bureaux the change, i.e. EUR 318.8 mln.
- 7.9.7. However, it should be noted that during the assessment period only 16 transactions⁵⁸² reported by bureaux de change have been included in the materials forwarded by FIU to LEA to decide on initiating criminal proceedings.⁵⁸³ This indicates to a lower efficiency of reporting. The FIU does not give feedback to bureaux de change on shortcomings found in the reports and reasons why transactions reported by bureaux de change are not further used in the materials.

⁵⁷⁵ Survey No 14

⁵⁷⁶ Table No 7.10

⁵⁷⁷ Survey No 27

⁵⁷⁸ Survey No 7

⁵⁷⁹ 02.03.2016 Constitutional court decision "On the Bank of Latvia 15.09.2014 regulations No 141 "Anti-money laundering and counter terrorism financing requirements when selling or purchasing cash currency" conformity with Sections 1 and 64 as well as first sentence of Section 91 of Latvian Constitution.

⁵⁸⁰ Survey No 26

⁵⁸¹ Table No 7.11

⁵⁸² Irrespective of the year of the receipt of the report, also in the additional information received in response to FIU requests.

⁵⁸³ Table No 7.11

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Thus, it is difficult for bureaux de change to improve the quality of reports on suspicious and unusual transactions to contribute to timely and effective prevention of ML.

- 7.9.8. Cases where bureaux de change were obliged but failed to report to FIU unusual or suspicious transactions are very rarely found during their inspections. Delays in reporting as required by AML/CTF Law are sometimes detected.⁵⁸⁴
- 7.9.9. Bureaux de change believe that their employees comply with all the internal AML/CTF procedures and policies, are loyal, not engaging in any criminal activities, and do not disclose to the customer the fact of reporting to FIU. Prior to the recruitment, bureaux de change performs employees' background check, assessing both employees' reputation and criminal records.⁵⁸⁵ However, integrity of bureaux de change employees should be evaluated cautiously considering the number of charges brought against their employees for ML.
- 7.9.10. A large proportion of bureaux de change do not have a system in place enabling employees to anonymously report possible infringements in the area of AML/CTF, including potential cases of corruption, fraud or unethical conduct (whistleblowing).⁵⁸⁶ The failure to ensure anonymity, in conjunction with non-compliance with the regulatory framework, (see Paragraph 5.9.25. – 5.9.26. of the Report) pose a significant threat to whistle-blowers, and may discourage employees from reporting.
- 7.9.11. Bureaux de change provide internal AML/CTF training for their employees. The training covers a large variety of AML/CTF topics, including employees' obligations, rights and responsibilities in the area of AML/CTF, the procedure for identifying unusual and suspicious transactions, and employees' obligations upon their detection.⁵⁸⁷
- 7.9.12. The results of the AML/CTF inspections carried out by BoL show that the knowledge and competences in the area of AML/CTF of employees of bureaux de change whose customers carry out relatively large transactions are at an adequate level to efficiently ensure the compliance with the AML/CTF Law and ICS requirements, and appropriately manage ML/TF risks they face. The knowledge of employees of other bureaux de change is insufficient, but at the same time the ML/TF risks they face are also lower.
- 7.9.13. BoL is providing regular consultations to bureaux de change on AML/CTF requirements.⁵⁸⁸ It promotes the understanding of ML/TF risks and AML/CTF requirements in supervised sector, which in turn improves efficiency of ICS.

7.10. VAS "Latvijas Pasts"

- 7.10.1. LP is obliged to provide the universal post service throughout the territory of Latvia until 31.12.2019, and an obligation to meet the requirements set by the decision regarding the number and location of postal service points.⁵⁸⁹ LP provides payment services⁵⁹⁰ and money remittance services through its network (approximately 600 post-offices in Latvia).⁵⁹¹
- 7.10.2. LP faces medium low ML inherent vulnerability. Turnover of LP payment services is low as well as frequency of international transactions. ML inherent vulnerability is increased by high amount of cash transactions.⁵⁹² A significant ML risk faced by LP is considered to be the possibility for LP customers to split a transaction into several parts and carry out those transactions at several post offices of LP over a very short period without exceeding the limit of identification (EUR 15 000) required by

⁵⁸⁴ Survey No 28

⁵⁸⁵ Survey No 26

⁵⁸⁶ Survey No 26

⁵⁸⁷ Survey No 26

⁵⁸⁸ BoL indicates that by taking into account the number of subjects to be supervised, it is possible

⁵⁸⁹ Section 11 (1) of the Transitional Provisions of the Postal Law: After 31 December 2014, the Regulator, without applying the procedures as to the choice of the universal postal service provider laid down in Section 27 (2) of this Law, from 1 January 2015 shall extend for a five-year period the universal postal service obligations of postal operators which have been imposed the obligation to provide the universal postal service until 31 December 2014.

⁵⁹⁰ Postal Law, Section 22

⁵⁹¹ Postal Law, Section 23

⁵⁹² Survey No 18

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AML/CTF Law, from which LP would be reporting to FIU. The absence of a unified information system prevented LP from a timely detection of such transactions and their reporting to FIU, as a result of which LP may become involved in ML. In 2016, LP initiated development of an IT solution by creating a tool for supervision of suspicious transactions, which will allow to promptly track transactions carried out by LP customers. After the first phase has been completed – creation of automated profiles of clients, other tools will be gradually introduced by taking into account the recommendations provided by the auditor on 2017 on improvement of operation of Postal payments system.

- 7.10.3. LP has introduced an ICS complying with the requirements of the AML/CTF Law, and appointed a board member responsible for the compliance with the AML/CTF Law. LP conducts regular efficiency assessments of the ICS to verify that the policies and procedures developed, and ICS as a whole, enables effective management of ML/TF risks it faces, and to ensure compliance with the regulatory requirements. LP recognises, however, that improvements in the ICS would be necessary.⁵⁹³ The absence of independent efficiency examinations of LP ICS, including verification of the ICS application in practice,⁵⁹⁴ does not allow to perform comprehensive assessment of its effectiveness. However, it should be noted that by attracting external auditors, the deficiencies were identified and work on risk assessment and development of necessary automated tools began, therefore increasing the efficiency of LP ICS.
- 7.10.4. LP provides internal AML/CTF training to all post office employees and those who work with customer transactions. The training programme covers a large variety of AML/CTF topics, including employees' obligations, rights and responsibilities in the area of AML/CTF, the procedure for detecting unusual and suspicious transactions, and employees' conduct upon their detection. Knowledge of LP employees is also tested after the training.⁵⁹⁵
- 7.10.5. Although LP provides regular AML/CTF training for employees, the responses provided by LP regarding the practical application of ICS procedures and policies show that the AML/CTF knowledge level of LP employees should be increased. This together with the lack of feedback from the FIU can reduce the reporting quality and lead to a situation where LP does not address all risks related to high risk customers and their transactions as appropriate. As a result LP could be involved in ML.
- 7.10.6. Integrity of employees of LP is evidenced by the fact that no disciplinary proceedings relating to violations of AML/CTF procedures and policies or criminal proceedings regarding ML have been initiated against them. Management of LP considers employees to be honest and ethical and management is not aware of any instances when employees have acted dishonestly and unethically.⁵⁹⁶
- 7.10.7. Within the assessment period, LP has reported to FIU 495 suspicious and only 13 unusual transactions.⁵⁹⁷ 10% of suspicious and unusual transactions reported by LP have been included in the materials forwarded by FIU to LEA to decide on initiating of criminal proceedings.⁵⁹⁸ This is a good effectiveness indicator compared to other obliged entities under AML/CTF Law.
- 7.10.8. FIU does not provide feedback to LP on shortcomings found in the reports and reasons why transactions reported by LP are not further used in the materials.

7.11. Alternative investment fund managers

- 7.11.1. There were 13 AIFM established in Latvia by the end of the assessment period. Five of 13 AIFM have been granted a licensed AIFM status and eight – a registered AIFM status.⁵⁹⁹ In addition, 63 EEA AIFM had notified FCMC of their operations in Latvia within the freedom to provide services.⁶⁰⁰ All licensed AIFM are also licensed IMC.

⁵⁹³ Survey No 17

⁵⁹⁴ Survey No 17, Survey No 19

⁵⁹⁵ Survey No 17

⁵⁹⁶ Survey No 17

⁵⁹⁷ Survey No 17

⁵⁹⁸ Table No 7.11

⁵⁹⁹ Table No 7.10

⁶⁰⁰ Available: <http://www.fktk.lv/en/market/alternative-investment-fund-managers/managers-from-eea/4757-2013-10-15-freedom-to-provide-services.html>

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- 7.11.2. As at the end of 2016, total assets of AIFM amounted to EUR 143.35 mln.⁶⁰¹
- 7.11.3. ML inherent vulnerability level is low in this sector. Sector is small, frequency of international transactions is low and there are no cash transactions in this sector. Customer risk profile is medium.⁶⁰² The FCMC has not detected any cases where funds managed by AIFM would be used for purposes of ML/TF or tax evasion.⁶⁰³ Licensed AIFM encounter the same risks as IMC. Two out of five licensed AIFMs are part of Foreign customers serving bank groups thereby often encountering foreign customers that possess increased ML risk.
- 7.11.4. All AIFM have ICS in place. The majority of AIFM have transaction monitoring systems in place.⁶⁰⁴ For AIFMs, the assessment of the compliance of ICS with requirements of the AML/CTF Law is made difficult by the fact that there have been no on-site inspections within the assessment period. However there have been examinations of AIFM procedures that did not reveal significant deficiencies.
- 7.11.5. Within the assessment period AIFM have not reported to FIU any suspicious or unusual transactions.
- 7.11.6. Responses provided by AIFM show that employee training and knowledge on ML/TF risks and issues need to be improved. Within the assessment period, AIFM employees participated once in external and six times in internal trainings.⁶⁰⁵
- 7.11.7. AIFMs believe, that their employees are protected against corruption and AIFM have no knowledge of cases of dishonest or unethical conduct of their employees, and no disciplinary or criminal proceedings against their employees have been initiated.⁶⁰⁶
- 7.11.8. Slightly more than half of AIFM have introduced a whistleblowing channel, which allows to report different offences, including in the area of AML/CTF, in the activities of the respective company.⁶⁰⁷ Taking into account AIFM specifics, this is considered to be a high level.

7.12. Entities providing cash collection services

- 7.12.1. There are five entities licensed by SP for provision of cash collection security services that are operating in Latvia. By the end of the assessment period, their assets totalled EUR 9.86 mln.
- 7.12.2. There are low ML inherent risk level in this sector. Size of the sector is small and their client base is characterised by very low ML risk. ML inherent vulnerability of this sector is increased due to the amount of cash.⁶⁰⁸ Furthermore, entities providing cash collection services very rarely report unusual transactions to FIU, while no reports altogether have been received on suspicious transactions.⁶⁰⁹
- 7.12.3. 80% of the market participants have introduced ICS which, regulates employees' conduct and obligations when detecting unusual and suspicious transactions and preparing reports on those. Respondents note that improvements in the ICS would be necessary.⁶¹⁰ The compliance of the ICS introduced with the requirements of the AML/CTF Law and their practical application have not been verified. Consequently, it is not possible to assess the efficiency of the ICS of entities providing cash collection services and draw valid conclusions.
- 7.12.4. Within the assessment period, entities providing cash collection services have not reported on suspicious transactions to FIU. Until 2016, there were no reports on unusual transactions, however in 2016 there were 373 unusual transactions reported.⁶¹¹
- 7.12.5. Cash collection service providers have no knowledge of cases of dishonest or unethical conduct of their employees. They have a mechanism in place enabling

⁶⁰¹ Available: http://www.fktk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

⁶⁰² Survey No 30

⁶⁰³ Survey No 5

⁶⁰⁴ Survey No 29

⁶⁰⁵ Survey No 5

⁶⁰⁶ Survey No 29

⁶⁰⁷ Survey No 29

⁶⁰⁸ Survey No 25

⁶⁰⁹ Survey No 23

⁶¹⁰ Survey No 23

⁶¹¹ Survey No 23

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employees to anonymously report potential violations in the area of AML/CTF, including possible cases of corruption and fraud (whistleblowing).⁶¹²

- 7.12.6. Entities providing cash collection services carry out internal employee training on AML/CTF, covering a wide range of AML/CTF topics.⁶¹³ However, employees' knowledge level in this sector should be viewed very critically, taking into account that not all the market participants have introduced an ICS. It should be taken into account that the transactions turnover in this sector is small, therefore the overall impact of this sector on the ML/TF risk of the state is low.
- 7.12.7. The AML/CTF knowledge level of employees is insufficient to effectively prevent the potential involvement of those entities in ML and ensure efficient ML/TF risk management. Moreover, the absence of AML/CTF supervision further increases the vulnerability of entities providing cash collection services. There are no indications mentioned in the Report that would allow to conclude that entities providing cash collection services are used in ML.

7.13. AS "Attīstības finanšu institūcija Altum"

- 7.13.1. The purpose of Altum - creating a single nationwide development finance institution, concentrating state resources on financial instruments for the implementation of state aid and development programmes. Altum is an entity solely owned by the government.
- 7.13.2. The ML inherent vulnerability level of Altum is low. Altum neither engages in cash transactions, nor maintains customer accounts, it does not have any customers who are not residents of EU. The number of customers who are PEPs is very low and by the end of the assessment period amounts only to 0.15% of the total number of Altum customers.⁶¹⁴ Information provided by LEA indicates low ML/TF risks inherent to Altum. No criminal proceedings for ML have been initiated with the involvement of Altum employees within the assessment period.⁶¹⁵
- 7.13.3. The ICS introduced by Altum complies with the requirements of Section 7 (1) of the AML/CTF Law. There are criteria defined in ICS, when Altum should conduct ECDD, for instance, when customer is a PEP.⁶¹⁶ The fact that the efficiency of Altum ICS and adherence to it in practice is not verified should be noted as a shortcoming.
- 7.13.4. Taking into account the specifics of products and services offered by Altum, transactions are assessed for suspicious and/or unusual characteristics before the provision of an Altum financial service, and also during its provision.⁶¹⁷ Altum has not reported any suspicious or unusual transaction to FIU. This does not reveal deficiencies in Altum ICS, and should be considered in conjunction with the low ML/TF risks inherent to operation of Altum.
- 7.13.5. Altum believes that its employees comply with all internal AML/CTF procedures and policies, are loyal, and would not engage in any criminal activities. Prior to the recruitment, Altum conducts employee background checks, evaluating employees' education, reputation, and criminal records. Altum has no knowledge of cases of dishonest or unethical conduct of its employees. It should be additionally noted that Altum has developed a database where any employee can anonymously report the shortcomings detected in the ICS, including violations in the area of AML/CTF.⁶¹⁸
- 7.13.6. Altum provides internal AML/CTF training for its employees. The training covers a variety of AML/CTF topics, including employees' obligations, rights and responsibilities in the area of AML/CTF, the procedure for identifying unusual and suspicious transactions, and employees' conduct upon their detection. Knowledge of employees is not tested upon the completion of the AML/CTF course.⁶¹⁹

⁶¹² Survey No 23

⁶¹³ Survey No 23

⁶¹⁴ Survey No 20

⁶¹⁵ Survey No 55

⁶¹⁶ Survey No 20

⁶¹⁷ Survey No 20

⁶¹⁸ Survey No 20

⁶¹⁹ Survey No 20

7.14. Private pension Funds

- 7.14.1. By the end of the assessment period, there were six PPF in Latvia, of which five open pension funds and one closed pension fund.⁶²⁰ Four of the six PPF belong to groups of banks.
- 7.14.2. At the end of 2016, the capital accumulated by PPF amounted to EUR 381 mln.⁶²¹
- 7.14.3. ML inherent vulnerability level is low in this sector. Sector is small and serves very low risk customers. No cash transactions are performed in this sector and there are no ML typologies.⁶²² FCMC has not detected any cases where PPF are used for purpose of ML or tax evasion. No other indications have been identified that PPF might be conveniently used for ML.
- 7.14.4. PPF have developed ICS proportionate to their risks. All PPF have appointed a board member responsible for fulfilment of AML/CTF Law requirements.⁶²³
- 7.14.5. Integrity of pension fund employees is demonstrated by the fact that no disciplinary or criminal proceedings have been initiated against them. The management of PPF believe that their employees act fairly and ethically, and they have no knowledge of cases where their employees have acted otherwise.⁶²⁴
- 7.14.6. PPF provide AML/CTF training for all their employees who perform AML/CTF measures, except technical staff. The training covers various AML/CTF topics, including employees' obligations, rights and responsibilities in the area of AML/CTF, the procedure for identifying unusual and suspicious transactions, and employees' conduct upon their detection. Five out of six PPF test the knowledge of their employees after the training.⁶²⁵
- 7.14.7. Within the assessment period PPF have not reported suspicious or unusual transactions to the FIU. No violations in the operations of PPF in respect of transaction monitoring or identification and reporting suspicious transactions to FIU have been detected during inspections carried out by FCMC.

7.15. Credit unions

- 7.15.1. According to FCMC ML/TF risk in this sector is related to investments in CU made by foreign members. Usually such investments are made in large amounts without economic justification and without proper examination of foreign investor's source of funds. FCMC has identified such cases when doing CU AML/CTF inspections.
- 7.15.2. CU are obliged entities under AML/CTF Law since 16.09.2014, when amendments to the AML/CTF Law that broadened the definition of the financial institutions became effective.⁶²⁶
- 7.15.3. A CU is a cooperative society with a variable number of members and capital.⁶²⁷ CU is created for a defined number of members. Almost all members are individuals and residents of Latvia. CU provide services only to their members which are identified face to face. Operations of CU are regulated in Latvia by the Law On credit unions and Law On cooperative societies. All CU are licensed.⁶²⁸ By the end of the assessment period, 34 CU were operating in Latvia.⁶²⁹
- 7.15.4. In 2016, total assets of cooperative CU increased by 8.1% or EUR 2 mln, reaching EUR 27.2 mln at the end of December. The main activity of CU is granting loans to their members. In 2016, outstanding loans granted to the members increased by EUR 1.7 mln or 9.6%, reaching EUR 19.5 mln at the end of December 2016. Approximately 99% of the loan portfolio is granted to individuals.⁶³⁰

⁶²⁰ Table No 7.10

⁶²¹ Available: http://www.fctk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

⁶²² Survey No 36

⁶²³ Survey No 35

⁶²⁴ Survey No 35

⁶²⁵ Survey No 35

⁶²⁶ AML/CTF Law, 1 7) h) and 3 (1) 2)

⁶²⁷ Credit union law, Section 2 (1)

⁶²⁸ Credit union law, Section 8 (2)

⁶²⁹ Table No 7.10; available: <http://www.fctk.lv/en/market/credit-unions.html>

⁶³⁰ Report on the finance and capital market in 2016. Available at: http://www.fctk.lv/attachments/article/6203/Parskats_Q4_2016.pdf

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- 7.15.5. ML inherent vulnerability of this sector is low. Sector is small, its client base is characterized by very low risk. There is low cash activity in this sector as well as low number of international transactions.⁶³¹ FCMC has not identified any cases when CU have been used in ML. Information provided by LEA also does not indicate that CU would be easy to use for ML purposes.
- 7.15.6. Although CU report that they have ICS in place, the results of AML/CTF inspections carried out by FCMC show that some CU have not developed AML/CTF policies and procedures, or the procedure developed is not appropriate for the specifics of their operations and does not ensure compliance with the requirements of the AML/CTF Law.⁶³² It is alarming, that approximately one third of CU have not appointed a board member responsible for fulfilment of AML/CTF Law requirements.⁶³³
- 7.15.7. FCMC in its inspections have identified cases when CU have not developed and documented procedures suitable to its business for client due diligence, including enhanced due diligence.⁶³⁴ Until now, they also have not reported any suspicious or unusual transaction to FIU.⁶³⁵
- 7.15.8. No disciplinary proceedings for breach of AML/CTF procedures and/or policies or criminal proceedings for ML have been initiated against the employees of CU. CU believe that their employees comply with all the internal AML/CTF procedures and policies, are loyal, and would not engage in any criminal activities.⁶³⁶
- 7.15.9. CU provide AML/CTF training to all their employees who face with AML/CTF issues. However, replies given by CU regarding practical application of ICS procedures and policies⁶³⁷, as well as the results of AML/CTF inspections carried out by FCMC show that the AML/CTF knowledge level of their employees is not insufficient. As a result CU may not always perform due diligence of high risk customers/members in appropriate manner, or the origin of their funds may not be properly established and information on the customer's economic or private activity may not be analysed.
- 7.15.10. FCMC indicates that the origin of funds of members of CU, which the member had paid as a deposit in a period prior to when requirements of the AML/CTF Law became applicable to the CU, was not always adequately determined. It should be taken into account that the turnover of the CU sector is low, therefore the overall impact of this sector on risk level of ML/TF of the county is low.

7.16. Introduction

- 7.16.1. The Report supplement includes the evaluation of the ML/TF vulnerability of the debt recovery service providers.
- 7.16.2. Debt recovery service providers are considered AML/CTF Law obliged entities as of November 9, 2017, when the AML/CTF Law amendments entered into force.
- 7.16.3. Debt recovery service providers are obliged to obtain a special permit (license) for the provision of debt recovery services only if they, in the course of their business or professional activities, on behalf of or under the assignment of a creditor recover the debt from a debtor, who is a natural person who has not carried out payment obligations within the deadline specified by a lawful transaction or legal act, which he or she has undertaken by a lawful transaction or which are specified in legal acts, and who is operating beyond the scope of economic or professional activities thereof.⁶³⁸ As a result, only a part of them are licensed, but those providers of debt recovery services who, on behalf of or under the assignment of a creditor, recover debts only from legal entities, do not need to obtain a license at all. At present, no detailed information on such non-licensed debt recovery service providers is available.
- 7.16.4. The license for debt recovery services is issued by the CRPC.⁶³⁹ As of 31.03.2018 there were 29 holders of a valid license for the provision of debt recovery services - Licensed Debt Recovery Service Providers.⁶⁴⁰

⁶³¹ Survey No 34

⁶³² Survey No 5

⁶³³ Survey No 33

⁶³⁴ Survey No 33

⁶³⁵ Survey No 33

⁶³⁶ Survey No 33

⁶³⁷ Survey No 33

⁶³⁸ Law on Extrajudicial Recovery of Debt, Article 1, Article 5

⁶³⁹ Law on Extrajudicial Recovery of Debt, Article 5(2)

⁶⁴⁰ Survey No 57.

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- 7.16.5. The assessment only analysed the information provided by the Licensed Debt Recovery Service Providers, as no information on non-licensed debt recovery service providers is available.
- 7.16.6. Seven major Licensed Debt Recovery Service Providers have joined the AEECDL which focuses on the protection of the interests of creditors and participation in the development and improvement of the legal framework regulating the debt recovery industry.
- 7.16.7. The assessment identified the following key ML threats and vulnerabilities inherent in the industry:
- a) A debt recovery service provider is used in a ML scheme where the contract from which the creditor's claim is derived is fictitious and concluded between the creditor and the debtor for the purpose of carrying out a ML scheme. The ML risk level increases if the creditor and/or debtor are foreigners;
 - b) Licensed Debt Recovery Service Providers very often rely on the information provided by the cooperation partner (client) with respect to the authenticity of the obligations, assuming that it is true. Usually the cooperation agreements with clients (creditors) stipulate that the cooperation partner (creditor) confirms the authenticity, lawfulness, legality and validity of the obligations. Consequently, the recovery process performed by the Licensed Debt Recovery Service Providers is often based on the information provided by the cooperation partner (creditor). The Licensed Debt Recovery Service Providers verify the information provided by the cooperation partners (creditors) and/or request the relevant documents, including proofs of the legality of the transaction, interruption of negative prescription, the amount of the debt and the reasonableness of the calculated interest, effected payments, mainly in cases where objections are received from debtors or where there are obvious discrepancies;
 - c) The ability of the Licensed Debt Recovery Service Providers to identify ML cases is very limited, given that they rely on the information provided by the cooperation partner (creditor) on the authenticity of the debt and do not carry out a research of the debtors;
 - d) The debt is repaid by a third party instead of the debtor;
 - e) The debt is repaid in cash.
- 7.16.8. The vulnerability assessment identified the following key AML weaknesses inherent in the industry:
- a) No guidelines have been issued to explain how to properly meet the AML requirements, taking into account the ML risks inherent in the industry of debt recovery services. This increases the ambiguity of the AML requirements and hinders their implementation and enforcement in practice, and reduces the effectiveness of ICS and reporting in this sector;
 - b) Deficiencies in the process of commencement of the operations of debt recovery service providers have been identified;
 - c) There is no authority that would supervise and control the compliance of the non-licensed debt recovery service providers with the AML requirements.⁶⁴¹
- 7.16.9. The ML vulnerability of the Licensed Debt Recovery Service Providers is medium low. The industry client base has a low risk. The sector also has very low cash activity and few international payments:
- a) 8% of respondents accept cash payments;
 - b) 16% of respondents recover debts only from natural persons;
 - c) 50% of respondents recover debts only from Latvian citizens and non-citizens;
 - d) 56% of respondents recover debts only from legal entities registered in Latvia.⁶⁴²

⁶⁴¹ Survey No.57.

⁶⁴² Survey No.59.

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According to the information provided by the LEA, no criminal proceedings on ML cases involving this sector have been initiated during the assessment period.⁶⁴³

Comprehensiveness of the AML legal framework

- 7.16.10. The activities of Licensed Debt Recovery Service Providers in Latvia are regulated by:
- AML/CTF Law, which sets the AML/CTF requirements ;
 - LERD;
 - Cabinet of Ministers 29.01.2013 Regulations No. 64 "Procedure for licensing debt recovery service providers";
 - Cabinet of Ministers 29.01.2013 Regulations No. 61 "Provisions regarding the amount of the debt recovery expenses and non-recoverable expenses".
- 7.16.11. The CRPC believes that not all Licensed Debt Recovery Service Providers have good understanding of the AML regulatory requirements, at the same time it points out that to the majority of the large companies the requirements of the AML/CTF Law are clear, but the understanding of the AML/CTF Law requirements by small businesses differs.⁶⁴⁴ Also AEEDL considers that the overall purpose of the AML/CTF Law is clear to its members, but it is not entirely clear what AML measures would be proportionate and appropriate to address the ML risks inherent specifically in the debt recovery industry. AEEDL also believes that the application of the AML/CTF Law requirements to the debtors should be clarified to the providers of debt recovery services, stating what AML measures should be taken with regard to the debtor, given that the debtors are not clients of the debt recovery service provider, and are not interested in cooperating.⁶⁴⁵
- 7.16.12. According to AEEDL, the main issues faced by Licensed Debt Recovery Service Providers in implementing the AML regulatory requirements are as follows: the requirements set out in regulatory enactments are unclear; insufficient information on the topical ML typologies and risks in Latvia; PEP identification because no PEP lists are available; provision of AML training for staff, since CRPC and FIU do not provide free, paid or compulsory AML training; there are no AML guidelines that would explain how to properly implement the measures set out in the AML/CTF Law, taking into account the ML risks inherent in the debt recovery service industry.⁶⁴⁶
- 7.16.13. In the light of the above, the following deficiencies in the AML regulation have been identified:
- Part of the debt recovery service providers is not licensed. Only those debt recovery service providers that recover debts from consumers are licensed. Other debt recovery service providers who recover debts only from legal entities are not subject to a licensing requirement;
 - Although all debt recovery service providers are considered to be AML/CTF Law obliged entities, only the Licensed Debt Recovery Service Providers have a specific supervisory and control authority - the CRPC;
 - At present, the control measures applicable to the commencement of operations do not provide for the verification of the ICS developed by the debt recovery service provider before the license is issued;
 - There are no guidelines on how the debt recovery service providers should comply with the AML/CTF Law requirements taking into account the specifics of the economic activity of this sector, as well as the ML risk factors that are typical of the debt recovery service industry.

Efficiency of the supervisory procedures

- 7.16.14. The compliance of the Licensed Debt Recovery Service Providers with the AML/CTF requirements is supervised and controlled by the CRPC.⁶⁴⁷ Legislative enactments

⁶⁴³ Table No. 4.9.

⁶⁴⁴ Survey No 57.

⁶⁴⁵ Survey No 58.

⁶⁴⁶ Survey No 58.

⁶⁴⁷ AML/CTF Law Article 45(2¹)

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do not provide for a AML/CTF supervision and control body of non-licensed debt recovery service providers.

- 7.16.15. The CRPC believes that the existing regulation needs to be improved to enable the CRPC to carry out AML/CTF monitoring of the Licensed Debt Recovery Service Providers. Currently, the ME is developing regulations of the Cabinet of Ministers on the basis of which the CRPC will plan and carry out AML/CTF supervision of the Licensed Debt Recovery Service Providers.⁶⁴⁸ The CRPC has not yet developed a methodology for conducting regular reviews to assess the compliance of Licensed Debt Recovery Service Providers with the AML/CTF Law requirements and the procedure of drawing up an inspection act and application of administrative sanctions in case of violations. As the regulations of the Cabinet of Ministers are currently under development, it is impossible to assess whether the mandate given by them to the CRPC to supervise the Licensed Debt Recovery Service Providers will be sufficient.
- 7.16.16. As of 31.03.2018 the CRPC employs two people who are responsible for the AML/CTF supervision of the Licensed Debt Recovery Service Providers.
- 7.16.17. The CRPC believes that it has the appropriate expertise, sufficient financial, human and technical resources to ensure effective AML/CTF supervision of the Licensed Debt Recovery Service Providers.⁶⁴⁹
- 7.16.18. The CRPC staff responsible for the AML/CTF supervision of the Licensed Debt Recovery Service Providers do not receive internal AML/CTF training. However, in 2018⁶⁵⁰ they have participated in three external AML/CTF seminars.⁶⁵¹
- 7.16.19. Although as of 31.03.2018 the CRPC has not launched AML/CTF inspections of the Licensed Debt Recovery Service Providers⁶⁵², the CRPC has started the AML/CTF monitoring of the Licensed Debt Recovery Service Providers by conducting a survey. The purpose of the CRPC survey was, inter alia, to ascertain whether the Licensed Debt Recovery Service Providers take steps to identify and assess the ML/TF risks inherent in their activities and cooperation partners, and whether an ICS has been established on the basis of the identified risks.⁶⁵³
- 7.16.20. As the CRPC only recently started to exercise its AML/CTF supervisory role, the cooperation has not been long. However, in AEEDL's opinion, so far the cooperation of the Licensed Debt Recovery Service Providers with the CRPC has been productive.⁶⁵⁴
- 7.16.21. The CRPC plans to launch AML/CTF inspections once the CM regulations are adopted. Taking into account the number of Licensed Debt Recovery Service Providers, once the CM regulations are adopted and a plan of inspections is drawn up, the CRPC should assess whether two employees will be able to ensure efficient AML/CTF monitoring of the Licensed Debt Recovery Service Providers according to the procedure set forth by the CM and the inspection plan.

Existence and application of administrative penalties and criminal penalties

- 7.16.22. For violations of AML/CTF regulatory enactments, including with regard to client research, monitoring of business relationships and transactions, reporting of unusual and suspicious transactions, provision of information to monitoring and control authority or CS, refraining from the transaction, freezing of funds, internal control system, information storage and destruction, as well as violation of Regulation No. 2015/847, the control and monitoring authority, including the CRPC, may impose upon a AML/CTF entity the following penalties:
- make a public statement stating the name of the person responsible for the violation and the nature thereof;
 - issue a warning;
 - impose a fine of up to EUR 1 000 000.00 on the person (natural or legal) liable for the violation;

⁶⁴⁸ Survey No 57.

⁶⁴⁹ Survey No 57.

⁶⁵⁰ As at 31.03.2018.

⁶⁵¹ Survey No 57.

⁶⁵² Survey No 57.

⁶⁵³ Survey No 57.

⁶⁵⁴ Survey No 58.

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- d) suspend or terminate the operation, including suspending or cancelling the license (certificate) or cancelling the entry in the relevant register;
 - e) impose a provisional prohibition on the person responsible for the violation to fulfil his/her obligations as a AML/CTF Law entity;
 - f) an obligation to act or refrain from acting;
 - g) to oblige the AML/CTF Law entity to dismiss the person responsible for the violation.⁶⁵⁵
- 7.16.23. AEEDDL believes that the administrative penalties for violations of and non-compliance with AML/CTF requirements set forth in the legislative enactments are sufficiently severe to deter the employees of the entities from engaging in ML/TF activities and to promote the development/improvement of ICS.⁶⁵⁶
- 7.16.24. However, it is not possible to judge the effectiveness of administrative penalties because they have not been applied, given that no AML/CTF inspections of the Licensed Debt Recovery Service Providers have been carried out yet.
- 7.16.25. The Latvian regulatory framework provides for criminal liability for ML, as well as the widest range of predicate offenses. The criminal penalties for the ML provided for in the CL are severe enough. The maximum criminal penalty for ML is an imprisonment for up to 12 years, with or without confiscation of property, and probation supervision for up to three years or without it.⁶⁵⁷
- 7.16.26. Although AEEDDL believes that criminal penalties are severe enough, it is not aware of cases where a person would have been convicted of ML.⁶⁵⁸

Existence and effectiveness of control measures applied at the commencement of operations

- 7.16.27. The requirements for the issuance of a special permit for the provision of debt recovery services are determined by the January 29, 2013 Regulations No. 64 of the Cabinet of Ministers "Procedure for Licensing Debt Recovery Service Providers".
- 7.16.28. In order to obtain a license, a debt recovery service provider must meet, among other things, the following requirements:
- a) The provider of the debt recovery service is an economic operator or a natural person - a performer of economic activities, who is providing a debt recovery service in the course of his/her professional activity and has not been deprived of the right to engage in commercial or professional activities in the field of debt recovery;
 - b) A member of the board of directors of an economic operator - a debt recovery service provider - or an authorized representative thereof is not deprived of the right to conduct business in the field of debt recovery;
 - c) The provider of the debt recovery service (if the provider of the debt recovery service is a natural person) or any of the members of the council or board or authorized representatives (if the provider of the debt recovery service is an economic operator), or its employees who are responsible for recovering the debt, have not been criminally punished for deliberate committing a crime for which liability is provided for in Chapters IX, X, XII, XIII, XIV, XV, XVI, XVII, XVIII, XIX or XX of the CL, unless the criminal record has been removed.⁶⁵⁹
- 7.16.29. Although the regulatory framework provides clear and understandable criteria for issuing a license, the requirements applicable to the commencement of operations, as currently set forth in the regulatory enactments, do not provide for the verification of the compliance of entities with the requirements of the AML/CTF Law, i.e. the regulatory framework does not specify the AML/CTF requirements that must be fulfilled in order to obtain a license. Consequently, at present, when examining an application for a license, the CRPC does not verify the compliance of the debt

⁶⁵⁵ AML/CTF Law Article 78(1).

⁶⁵⁶ Survey No 58.

⁶⁵⁷ Criminal Law Article 195

⁶⁵⁸ Survey No 58.

⁶⁵⁹ CoM Regulations of 29.01.2013. No.64 "Procedures for the Licensing of the Providers of Debt Recovery Services", Paragraph 9

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recovery service provider applying for a licence with the requirements of the AML/CTF regulatory enactments.⁶⁶⁰

- 7.16.30. However, the amendments to the CM Regulations No. 64⁶⁶¹ provide that for the purpose of obtaining a license, the debt recovery service provider should establish an ICS in accordance with the requirements set forth in the AML/CTF Law. Consequently, starting from 01.01.2019, when the amendments to the CM Regulations No. 64 take effect, the CRPC, when considering an application for a license, will verify whether the company applying for a license has established an ICS in accordance with the requirements set forth in the AML/CTF Law.
- 7.16.31. The CRC believes that the current regulation, including the CRPC's internal policies, procedures and guidelines, is sufficient and allows efficient licensing of debt recovery service providers.⁶⁶²
- 7.16.32. As of 31.03.2018 the CRPC employs four people who are licensing entities. Given the number of applications received for the special permit allowing provision of debt recovery services⁶⁶³, it may be reasonably assumed that the number of CRPC staff involved in the licensing of debt recovery service providers is sufficient.⁶⁶⁴
- 7.16.33. Although the CRPC staff responsible for the licensing of debt recovery service providers does not receive internal AML/CTF training, they have participated in three external AML/CTF seminars.⁶⁶⁵
- 7.16.34. Currently, the debt recovery service providers (if the debt recovery service provider is a legal entity) which in the course of their business or professional activities, on behalf of or under the assignment of a creditor, recover the debt only from legal entities, have to undergo only the universal control mechanisms that at the commencement of operations are equally applied to all legal entities registered in Latvia. For example, the founder of a commercial company, when opening a temporary account at one of the Latvian banks, has to undergo the control procedures of the relevant bank. In addition, the RE, after it has established compliance with certain criteria, will inform the SRS of the application it has received from a new economic operator requesting its registration, and the SRS will issue its resolution. Such criteria might be, for example, a situation where more than 10 economic operators have already been registered at the legal address for which the application has been received, or the sole member of the board indicated in the application is the only member of the board in more than five companies, etc.⁶⁶⁶
- 7.16.35. The above control measures applied at the commencement of operations is directed only at the supervision of legal entities, while the registration of taxpayers carried out by the SRS is aimed at all economic operators. However, the control of entities carried out by both the RE and the SRS at the commencement of operations is universal for all economic operators and is not specifically related to the ML risks inherent to the debt recovery service providers. In addition, public authorities have no right to prohibit a person involved in criminal activity from becoming an UBO of a debt recovery service provider.
- 7.16.36. Therefore, currently no detailed information is available on those debt recovery service providers, which in the course of their business or professional activities, on behalf of or under the assignment of a creditor, recover the debt only from legal entities, as licensing requirements are not applicable to them. At present, these services can be provided by any economic operator who registers with the RE.

Integrity and ethics of debt recovery service providers

- 7.16.37. AEECDL has developed a code of ethics that is binding on members of this association. However, not all debt recovery service providers are members of AEECDL.⁶⁶⁷

⁶⁶⁰ Survey No.57.

⁶⁶¹ The Cabinet of Ministers Regulations of 27.02.2018. No.116 "Amendments to the Cabinet of Ministers Regulations of 29 January 2013 No.64 "Procedures for the Licensing of the Providers of Debt Recovery Services"

⁶⁶² Survey No 57.

⁶⁶³ Survey No 2: 2014. – 3 applications; 2015. – 5 applications; 2016. – 3 applications; 2017. – 4 applications.

⁶⁶⁴ Survey No 57.

⁶⁶⁵ Survey No 57.

⁶⁶⁶ Law on the Register of Enterprises of the Republic of Latvia, Article 14.¹

⁶⁶⁷ Survey No 58.

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- 7.16.38. The amount of available information is not sufficient for a comprehensive assessment of the integrity and ethics of the employees of debt recovery service providers. When conducting AML/CTF inspections of Licensed Debt Recovery Service Providers, the CRPC should also review the integrity and ethics of the employees of the entities.

AML knowledge of debt recovery service providers

- 7.16.39. When conducting a survey of the Licensed Debt Recovery Service Providers, the CRPC established that the Licensed Debt Recovery Service Providers were aware of the requirements of regulatory enactments regarding the services provided by debt recovery service providers, and have also started to develop and implement procedures for reducing ML/TF risks. However, given that the CRPC has only recently become a supervisory and control authority within the meaning of the AML/CTF Law and has not yet performed AML/CTF inspections of Licensed Debt Recovery Service Providers, it is not possible to determine whether the Licensed Debt Recovery Service Providers have a sufficient number of employees trained on AML issues to ensure AML compliance.⁶⁶⁸
- 7.16.40. The amount of available information is not sufficient for a comprehensive assessment of the level of AML knowledge of the employees of the debt recovery service providers. When conducting AML/CTF inspections of Licensed Debt Recovery Service Providers, the CRPC should verify whether the entities carry out AML/CTF training for employees and whether the level of AML knowledge of employees is sufficient.

Compliance functions/effectiveness of the ICS

- 7.16.41. AML/CTF Law Article 6 stipulates that an AML/CTF Law entity shall, according to its type of activity, conduct and document the assessment of the ML/TF risks in order to identify, assess, understand, and manage the ML/TF risks inherent in its activities and customers, and, on the basis of such assessment, shall establish an ICS, including by developing and documenting the relevant policies and procedures, which shall be approved by the board of the entity of the AML/CTF Law, if any is appointed, or the senior management body of the entity of the AML/CTF Law.
- 7.16.42. The CRPC, by conducting a survey of Licensed Debt Recovery Service Providers on March 30, 2018, established that out of 27 Licensed Debt Recovery Service Providers:
- 10 had not developed an ICS;
 - for seven ICS and/or procedures were under development;
 - 10 had an implemented ICS and/or a developed procedure, of which three had submitted them to the CRPC.⁶⁶⁹
- 7.16.43. Part of the Licensed Debt Recovery Service Providers which did not have a AML/CFT procedure or it was under development, pointed out that measures were being taken to identify, assess and understand the ML/TF risks inherent in its business and clients, and/or they were evaluating the information obtained during the client's review - reputation, UBO and his/her reputation, and whether information on legal disputes was available (also in the context of the AML/CFT). However, while Licensed Debt Recovery Service Providers carry out the above-mentioned activities, not all of them really have a good understanding of how to assess ML/TF risks and develop an ICS.⁶⁷⁰
- 7.16.44. The AML/CFT Law Article 10(1) imposes an obligation on a AML/CFT Law entity to appoint one or several employees (persons responsible for the fulfilment of the requirements of the AML/CFT Law) who are entitled to take decisions and are directly liable for the compliance with the requirements of the AML/CFT Law and for ensuring the exchange of information with the CRPC. In addition, the AML/CFT Law Article 10(2) stipulates that AML/CFT Law entities shall designate a member of the board who shall oversee the AML/CFT issues in the respective legal entity.
- 7.16.45. When conducting a survey of the Licensed Debt Recovery Service Providers, the CRPC established that as of April 25, 2018, out of 29 Licensed Debt Recovery

⁶⁶⁸ Survey No 57.

⁶⁶⁹ Survey No 57.

⁶⁷⁰ Survey No 57.

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Service Providers 20 (69%) had provided information about the responsible persons, including the Board member. Consequently, it is reasonable to conclude that 31% of the Licensed Debt Recovery Service Providers have not designated a board member responsible for the AML/CFT issues and an employee responsible for the AML/CFT issues, or information about them is not available to the CRPC.⁶⁷¹

7.16.46. The responses provided by the surveyed Licensed Debt Recovery Service Providers show that:

- a) 92% of respondents identify the customer and verify the obtained identification data;
- b) 68% of respondents use the sanction lists available on the website of the FIU when conducting a client review or in-depth review of the transaction;
- c) 64% of respondents, when entering into a business relationship or concluding a one-time transaction, verify whether the cooperation partner is related to a PEP, PEP's family member or a person closely related to a PEP;
- d) 68% of respondents assess situations where a debt instead of the debtor is paid by a third party or several apparently unrelated parties;
- e) 52% of respondents verify the source of the finances in case of a debt repayment, if the debtor has made a non-typical payment;
- f) 58% of respondents have identified for which transactions and/or partners an in-depth or simplified review needs to be carried out.⁶⁷²

7.16.47. Regarding the management of the ML risks inherent in the debt recovery service provider industry, the results of the CRPC survey show that:

- a) 93% of respondents verify the origin of a legal transaction before concluding a cooperation agreement with a cooperation partner (creditor);
- b) 67% of respondents responded that the necessary information was provided by the cooperation partner (creditor), and some respondents relied only on the information provided by the creditor without verifying the origin of the legal transaction. Cooperation agreements stipulate that the creditor assumes full responsibility for the validity of the claim and the amount;
- c) 59% of respondents responded that they requested their cooperation partner (creditor) to provide information and/or documents on the origin of a legal transaction, while 52% of respondents responded that they were verifying the information received;
- d) 89% of respondents responded that they verified the validity of the amount of the transferred debt before the commencement of the recovery operations. Part of the service providers responded that they did not verify the origin of the legal transaction or the basis of the transaction. The usual practice is that the creditor warrants the debt recovery service provider that the debt is real and legally substantiated, and such warranty includes a statement that the amount of the debt is substantiated and calculated in accordance with the procedure and in the amount specified in regulatory enactments.⁶⁷³

7.16.48. Given that AML/CFT inspections have not yet been carried out, a comprehensive overview of the existence and effectiveness of the ICSs of the Licensed Debt Recovery Service Providers is not available.

The effectiveness of suspicious transaction monitoring and reporting

7.16.49. Given that debt recovery service providers became AML/CFT Law entities only on November 9, 2017, when the AML/CFT Law amendments came into force, it is not yet possible to comprehensively assess the effectiveness of suspicious and unusual transaction monitoring and reporting processes in this industry, as since November 9, 2017 no reports on suspicious and unusual transactions have been submitted to the FIU by debt recovery service providers.⁶⁷⁴

⁶⁷¹ Survey No 58.

⁶⁷² Table No 7.15.

⁶⁷³ Survey No 59.

⁶⁷⁴ Survey No 5

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7.16.50. According to the results of the survey of the Licensed Debt Recovery Service Providers conducted by the CRPC, during the assessment period 100% of the respondents had not reported suspicious or unusual transactions to the CS.⁶⁷⁵

⁶⁷⁵ Table No 7.15.

8. Vulnerability of DNFBPs

8.1. Supervision and control of the Non-financial sector obliged entities

Lottery and gambling operators

- 8.1.1. LGSI have sufficiently broad rights to supervise lottery and gambling operators with respect to AML/CTF.⁶⁷⁶ LGSI efficiently and regularly supervises obliged entities, develops guidelines for the ICS development,⁶⁷⁷ carries out on- and off-site inspections of the entities. LGSI provides regular trainings on AML/CTF to lottery and gambling operators' employees responsible for AML/CTF,⁶⁷⁸ and organises quarterly meetings with representatives of the obliged entities, among other things providing information about the results of carried out inspections.
- 8.1.2. LGSI conducts at least one special AML/CTF inspection for each gambling operator per year. Moreover, special emergency inspections are carried out in cases where information about potential non-compliance with the AML/CTF Law requirements has been obtained or disclosed. LGSI regularly inspects places where the actual transactions between the obliged entity and the customer takes place, i.e. 389 locations.⁶⁷⁹ The mentioned inspections are carried out both on-site and remotely (for instance, by observing a casino's collection process, which happens daily).⁶⁸⁰
- 8.1.3. LGSI issues various types of guidelines aimed to promote understanding of the obliged entities on ML/TF risks and support the unusual and suspicious transactions identification.⁶⁸¹ Though, LGSI is not entitled to issue binding procedures and rules, hence, it is not allowed to strengthen the supervision of obliged entities in the way it is in the financial sector (FCMC's right to issue binding regulations). Moneyval experts in 2012 already highlighted this lack of regulatory framework.⁶⁸²
- 8.1.4. LGSI is not empowered to impose administrative penalties to the obliged entities, which do not comply with AML/CTF Law requirements, therefore LGSI passes information about detected violations to SRS (until 2017 information was passed to the court). LGSI has not observed repetition of the obliged entities' violations after the case of applied administrative penalties for the breach of AML/CTF rules (until 2017 penalties was applied by court), which shows the effectiveness of the applied penalty.

SRS supervised obliged entities

- 8.1.5. According to AML/CTF Law SRS is supervising following obliged entities: tax advisors, external accountants, providers of legal services, other legal or natural persons trading in immovable property, means of transport, or other goods, as well as acting as intermediaries in the abovementioned transactions or engaged in provision of other services, if payment is carried out in cash in euros or another currency, which on the day of the transaction is equivalent to or exceeds EUR 15 000 and persons trading in precious metals, precious stones and the articles thereof.⁶⁸³
- 8.1.6. In 2012 Moneyval experts have pointed out that the SRS does not have a section or department, aimed at supervision of obliged entities.⁶⁸⁴ Considering this conclusion, in the end of 2012 the SRS has established the AML Department of the Tax Control Unit, which is obliged to carry out obliged entities AML/CTF compliance supervision.

⁶⁷⁶ Section 45 (1) 7) of the AML/CTF Law.

⁶⁷⁷ Recommendations to capital companies licensed to organise and maintain lotteries and gambling for the establishment of internal control systems for anti-money laundering and counter-terrorist financing. Available at: https://www.iaui.gov.lv/images/NormatAkti/2014_Ieteikumi_firmam_NILLTFNL.pdf

⁶⁷⁸ Table No 8.1

⁶⁷⁹ Table No 8.2

⁶⁸⁰ Table No 8.3

⁶⁸¹ Recommendations to capital companies licensed to organise and maintain lotteries and gambling for the establishment of internal control systems for anti-money laundering and counter-terrorist financing. Available at: https://www.iaui.gov.lv/images/NormatAkti/2014_Ieteikumi_firmam_NILLTFNL.pdf

⁶⁸² 4th round Moneyval report, p.27.

⁶⁸³ Section 45 (2) of the AML/CTF Law.

⁶⁸⁴ 4th round Moneyval report.

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- 8.1.7. SRS has issued guidelines with the aim to promote understanding of the obliged entities on ML/TF risks and support the unusual and suspicious transactions identification.⁶⁸⁵ However, the SRS is not entitled to issue binding procedures and rules, thereby, supervisor is unable to strengthen the supervision of obliged entities in the way it is in the financial sector (FCMC's right to issue binding regulations). This lack of regulatory framework was already highlighted by Moneyval experts in 2012.⁶⁸⁶
- 8.1.8. FIU and SRS do not perform adequate analysis of the SRS supervised DNFBPs in order to identify typical ML/TF risks and current typologies in Latvia, they also do not provide analysis results to the obliged entities, and they do not appropriately educate obliged entities and their employees, and do not develop relevant ML/TF preventive actions. SRS staff, who are in charge of obliged entities supervision, have indicated that they have a lack of information about current risks and typologies in the DNFBP area.⁶⁸⁷ The SRS AML Department does not assess the obliged entities in order to identify groups of entities' subjected to a higher ML/TF risk and which are in need of enhanced supervision (real estate agents, tax consultants, outsourced accountants).⁶⁸⁸
- 8.1.9. During the assessment period the quality and capacity of supervision performed by SRS has increased. For instance, SRS has established the AML Department, the number of AML/CTF trainings and phone consultations provided by SRS to obliged entities has increased.⁶⁸⁹ In SRS view its cooperation with the representatives (associations) of obliged entities has improved. By sending out surveys to obliged entities, SRS has been able to identify that ~12,000 registered tax payers are obliged entities in accordance with AML/CTF Law.
- 8.1.10. Taking into account the number of SRS supervised obliged entities, SRS does not possess sufficient capacity to ensure adequate entry controls to the obliged entities. This is also evidenced by the number of SRS staff who carry out entry controls and entities supervision activities.⁶⁹⁰
- 8.1.11. Based on the division of SRS departments' functions, the SRS AML Department, which is responsible for the supervision of the obliged entities, is not allowed to participate in on-site inspections of the obliged entities.⁶⁹¹ The on-site inspections are carried out during tax audits and thematic inspections and are unable to ensure the necessary AML/CTF compliance control. The aforementioned on-site inspections are not based on ML/TF risks, but rather on tax evasion risks.⁶⁹² During the on-site inspections, it is not possible to obtain assurance whether information about customers and transactions is stored, or whether any AML/CTF procedures are in place, or whether relevant ICS is developed. Thus, in general, SRS cannot get assurance about the level of supervision of suspicious and unusual transactions in the entity's business activity.
- 8.1.12. Since no on-site AML/CTF inspections are carried out on obliged entities, the Tax Control Unit when inspecting taxpayers who are identified as obliged entities also pays attention to compliance with the AML/CTF Law. Penalties for non-compliance with the AML/CTF requirements are established in accordance with AVC.⁶⁹³ Due to such structure of the SRS supervisory departments, SRS obtain information on the non-compliance with the AML/CTF Law to late, which prevents SRS to timely respond to non-compliance with the AML/CTF Law requirements.
- 8.1.13. Administrative penalties applied by SRS are ineffective and are disproportional to the allowed non-compliance. Applied monetary penalties are often too small.⁶⁹⁴ In addition, the SRS cannot identify a positive effect of the application of administrative penalties on the obliged entities attitude towards the AML/CFT Law

⁶⁸⁵ SRS's guidelines for tax consultants and outsourced accountants regarding compliance with requirements of AML/CTF law. Available:

<https://www.vid.gov.lv/default.aspx?tabid=10&id=3814&hl=1&oid=25708&otype=17>

⁶⁸⁶ 4th round Moneyval report, p.27.

⁶⁸⁷ Survey No 50

⁶⁸⁸ Survey No 50

⁶⁸⁹ Table No 8.4

⁶⁹⁰ Table No 8.5

⁶⁹¹ Survey No 50

⁶⁹² Currently, large companies with a turnover of EUR 500 thous. or more are required to provide information about setting up ICS. There are about 550 entities subject to the Law that meet this criteria. Approximately 30% of these companies have been inspected so far.

⁶⁹³ AVCL, Section 165⁴, 165⁵ and 165⁸

⁶⁹⁴ Table No 8.6

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requirements. SRS does not collect information on types of applied administrative penalties, penalised obliged entities and/or persons (natural/legal persons, management, employees), nor is analysed the efficiency of penalties in any other way.⁶⁹⁵

Self-regulated bodies

Sworn attorneys

- 8.1.14. LCSA that is institution of Latvian Collegium of Sworn Attorneys⁶⁹⁶ within the framework of the AML/CTF Law, carry out AML/CTF supervision of sworn attorneys.⁶⁹⁷ LCSA consists of 9 members, including the Chairperson of the Council and a Deputy Chairperson. There are no AML/CTF knowledge requirements that should be met to become the Council members.
- 8.1.15. LCSA supervises and controls compliance of sworn attorneys with AML/CTF requirements in accordance with the procedures provided for in applicable laws and regulations, including LCSA ensures AML/CTF training for the sworn attorneys. LCSA is entitled to request information from sworn attorneys on customer record keeping, and LCSA's decisions are binding on all sworn attorneys. The regulatory framework does not impose too many requirements on sworn attorneys in the area of AML/CTF.
- 8.1.16. AML/CTF supervision of sworn attorneys carried out by LCSA is insufficient. There were no AML/CTF on-site/off-site inspections conducted, although required by the regulatory framework. There are no guidelines in place to promote compliance with AML/CTF requirements by sworn attorneys. However, during the assessment period, the LCSA has improved the internal regulatory framework by providing for sworn attorneys obligation to apply ICS where a sworn attorney becomes an obliged entities in accordance with AML/CTF Law.

Sworn notaries

- 8.1.17. LCSN is institution of the Latvian Collegium of Sworn Notaries and within the framework of the AML/CTF Law, carries out AML/CTF supervision of sworn notaries.⁶⁹⁸ LCSN consists of 9 members, including the Chairperson of the Council and a Deputy Chairperson. There are no AML/CTF knowledge requirements that should be met to become the Council members.
- 8.1.18. According to Notariate Law⁶⁹⁹ LCSN regularly carries out inspections of sworn notaries and has a sufficient number of employees engaged in the supervision of the professional activities of sworn notaries.⁷⁰⁰ Sworn notaries are obliged by law to undertake regular proficiency tests at least once every five years.⁷⁰¹
- 8.1.19. On 04.07.2014, LCSN approved a new "Performance evaluation methodology of sworn notaries", which defined the procedures for the assessment of operations of sworn notaries, such as planning, performing and documenting inspections, drawing up inspection reports, as well as supervising the implementation of recommendations and exchanging information with LCSN.
- 8.1.20. Supervision of the profession of a sworn notary in relation to AML/CTF is insufficient, since assurance cannot be obtained as to whether sworn notary offices have developed and are implementing ICS and if so, how efficient they are. LCSN carries out regular on-site inspections, during which notaries must complete a self-assessment questionnaire and are tested for personnel management and financial flows. However, separate AML/CTF specific inspections are not carried out. Beside that the LCSN representatives who perform AML/CTF supervising of notaries are not sufficiently trained in the area of AML/CTF.

Certified auditors

- 8.1.21. LACA, the institution of the Latvian certified auditors and within the framework of the AML/CTF Law, carries out the functions of the AML/CTF supervisory body of certified auditors.⁷⁰² LACA consists of 10 members, including the chairman of the

⁶⁹⁵ Survey No 50

⁶⁹⁶ Advocacy Law of the Republic of Latvia, section 33

⁶⁹⁷ AML/CTF Law, Section 45; 46

⁶⁹⁸ AML/CTF Law, Section 45; 46

⁶⁹⁹ Notariate Law, Section 230

⁷⁰⁰ Table No 8.7

⁷⁰¹ Notariate Law, Section 17

⁷⁰² AML/CTF Law, Section 45; 46

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board and a deputy chairman of the board. There are no AML/CTF knowledge requirements that should be met to become the Council members.

- 8.1.22. AML/CTF supervision of the certified auditors in relation to AML/CTF is assessed as medium. LACA does not conduct separate inspections regarding the execution procedure of the AML/CTF Law requirement. LACA carries out supervision and regular on-site quality inspections, a part of which is assessment of compliance with the requirements of the AML/CTF Law. Within the inspection, compliance with auditing standards and LACA procedures/regulations on a wider scale is assessed.⁷⁰³
- 8.1.23. LACA has a sufficient number of Ethics and Quality Committee members and quality controllers who carry out supervision of certified auditors.⁷⁰⁴ Quality inspections plan is defined randomly each year during the ordinary general meeting of LACA. The random sampling is carried out so that to ensure that at least one-fifth of all certified auditors are inspected each year, and each practicing entity is assessed at least once every five years.
- 8.1.24. There are no administrative penalties in place applicable to the sworn attorneys, sworn notaries and certified auditors for non-compliance with AML/CTF requirements. Cases of non-compliance with AML/CTF requirements are only subject to disciplinary measures set out in the laws,⁷⁰⁵ with suspension of the permission to carry out professional activity, as the most severe disciplinary sanction. In 2016, LCSN imposed disciplinary sanctions for non-compliance with AML/CTF requirements on one sworn notary.⁷⁰⁶ As of 01.01.2017, there are administrative penalties defined in the AVC for the failure to notify the SRS on unusual transactions applicable to sworn advocates, sworn notaries and certified auditors.⁷⁰⁷
- 8.1.25. Taking into account that the supervision of DNFBPs is carried out by several institutions (that is SRS, LGSI, LCSA, LCSN, LACA), the DNFBPs will be analysed individually according to their supervisory body, by virtue of those supervisory body who supervises DNFBPs with the highest level of vulnerability.

Entities, who carry out transactions with cultural monuments

- 8.1.26. Sellers of the cultural monuments become an obliged entities, when payment for the monument is made in cash, or payment for the deal was paid into the seller's bank account in cash in the amount of EUR 15 thous or more.⁷⁰⁸
- 8.1.27. The State Inspection for Protection of Cultural Monument carries out a supervision of transactions with cultural monuments and heritage. Cultural monuments can be both movable property and immovable property.

8.2. Lottery and gambling operators

- 8.2.1. On 31.12.2016, there are 14 legal entities in Latvia, which organise lotteries and gambling. Those are 14 licensed gambling operators who manage 317 gambling halls, 2 bingo halls, 6 casinos, 57 bookmaker bet points and 7 websites (interactive gambling). Within the assessment period number of licensed lotteries and gambling operators has decreased.⁷⁰⁹ However, all the licenses were cancelled due to corporate restructuring matters (such as mergers) and not to AML/CTF violations.
- 8.2.2. The lottery and gambling industry has high ML vulnerability level. It is increased due to the large cash turnover⁷¹⁰ inherent for the industry, what makes supervision more difficult and poses substantial ML vulnerability. Moreover, customer compulsory identification is carried out only in casinos and during interactive gambling, and even then deficiencies have been detected in non-resident customer and PEP identification. During the assessment period overall industry ML risk has decreased. Interactive lottery and gaming entry controls were fortified, interactive lottery licensing terms were adopted, the use of electronic money systems was

⁷⁰³ Law On Sworn Auditors, Section 35¹

⁷⁰⁴ Table No 8.7

⁷⁰⁵ Advocacy Law of the Republic of Latvia, Section 70;71; Notariate Law, Section 179;180; Law On Sworn Auditors, Section 38¹

⁷⁰⁶ Survey No 44

⁷⁰⁷ Amendments to AVCL; Section 165⁴ of AVCL

⁷⁰⁸ Section 3 (1) para 9 of the AML/CTF Law

⁷⁰⁹ Table No 8.8

⁷¹⁰ Survey Nr.53

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banned and the use of any payment service providers accounts (for example, PayPal system) was prohibited. Winnings can be transferred only to the customer's personal bank account, which is open in one of the Latvian banks.

- 8.2.3. Lottery and gambling operators' entry controls are effective to prevent a possibility for criminals or their associates to operate in the DNFBPs of Latvia.⁷¹¹ During the registration process LGSI verifies the origin of companies' share capital, information on companies' credit liabilities, impeccability of companies' council and board members and the casino, gambling hall or bingo hall manager reputation.⁷¹² If amendments are made to the documents that were the basis for obtaining a license, the gambling organiser is obliged to timely inform the LGSI.⁷¹³
- 8.2.4. When considering applications for gambling operator's licenses, LGSI requests information from FIU and other authorities. For example, LGSI requests information about the gambling operators board and council member from ICMoI during the issuance of gambling license, as well as during renewal of the licence. LGSI notes that sometimes, due to delayed FIU response, LGSI has taken a positive decision without waiting for an FIU answer, since the time period for the review of the submitted documents had run out and LGSI had not received information which would lead to a negative decision or to necessity to request for additional information. It should be noted that the FIU is not obliged to provide information to LGSI and in LGSI practice have not been any case, when due to FIU late reply, license was issued unreasonably or it would be cancelled later, when deficiencies was identified. However, considering the lottery and gambling area has high ML risk level and good governance principles, cooperation between FIU and LGSI should be improved.
- 8.2.5. All lotteries and gambling organisers have set up ICS, as well as appointed employees responsible for the AML/CTF compliance. Within regular inspections LGSI checks obliged entities ICS compliance with AML/CTF Law.⁷¹⁴ Furthermore, the effectiveness of the ICS is reflected in a growing number of reported unusual transactions – within the assessment period it has increased three times.⁷¹⁵
- 8.2.6. At 30 October, 2014 LGSI has issued guidelines which sets out the signs of an unusual and suspicious transactions. Suspicious transaction monitoring and detection arrangements are also specified in obliged entities' ICS, while the obliged entities' issued handbooks for those employees contains obligations of employees in case of detecting unusual and suspicious transactions.⁷¹⁶
- 8.2.7. Within the assessment period, lotteries and gambling operators have reported FIU seven suspicious transactions and 3054 unusual transactions.⁷¹⁷ 103 of reported transactions FIU have used in materials submitted to the LEA.⁷¹⁸ LGSI during its AML/CTF inspections has revealed suspicious and unusual transactions, which lotteries and gambling operators have not identified and had not reported to the FIU. Within the assessment period LGSI has submitted to the FIU six reports on unusual transactions and four reports of suspicious transactions.⁷¹⁹ For these non-reporting cases lotteries and gambling organisers were administratively punished.⁷²⁰ The necessity of the qualitative feedback from FIU, which will ensure improvement of both the quality of the licensing and reporting efficiency, is recommended.
- 8.2.8. Despite the fact that LGSI organisers training and the obliged entities regularly carry out staff training that promotes employees' understanding of the AML/CTF, it must be concluded that, in general obliged entities and their employees do not have sufficient knowledge about typical ML/TF risks for Latvia and current typologies.⁷²¹ This is partly explained by the fact that FIU does not provide LGSI and the obliged entities with the information on the specific sectoral ML/TF risks and current typologies. Obligated entities also do not receive feedback from FIU about deficiencies

⁷¹¹ Gambling and Lotteries Law, Chapter III

⁷¹² Gambling and Lotteries Law, Chapter III

⁷¹³ Gambling and Lotteries Law, Section 36 (4)

⁷¹⁴ Survey No 54

⁷¹⁵ Table No 8.10

⁷¹⁶ Survey No 54

⁷¹⁷ FIU provided information

⁷¹⁸ FIU provided information

⁷¹⁹ Table No 8.9

⁷²⁰ Table No 8.9

⁷²¹ Survey No 52, Survey No 54

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in submitted reports. This can lead to the fact that obliged entities do not pay due attention to suspicious transactions or report on transactions that is not considered as suspicious. To eliminate these deficiencies cooperation between FIU, LGSI and obliged entities shall be strengthened, by properly educating the obliged entities and by providing LGSI and the obliged entities with the information about the quality and sufficiency of the content of the received reports.

- 8.2.9. For the Latvian Association of Gambling Business, which consists of nine gambling operators, the Code of Ethics issued by association itself is binding.⁷²² Violations committed by the members may lead to application of a personal warning or an official warning, which could be published in mass media, or exclusion from the association.⁷²³ Level of integrity of the lotteries and gambling operators' employees' is showed by the fact that against them have not been initiated any disciplinary proceedings for the violation of AML/CTF procedures and/or policies⁷²⁴ or any criminal proceeding for ML. Management of the obliged entities generally believes that their employees are honest and ethical.⁷²⁵
- 8.2.10. In LGSI's view, since 2013, the lottery and gambling operators ability to identify and manage ML/TF risk has improved since:
- a) decrease of the number of violations of AML/CTF detected during the inspections;⁷²⁶
 - b) in 2016 a number of unusual transactions that have been reported by obliged entities has increased three times in comparison to the year 2013;⁷²⁷
 - c) obliged entities continue to improve their knowledge at AML/CTF area, including attendance in the LGSI provided trainings.⁷²⁸
- 8.2.11. LGSI supervision of obliged entities is valued as high and gives confidence that the lotteries and gambling sector is undergoing effective improvement of ML/TF risk management. However, considering the number of supervised entities⁷²⁹ and the service providing places, as well as the number of LGSI staff, who performs the AML/CTF supervision of obliged entities, and the number of AML/CTF training courses provided for LGSI staff,⁷³⁰ it would be recommended to increase LGSI capacity.
- 8.2.12. It should be noted that already in 2012 Moneyval experts have concluded that in the lottery and gambling area deficiencies in PEP identification have been detected.⁷³¹ The Report found that these deficiencies still exists as no unified and reliable PEP database is available for the obliged entities. Currently the PEP identification is based solely on the lottery and gambling operators' employees' ability to recognise a specific person, which creates the risk that appropriate level of CDD will not be applied for the current customer.
- 8.2.13. On the basis of this threats and vulnerabilities analysis, the main risks in the gambling sector is:
- a) criminals probably can use lottery and gambling services as a cover for money laundering;
 - b) the sector's exposure to criminals' 'lifestyle' spending;
 - c) criminals may use products and services of the lottery and gambling area to store and move the CP.

⁷²² The self-regulation Code of Ethics of the Latvian Association of Gambling Business is available: http://www.lsba.lv/uimg/File/etikas_kodekss.pdf.

⁷²³ The self-regulation Code of Ethics of the Latvian Association of Gambling Business is available: http://www.lsba.lv/uimg/File/etikas_kodekss.pdf.

⁷²⁴ Survey No 52

⁷²⁵ Survey No 52

⁷²⁶ Table No 8.9

⁷²⁷ Table No 8.10

⁷²⁸ Table No 8.1

⁷²⁹ Table No 8.2

⁷³⁰ Table No 8.11

⁷³¹ 4th round Moneyval report, p.185-186

8.3. SRS supervised obliged entities

- 8.3.1. According to SRS data, there are currently ~23,000 business entities registered in Latvia according to NACE2 classification which are engaged in the activities identified by the AML/CTF Law. Considering that some entities are engaged in several types of economic activity at the same time, the actual number of obliged entities supervised by SRS is ~ 12,000.
- 8.3.2. Below is analysed a vulnerability of the obliged entities' supervised by the SRS. Considering that most part of the SRS performed supervision achievements and deficiencies refers to all obliged entities supervised by SRS, firstly in this part of the Report will be discussed common conclusions for all obliged entities supervised by SRS and then the conclusions that are individualized for each obliged entity according to type of activity it executes.

General conclusions for the obliged entities' compliance with the AML/CTF requirements

- 8.3.3. Already in 2012 Moneyval experts had indicated that the SRS supervised DNFBPs entities proficiency in AML/CTF area is not sufficient, for instance, the DNFBPs do not pay due attention to high-risk countries, also lack of understanding of the requirements concerning the PEP, CDD and ECDD procedures had been observed.⁷³²
- 8.3.4. Responses of the obliged entities supervised by SRS indicate that the majority of them carries out their employee trainings in AML/CTF area.⁷³³ However, the level of knowledge in DNFBP sector should be viewed very critically, taking into account that not all entities had developed ICS. Moreover, very low number of suspicious and unusual transactions, which obliged entities have reported to FIU,⁷³⁴ indicates that the obliged entities knowledge in AML/CTF area is low. This can lead to the fact that the obliged entities supervised by SRS do not pay due attention to high-risk customers and/or transactions, or fails to identify ML/TF risks in their business and may be involved in ML.
- 8.3.5. Although obliged entities knowledge in AML/CTF area could still be improved, it shall be noted that within the assessment period, the SRS has started to take active measures which are aimed to increase the level of obliged entities understanding of ML risks and how to manage them:
- SRS has made survey for obliged entities, which, inter alia, are aimed to assess the level of entities' understanding of AML/CTF requirements;
 - The number of SRS performed trainings in AML/CTF area for obliged entities has increased from 14 in 2013 to 24 trainings in 2016. As a result, the total obliged entities who were trained at SRS organised AML/CTF training has increased ten times;⁷³⁵
 - SRS provides advice to the obliged entities about AML/CTF requirements;⁷³⁶
 - The SRS prepares and publishes educational information about AML/CTF requirements at SRS website, which is available to all obliged entities.⁷³⁷

Considering that participation in SRS prepared training is not obligatory for obliged entities supervised by SRS, it is impossible to ensure that all SRS supervised entities had been educated on AML/CTF matters. In regard to the number of obliged entities, SRS should continue to take measures that are aimed to promote obliged entities' understanding of AML/CTF matters. SRS trainings should include practical examples, as well as provide information about the deficiencies most frequently identified during inspections of the obliged entities in the area of AML/CTF to promote the improvement of obliged entities' ICS.

⁷³² 4th round Moneyval report, p.174., p.186

⁷³³ Survey No 48, 43% of respondents responded that they provides AML/CTF trainings for those employees at the moment of the beginning of labour relations. 40% of respondents responded, that they provides AML/CTF trainings for those employees during the labour relations.

⁷³⁴ Table No 8.12

⁷³⁵ Table No 8.4

⁷³⁶ Table No 8.4

⁷³⁷ Survey No 50; Statistics of the website visitors – average 350 per month;

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- 8.3.6. All responded obliged entities noted that there is insufficient feedback from FIU on the matters of quality of suspicious and unusual transactions reports submitted by obliged entities.⁷³⁸ FIU provided information would allow SRS and obliged entities to analyse mistakes in the reports and to develop reporting efficiency, even with low number of reports, FIU could make analysis of it, to educate SRS and its obliged entities. Furthermore FIU and SRS does not provide to the obliged entities with the information on the Latvian most common ML/TF risks and typologies in the area of entities business. Such information will contribute to the obliged entities' understanding of ML/TF risks inherent to the entities business activity, promote obliged entities understanding of AML/CTF measures and will improve obliged entities' ability to manage these risks.
- 8.3.7. Entry requirements provided by law are not sufficient and does not require examination of obliged entity compliance with ANL/CTF Law requirements.⁷³⁹
- 8.3.8. Entry control for obliged entities carried out SRS is not sufficient. Currently for all obliged entities supervised by SRS there are unified control mechanisms, which are equally applicable to all legal entities established in Latvia. For instance, when opening a temporary account in a Latvian bank to the newly established company, the company's shareholder is subjected to the bank's control procedures. In addition, from 1.01.2017 RE shall, upon detecting compliance with certain criteria, provide information to SRS to be included in the report regarding new companies registration applications received by RE. The basis for sending the report shall be, for instance, the fact that more than 10 companies have already been registered at the same legal address, or if the sole member of the Board indicated in the application is the sole member of the Board in more than five companies, etc.⁷⁴⁰
- 8.3.9. Above mentioned entry controls is focused exclusively on the control of legal entities, while SRS implemented taxpayer registration is aimed at all business entities. However, entities entry controls carried out by both the RE and the SRS are too general and are not related to the specific ML/TF risks of certain obliged entity profession.
- 8.3.10. A large number of respondents point out that they had developed ICS⁷⁴¹. Considering that SRS does not carry out AML/CTF on-site inspections, there are no opportunities to gain a full picture of the existence and effectiveness of the ICS. Data and information collected during the Report shows that there is a need for significant improvements in obliged entities ICS.⁷⁴²
- 8.3.11. A significant part of obliged entities supervised by SRS indicated that their industries internal regulation rules do not provide any disciplinary penalties in the case of violation of AML/CTF procedures and/or policies.⁷⁴³ Lack of appropriate requirements and disciplinary penalties make it more difficult to supervise obliged entities' and their employees' compliance with integrity/ethics requirements. Also, taking into account the fact that SRS AML department's staff do not participate in on-site inspections of obliged entities, it is not possible for SRS to ensure that obliged entities comply with professional norms of ethics in their work. That is also a reason why statistics on the applied disciplinary measures and the most common violations are not available. Existence of such statistics would allow the development and application of appropriate preventive measures.

Tax consultants, outsourced accountants and providers of legal services

- 8.3.12. Tax consultants, outsourced accountants and legal service providers are assessed in the one category as a large number of these obliged entities operate in more than one of mentioned professions.
- 8.3.13. Tax consulting, outsourced accounting and legal services providers have a medium high level of ML vulnerability. Possibility to provide non-face-to-face and to provide

⁷³⁸ Survey No 48, Survey No 50

⁷³⁹ Commercial Law, Part "B"

⁷⁴⁰ Section 14¹ of the Law on the Register of Enterprises of the Republic of Latvia.

⁷⁴¹ In a survey conducted by SRS in 2016, 88.5% of respondents (6310 resp.) indicated that they had implemented internal control systems.

⁷⁴² Survey No 48, 44% of respondents indicated that they do not carry out money laundering and terrorism financing risk assessments. At the same time, 27% carry out an assessment once a year or more often. 68% of respondents stated that they do not perform external AML/CTF audits.

⁷⁴³ Table No 8.13

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services for anonymous clients creates a significant risk for the operation of the tax consultants, outsourced accountants and legal services providers.

- 8.3.14. Tax advice is often provided in a general way, without specifying the actual facts of the case, the involved companies and the volume of provided services/products. This makes it difficult to determine whether the advice is used for tax evasion.⁷⁴⁴ Considering in depth knowledge of economy and legal framework of the professionals from these industries, there is a risk that they might be engaged in ML, even unconsciously.
- 8.3.15. Criminals can use accountants to conceal the origins of criminal funds and/or legalise assets in a variety of ways, such as the establishing companies and off-shore corporate structures, providing sham contracts and other documents, preparation or audit of companies' annual report, abuse of insolvency status, and providing advices. Many of the vulnerabilities set out below also leave accountants available to being used, wittingly or unwittingly, to assist the TF.
- 8.3.16. In SRS opinion, entry requirements set for outsourced accountants and tax consultants are insufficient and it is necessary to develop licensing requirements. Currently, any company, who is registered with the RE or any person registered in SRS as tax payer can provide above mentioned services. The SRS does not have any opportunities/tools to prohibit persons who are engaged in or associated with the persons who are engaged in criminal activities from becoming an UBO of the obliged entities. The entry requirements laid down in legal framework are insufficient and do not provide a mandatory control of obliged entities compliance with the requirements of the AML/CTF Law.
- 8.3.17. During the Report a limited amount of information regarding the integrity of the obliged entities and those employees was available. Limited amount of inspections carried out by SRS does not allow to verify the level of such integrity.
- 8.3.18. A large part of the respondents indicated that, when hiring a new employee, they consider the person's education, reputation, while a smaller part of the respondents indicated that they also consider the person's criminal record.⁷⁴⁵ In addition, the majority of obliged entities believe that their business field professionals are loyal and will not engage in criminal activities.⁷⁴⁶
- 8.3.19. The integrity of obliged entities is promoted by codes of ethics adopted by professional associations, such as:
- a) The Latvian Association of Accountants has determined that a professional accountant is obliged to comply with basic principles of the profession provided in the Code of Ethics for Professional Accountants.⁷⁴⁷ In addition the association has determined the values and principles of the accounting profession.⁷⁴⁸
 - b) The Latvian Tax Consultant Association has adopted a Code of Ethics, which is binding to the members of the association.⁷⁴⁹

However, participation in these associations is voluntary and the Code of Ethics is not binding to all representatives of the profession. Furthermore, the only penalty that can be imposed for the failure to comply with the ethical norms is the exclusion from the Association.

- 8.3.20. The Latvian Association of Lawyers has not adopted the code of ethics.
- 8.3.21. A large part of tax consultants, external accountants and legal service providers indicated that their internal regulations allow them to timely review potentially suspicious transactions, which should be reported to the FIU.⁷⁵⁰ However, very low

⁷⁴⁴ Survey No 50

⁷⁴⁵ Table No 8.14

⁷⁴⁶ Table No 8.15

⁷⁴⁷ Professional Accountants' Code of Ethics, available at:

http://www.lzra.lv/files/Citi%20standarti/tikas_kodeksa_rokasgrmata.pdf

⁷⁴⁸ Accounting profession's values and principles, available at:

<http://www.lrga.lv/sertifikacija/gramatvedibas-profesijas-vertibas-un-pamatprincipi>

⁷⁴⁹ Latvian Tax Consultant Association's Code of Ethics, available at:

<http://www.lnka.lv/index.php?menu=9&lang=2>

⁷⁵⁰ Survey No 48, to the question "Do your internal regulations allow for a timely review of potentially suspicious transaction reports, which should be reported to the Control Office?" 60% of the respondents answered "yes", and 28% of the respondents answered "rather yes than no".

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number of transactions reported by legal service providers and practically missing transactions reported by tax advisers and external accountants, indicate the opposite.⁷⁵¹ Reporting of suspicious and unusual transactions by tax consultants, external accountants and legal service providers' is ineffective.

- 8.3.22. The key threats and vulnerabilities within this sector identified through the assessment are:
- involvement of professionals facilitating ML;
 - collusion with other elements of regulated sector;
 - creation of structures and vehicles that enable ML;
 - the provision of false agreements and documents;
 - failure to identify suspicious and unusual transactions and submit relevant reports;
 - non-existence of entry controls;
 - poor SRS supervision.
- 8.3.23. There are cases, where tax consultants, outsourced accountants and legal service providers have facilitated ML through the establishment of complex corporate structures and off-shore vehicles to conceal the UBO and facilitate the movement of CP.⁷⁵²
- 8.3.24. Obligated entities have been identified as working alongside other professionals, such as sworn attorneys and financial advisers, to facilitate ML. Such cooperation was identified in Latvian biggest ML proceeding - "Digital case".

"Digital case"

In 2000 in Latvia a several dozen millions worth digital TV project was started, which was expected to be fully implemented by 2006. SJSC "LVRTC " established a subsidiary "DLRTC" which signed more than 30 million lats worth contract with the British company "Kempmayer Media Limited" and its subsidiary "Kempmayer Media Latvia" (Kempmayer). The investigation showed that Kempmayer was a shell company, behind which hid unknown owners, maybe in Latvia well-known businessmen and politicians, whose purpose was to defraud money from the state budget.

In 2015 district court of Riga after seven years of litigation in criminal proceedings for the fraud in a large scale, malfeasance and ML, four (of the original 20) accused persons were sentenced to a monetary penalty of EUR 18 thous each, nine defendants, including one attorney at law and three financial advisors - were sentenced to a monetary penalty from EUR 18 thous to EUR 72 thous and imprisonment (1-3 years depending on the gravity of the offense).

Four defendants, including one attorney at law were justified. The state recovered EUR 200 thous of laundered money.

A decision of the court of First Instance has not entered into force because of the appeal.

- 8.3.25. SRS points out that during the on-site inspections provided by SRS Tax department was concluded that the majority of the obliged entities are compliant with AML/CTF requirements. However, non-compliant or negligent professionals have the potential to cause significant harm.
- 8.3.26. Negligent professionals can enable ML/TF through non-compliance or poor compliance with the AML/CTF Law, including non-compliance with CDD, client approval procedure and monitoring procedure requirements. In some cases professionals may be wilfully negligent in order to gain a competitive advantage.
- 8.3.27. ML risk posed by the sector in recent years remained high because of a lack of a coordinated supervision actions. SRS is planning to increase number of SRS staff trainings. Increase of level of staff knowledge in the area of AML/CTF will increase those awareness and reduce the risk of unwitting or negligent actions of staff.

⁷⁵¹ Table No 8.12

⁷⁵² Survey No 55

Entities acting as agents or intermediaries in real estate transactions

- 8.3.28. The services of real estate agents or intermediaries may be provided by any person who is registered in RE or in the SRS as a tax payer. Is important to notice, that only tenth part of all real estate deals are made through real estate agents or intermediaries.⁷⁵³
- 8.3.29. There is medium ML vulnerability in this business activity area. An opportunity to provide services for anonymous customers, remotely, as well as through agents creates increased likelihood of ML.⁷⁵⁴ Moreover, the immigration legislation provides the opportunity to obtain a temporary residence permit by investing in real estate⁷⁵⁵ that generates higher flow of foreign customers' funds, especially from the CIS countries.⁷⁵⁶
- 8.3.30. Real estate acquisition is a favoured method for criminals to hide the CP by using legal entities and arrangements. This means property may be purchased by a company used by the criminal or their associates in order to make it more difficult to identify CP or trace its origin. There are cases when real estate agents and those employees are facilitating ML through arranging the purchase of real estate.⁷⁵⁷
- 8.3.31. Latvian real estate market is more vulnerable because of the fact that real estate can be purchased by the off-shore entities which obscure the real estate owner and his residency. It is harder to restrain and recover real estate purchase once the *bona fide* acquirer purchases it.⁷⁵⁸
- 8.3.32. Entry control set for agents or intermediaries in real estate transactions are insufficient and it's necessary to develop licensing requirements for those professionals. The entry controls performed by SRS are insufficient and, taking into account the sectoral ML/TF risks, it is necessary to take measures to increase the efficiency of entry control and to prohibit persons who are engaged in or associated with those engaged in criminal activities from becoming a supervised obliged entities and to engage in ML/TF. In 2012 the Moneyval experts has also pointed to this problem,⁷⁵⁹ nevertheless any significant progress in this matter during the Report was not noticed.
- 8.3.33. A large part of the obliged entities operating as agents and intermediaries in real estate transactions indicated that they consider person's education and reputation, when hiring a new employee. The smaller part of the respondents indicated that they also consider person's criminal record.⁷⁶⁰ Besides, the majority of entities believe that their business field professionals are loyal and will not engage in criminal activities.⁷⁶¹
- 8.3.34. The Latvian Real Estate Association (LANĪDA) has adopted a Code of Ethics, which states that members of the Association must carry out their duties in utmost good faith, while being objective, skilled, honest and reliable, and comply with the laws, regulations and standards.⁷⁶² However, participation in the Association is voluntary and the code of ethics is not binding to all members of the profession. Furthermore, the only penalty that can be imposed for the failure to comply with the ethical norms is the exclusion from the Association.
- 8.3.35. A significant part of persons who act as agents or intermediaries in real estate transactions indicates that their ICS enables them to timely detect potentially suspicious or unusual transactions that should be reported to FIU.⁷⁶³ Moneyval experts in 2012 already had indicated that the agents and intermediaries in the real estate transactions are not reporting FIU on suspicious or unusual transactions. Also within the assessment period FIU has not received any report on suspicious or unusual transactions from mentioned obliged entities.⁷⁶⁴ The conclusion is that

⁷⁵³ Survey No 49

⁷⁵⁴ Survey No 50

⁷⁵⁵ Section 23, Immigration law,

⁷⁵⁶ Statistics, Available: <http://www.pmlp.gov.lv/lv/sakums/statistika/uzturesanas-atlaujas.html>

⁷⁵⁷ Survey No 55

⁷⁵⁸ Survey 55

⁷⁵⁹ 4th round Moneyval report, p. 262

⁷⁶⁰ Table No 8.14

⁷⁶¹ Table No 8.15

⁷⁶² Latvian Real Estate Association Code of Ethics. Available:

http://www.lanida.lv/index.php?option=com_content&view=article&id=53&Itemid=360&lang=lv

⁷⁶³ Survey No 48, to the question "Do your internal regulations allow for a timely review of potentially suspicious transaction reports, which should be reported to the Control Office?" 60% of the respondents answered "yes", and 28% of the respondents answered "rather yes than no". Table No 8.16

⁷⁶⁴ Table No 8.12

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these obliged entities has low level of ML risk understanding and it may not allow entities and their employees to detect suspicious and unusual transactions, and report them to the FIU in a timely manner.

- 8.3.36. Many real estate agents, even if they carry out a CDD, may have problems with application of the regulatory enactments to identify ML. There may be situations where in ML is involved a number of professions, such as lawyers and financial consultants who help customers in ML, and then there is a good chance that CP will be legalized, despite CDD carried out by real estate agents.
- 8.3.37. Real estate agents also mention difficulties in UBO identification, when the real estate is owned by a legal entity, especially, if it is a non-resident company.
- 8.3.38. Real estate agents do not provide money transaction services, so real estate transactions usually involve other entities, such as lawyers and financial service providers therefore it is common for real estate agents not to conduct CDD and instead to rely on CDD conducted by other involved entities. This can produce situations, when real estate agents have a poor understanding and knowledge of their client, which will make it more difficult for them to identify anything suspicious about the client or the transaction.
- 8.3.39. The absence of CDD and suspicious and of unusual transaction reports reduces the possibility of the LEA to reveal ML/TF.
- 8.3.40. The key threats and vulnerabilities within the real estate sector are:
- complicit representatives of other professions, who are negotiating and arranging the purchase of real estate;
 - negligent professionals enabling money laundering and terrorist financing through non-compliance with NILLTFNL;
 - absence of reports on suspicious and unusual transactions;
 - lack of entry control;
 - poor supervision.

Car dealers and intermediaries in car transactions

- 8.3.41. Car dealers becomes an obliged entities of the AML/CTF Law, when they meet the condition of a cash transaction amount (EUR 15 000).⁷⁶⁵
- 8.3.42. In this sector, there is a medium high ML vulnerability. Fact that the car dealers may entail the non-face-to-face services and anonymous services, as well as provide services through agents, creates a significant ML risk. Besides, the obliged entities themselves tend to engage in predicate offences (such as fraudulent transactions with VAT).
- 8.3.43. SRS notes that car dealers have a medium risk to be involved in ML, therefore now it would not be necessary to introduce a licensing for car dealers.⁷⁶⁶ Car dealers register their places of business activity at SRS.
- 8.3.44. A significant part of the persons operating in car sales mentioned that, before hiring a new employee, they perform employee background check considering the person's education and reputation, while a smaller part of the respondents indicated that they also consider the person's criminal records.⁷⁶⁷ Besides, the majority of car dealers believe that professionals in their sector are loyal and will not engage in criminal activities.⁷⁶⁸ However, these responses shall be assessed prudently, given that there are cases when obliged entities have been involved in fraud.
- 8.3.45. A large part of the persons operating in car sales noticed that their ICS enables them to timely review of potentially suspicious transactions, which should be reported to the FIU.⁷⁶⁹ Car dealers within the assessment period reported 99 unusual transactions to the FIU.⁷⁷⁰ Nevertheless, reported transactions have not been used in materials FIU had forwarded to the LEA. Given the low efficiency of

⁷⁶⁵ Section 3 (1) para 9 of the AML/CTF Law

⁷⁶⁶ Survey No 50

⁷⁶⁷ Table No 8.14

⁷⁶⁸ Table No 8.15

⁷⁶⁹ Survey No 48, to the question "Do your internal regulations allow for a timely review of potentially suspicious transaction reports, which should be reported to the Control Office?" 60% of the respondents answered "yes", and 28% of the respondents answered "rather yes than no". Table No 8.16

⁷⁷⁰ Table No 8.12

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reporting, it is concluded that car dealers have low level of ML vulnerability understanding that may not allow entities and their employees to detect suspicious and unusual transactions and report it to the FIU in a timely manner and they may get involved in ML.

Precious metals, precious stones and articles thereof dealers

- 8.3.46. Precious metals, precious stones and articles thereof dealers shall become as obliged entities of the AML/CTF Law, when they meet the condition of a cash transaction amount (EUR 15 000).⁷⁷¹
- 8.3.47. Precious metals and precious stones are areas where ML vulnerability are medium, because precious metals and precious stones, as well as their products are small, expensive and easy to transport items that can be used for ML/TF purposes. It is difficult to determine their potential market value. Thus, during an inspections it is impossible to identify any unusual and/or suspicious transactions that have not been reported. Besides, it is difficult and time consuming to track such transactions and this area can be used in tax evasion schemes.
- 8.3.48. Persons carrying out economic activity with precious metals, precious stones and articles thereof are obliged to register their places of business activity at the Latvian Assay Office.⁷⁷² However, during the registration obliged entities compliance with the AML/CTF requirements are not tested and evaluated.
- 8.3.49. The SRS performed entry control is insufficient and SRS does not have any opportunities/tools to prohibit persons who are engaged in or associated with those engaged in criminal activities from becoming a UBO of the obliged entities. The entry requirements laid down in laws and regulations are insufficient and do not provide for a mandatory control of entities compliance with the requirements of the AML/CTF Law.
- 8.3.50. Three criminal proceedings have been initiated against persons who are engaged in precious metals and precious stones trade.
- 8.3.51. Supervision of obliged entities' and their employees' compliance with the integrity requirements is insufficient. SRS is unable to make sure that the supervised entities comply with professional norms of ethics in their work. The compliance of entities and their employees with the integrity requirements is not ensured. Besides, there is no statistics on applicable disciplinary measures.
- 8.3.52. Within the assessment period persons carrying out economic activity with precious metals, precious stones and articles thereof submitted to the FIU reports on the 3 suspicious and 97 unusual transactions.⁷⁷³ However, until 2016 obliged entities have not reported FIU on suspicious transactions at all. Only two transaction reported by obliged entities have been used in materials that FIU had forwarded to the LEA.⁷⁷⁴ Given the low efficiency of reporting, it is concluded that precious metals, precious stones and articles thereof dealers have low level of ML risk understanding that may not allow obliged entities and their employees to detect suspicious and unusual transactions and report it to the FIU in a timely manner and they may get involved in ML.

8.4. Sworn Attorneys

- 8.4.1. In accordance with AML/CTF Law, sworn attorneys are obliged entities in accordance with the AML/CTF Law, when they, acting on behalf and for their customer, assist in the planning or execution of transactions, participate therein or carry out other professional activities related to the transactions for their customer mentioned in the Section 3, Paragraph one, Clause 4 of the AML/CTF Law.
- 8.4.2. According to the information provided by LCSA, in Latvia there were 1265 sworn attorneys and 111 assistant sworn attorneys by the end of the assessment period.⁷⁷⁵

⁷⁷¹ Section 3 (1) para 9 of the AML/CTF Law

⁷⁷² 20.08.2002 Cabinet regulations No 367 "Procedures for registration of business place to work with precious metals, precious stones and their products, their mandatory assay and labelling procedures and nod assayed precious metals, precious stones and their products storage arrangements"

⁷⁷³ Table No 8.12

⁷⁷⁴ FIU provided information

⁷⁷⁵ Table No 8.17

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- 8.4.3. ML vulnerability are medium for sworn attorneys. Turnover in the profession of sworn attorneys is low in comparison with other obliged entities and the cash usage proportion is medium.
- 8.4.4. Some of the services provided by the sworn attorneys are attractive to criminals seeking to conceal the origins of criminal funds. There is a risk that sworn attorneys may be unaware of the involvement/use of ML, for example in case of preparation of the documents required for transactions, in creating legal bodies to conceal CP and UBO. In Latvia, a sworn attorney has been convicted for ML violations by a court of the first instance the judgment has not come into force because it is under appeal.
- 8.4.5. The key threats and vulnerabilities within this sector identified through this assessment are:
- a) complicit legal professionals facilitating ML;
 - b) criminals use of sworn attorneys as well as other legal professionals to secure property with criminal proceeds;
 - c) challenges in supervision.
- 8.4.6. In Latvia, the entry control of sworn attorneys is high. A large part of the applicants are unable to meet the requirements and do not become sworn attorneys⁷⁷⁶. To become a sworn attorney, one must pass an exam and meet strict requirements for education, experience, reputation and personal qualities. The probability is low that a potential offender would choose to become an attorney in order to be engaged in ML.
- 8.4.7. Because of absence of on-site/off-site inspections LCSA cannot obtain assurance of the compliance with the instructions laid down in "Procedures regarding the set of measures to be taken to ensure compliance with the requirements of the Money Laundering and Terrorism Financing Prevention Law", whether sworn attorneys and law firms have implemented ICS, and how effective it is carried out.
- 8.4.8. The level of professional ethics of sworn attorneys is high and meets the applicable integrity/ethics requirements. Unethical conduct and ethics violations by sworn attorneys are subject to disciplinary measures (with suspension as the most severe punishment).⁷⁷⁷ Sworn attorneys themselves believe that professionals in their field will not engage in criminal activities.⁷⁷⁸ The integrity and compliance with ethical standards by sworn attorneys is supervised since 2012 by the Ethics Commission.
- 8.4.9. The level of knowledge of sworn attorneys on ML is medium. Already in the 2012 Moneyval experts mentioned that the sworn attorneys are by far the most educated categories of DNFBP on AML/CTF area in Latvia.⁷⁷⁹ Sworn attorneys are required to undertake a certain number of training hours each year, and LCSA organises several trainings in the area of ML annually.⁷⁸⁰
- 8.4.10. ML trainings are attended by a relatively large number of sworn attorneys.⁷⁸¹ However, their AML/CTF knowledge is not tested after the training. LCSA plans to correct this by implementing testing in the near future. LCSA is working on introduction of a rule that would require sworn attorneys to dedicate a certain amount of hours for the training in the area of AML/CTF. Sworn attorneys have little information on the current AML/CTF typologies and risks in Latvia.
- 8.4.11. Efficiency of the internal control system is medium and ICS compliance is estimated at the middle level. It is not possible to receive services from a sworn attorney anonymously, without identifying the customer, and the regulatory framework provides that sworn attorneys must keep customer records.⁷⁸² Before providing legal assistance to a customer, an engagement agreement must be concluded with the customer, and in some cases special power of attorney is needed to perform certain activities. All engagement agreements and special powers of attorney are

⁷⁷⁶ Table No 8.18

⁷⁷⁷ Advocacy Law of the Republic of Latvia, Section 73

⁷⁷⁸ Survey No 39

⁷⁷⁹ Moneyval fourth round of mutual evaluation, 191 page, 1298.clause

⁷⁸⁰ Table No 8.21

⁷⁸¹ Table No 8.22

⁷⁸² Advocacy Law of the Republic of Latvia, Section 59

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numbered, therefore LCSA can check compliance with the customers' records procedure.

- 8.4.12. Although the regulatory framework does not provide for sworn attorneys a mandatory establishment of an ICS,⁷⁸³ internal control must be carried out in accordance with LCSA instructions.⁷⁸⁴ Sworn attorneys themselves indicated that they have implemented and are using ICS according to the instructions.⁷⁸⁵ However, it cannot be clearly stated whether ICS have been implemented and are used by law offices, or whether and how effectively internal control is carried out, since no on-site/off-site inspections are performed by LCSA. A positive fact is that sworn attorneys reports about suspicious transactions.
- 8.4.13. The efficiency and monitoring of unusual activities and suspicious transaction reporting is medium-high. Within the assessment period, 142 reports were submitted by sworn attorneys.⁷⁸⁶ According to sworn attorneys' reports, 28 transactions were used by FIU to prepare a material for LEA, which indicates medium high reporting efficiency and ability to prepare a quality report.
- 8.4.14. Sworn attorneys store the information obtained during customer research. AML/CTF Law provides for exceptions when sworn attorneys are not required to submit reports to the FIU.⁷⁸⁷
- 8.4.15. On the basis of this analysis of the threats and vulnerabilities, the principal risks in this sector to be:
- a) complicit legal professionals facilitating ML by enabling criminals to access legal services, and by granting them access to the rest of the regulated sector;
 - b) legal professionals' can failure to comply with AML/CTF Law leading to failure to conduct effective due diligence and identify suspicious activity.

8.5. Sworn Notaries

- 8.5.1. In accordance with AML/CTF Law, sworn notaries are obliged entities in accordance with the AML/CTF Law, when they, acting on behalf and for their customer, assist in the planning or execution of transactions, participate therein or carry out other professional activities related to the transactions for their customer mentioned in the Section 3, Paragraph one, Clause 4 of the AML/CTF Law.
- 8.5.2. According to the supervisor LCSN there were 107 sworn notaries and 66 assistant sworn notaries in 2016.⁷⁸⁸
- 8.5.3. ML vulnerability of sworn notaries is medium low. The turnover of sworn notaries is comparatively low, client base profile is medium risk, cash activities is low and the service shall not be provided at a distance or anonymously.
- 8.5.4. There is a risk that sworn notaries could be involved (even unwittingly) in property fraud schemes, as they do not always possess all information on transaction. Sworn notaries may be involved in ML when the real estate is settled in cash by funds of unknown origin. Criminals use sworn notaries as well as other legal professionals to secure real estate with criminal proceeds.
- 8.5.5. Sworn notaries may be used to certify agreements with no clear economical purpose (for instance, transactions concluded below or above the market price) which afterwards could be utilized as the ML tool, including the recovery of fictitious agreements or non-existing debts.
- 8.5.6. Before starting to practice as a sworn notaries in Latvia, person is subject to certain entry control. There are effective entry controls required by laws and regulations (regarding education, experience, reputation and characteristics) for those willing to become sworn notaries.⁷⁸⁹ The candidate's reputation and knowledge is verified. A candidate must pass an exam. Sworn notaries are public officials, who are

⁷⁸³ AML/CTF Law, Section 6

⁷⁸⁴ The procedures regarding the set of measures to be taken to ensure compliance with the requirements of the Money Laundering and Terrorism Financing Prevention Law are available at: www.advokatura.lv

⁷⁸⁵ Survey No 39

⁷⁸⁶ Table No 8.23

⁷⁸⁷ AML/CTF Law, Section 30

⁷⁸⁸ Table No 8.17

⁷⁸⁹ Table No 8.19

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appointed by the Minister for Justice and the probability that a potential offender would choose to become a sworn notary to engage in ML is low.

- 8.5.7. Although current regulatory framework does not require mandatory AML/CTF ICS,⁷⁹⁰ sworn attorneys themselves indicated that they have implemented and are using ICS.⁷⁹¹ However the effectiveness and application of ICS cannot be examined properly as LCSN are not performing AML on-site visits.
- 8.5.8. The level of professional ethics of sworn notaries is high and meets applicable integrity/ethics requirements. Professional ethics violations by sworn notaries are subject to disciplinary measures. In addition, duties imposed by the laws governing the activities of public officials are also applicable to sworn notaries as public officials. Breaches of integrity and professional ethics are subject to disciplinary measures (with the most severe punishment being an exclusion from the profession). LCSN has adopted a code of ethics to which sworn notaries are obliged to adhere to. Sworn notaries are of the opinion that the sector is integrated and the notaries will not engage in criminal offence.⁷⁹² In the assessment period one sworn notary was convicted for tax evasion.
- 8.5.9. Sworn notaries lack sufficient knowledge AML/CTF knowledge and understanding. The AML trainings were intensively organised in 2016 with more than 90% of sworn notaries participating in each of them.⁷⁹³ It shall be indicated that Moneyval experts already in 2012 indicated that the sworn notaries are by far one of the most educated categories of DNFBP on AML/CTF area in Latvia.⁷⁹⁴
- 8.5.10. Sworn notaries are required to participate in qualification training each year. In addition, notaries have to pass the test after the AML/CTF training. The training is carried out interactively, in small groups, to ensure the efficiency of the groups.
- 8.5.11. The monitoring and efficiency of reporting of unusual and suspicious transactions by sworn notaries is at an average low level. Within the assessment period, 25 STR`s and 64 UTR`s were submitted by sworn notaries.⁷⁹⁵ As sworn notaries have little knowledge on current ML/TF typologies and risks in Latvia, none of the reports were used for the preparation of materials by FIU.
- 8.5.12. AML/CTF Law provides for exceptions when sworn notaries are not required to submit reports to the FIU.⁷⁹⁶

8.6. Certified Auditors

- 8.6.1. In accordance with Clause 3 of Paragraph 1 of Section 3 of the AML/CTF Law, certified auditors are obliged entities in accordance with the AML/CTF Law.
- 8.6.2. According to the overseer, LACA, in 2016 there were 167 certified auditors in Latvia.⁷⁹⁷
- 8.6.3. ML vulnerability for certified auditors is low. The industry has a low turnover, a low proportion of cash handling and few non-resident customers. Also, the service cannot be provided at a distance or anonymously.
- 8.6.4. There is a risk that certified auditors could be used to engage in ML, when providing services in the field of accounting, tax consulting, providing commercial advices, consulting deal structuring for tax evasion. A control mechanism has not been established to detect possible cases when certified auditors have not fully complied with the AML/CTF Law requirements.
- 8.6.5. Certified auditors tend to produce evidence of transactions that actually did not take place, such as the supply of goods, the receipt of services. Such certification shall be used to prove the fact of the transaction to the SRS. There is a risk that criminals would be able to use of certified auditors to prepare evidence for fictitious transactions.

⁷⁹⁰ AML/CTF Law, Section 6

⁷⁹¹ Survey No 42

⁷⁹² Survey No 42

⁷⁹³ Table No 8.22

⁷⁹⁴ Moneyval fourth round of mutual evaluation, 191 page, 1298.clause

⁷⁹⁵ Table No 8.23

⁷⁹⁶ AML/CTF Law, Section 30

⁷⁹⁷ Table No 8.17

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- 8.6.6. Availability and effectiveness of entry controls is high. High requirements are imposed by laws and regulations (regarding education, experience, reputation and personal characteristics) on those willing to become certified auditors, and certified auditor candidates must pass 5 qualification exams.⁷⁹⁸
- 8.6.7. For certified auditors the international auditing standards are binding, which stipulate that internal controls are mandatory regarding audit services and customers. Certified auditors must store customer information obtained during CDD. However, the compliance of ICS implemented by certified auditors and their practical application has not been verified. International auditor companies have internal AML procedures that are typically similar and meet national requirements.
- 8.6.8. Certified auditors have high professional ethics and the ethical standards are provided in the IESBA IFAC Code of Ethics for Professional Accountants.⁷⁹⁹ Certified auditors are obliged to adhere to standards of professional ethics. Breach of ethical norms by a certified auditor is subject to disciplinary measures and the certificate can be suspended.⁸⁰⁰
- 8.6.9. Certified auditors themselves believe that professionals in their field will not engage in criminal activity.⁸⁰¹ Unethical conduct and professional ethics breaches by certified auditors are subject to disciplinary measures. However there were no cases within the assessment period.
- 8.6.10. Few training courses are organised by LACA every year in the area of AML/CTF.⁸⁰² The knowledge of certified auditors in the area of AML/CTF is insufficient, although certified auditors are required to participate in professional qualification trainings each year and AML/CTF training is also organised by LACA. Certified Auditors do not have enough knowledge on customer identification, customer research, ML/TF risks and differences between suspicious and unusual transactions. In addition, certified auditors have little information on the current ML/TF typologies and risks in Latvia.
- 8.6.11. Certified auditors are not required to pass any tests after the training. The attendance of certified auditor AML/CTF seminars is low. Attendance is low because the topics and speakers do not change and training is repetitious.⁸⁰³
- 8.6.12. The efficiency of monitoring and reporting of unusual and suspicious transactions by certified auditors is low. Within the assessment period, five STR`s and one UTR`s were submitted by certified auditors.⁸⁰⁴ None of the reports were used in FIU materials.
- 8.6.13. During the interview, LACA mentioned that certified auditors do not have enough information on customer identification, customer research, ML/TF risks and differences between suspicious and unusual transactions.
- 8.6.14. AML/CTF Law contains exceptions when certified auditors are not required to report to the FIU.⁸⁰⁵

8.7. Entities, who carry out transactions with cultural monuments

- 8.7.1. In addition to the DNFBP included in FATF recommendations, Latvia has chosen to include, in the list of obliged entities of the AML/CTF Law, also the persons who make transactions with cultural monument.
- 8.7.2. Supervision of transactions of such entities is carried out by the State Inspection for Protection of Cultural Monument. There are about 9 thous. cultural monuments in Latvia, and approximately 60 % of them are considered to be the cultural monuments of state significance, while the rest 40 % – of local significance. They are included in the State Protected Cultural Monuments Register, which also contains information on an owner or manager of each cultural monument.
- 8.7.3. A transaction with a cultural monument can be implemented only after the owner has notified the State Inspection for Protection of Cultural Monument. When a

⁷⁹⁸ Table No 8.20

⁷⁹⁹ <http://www.lzra.lv/files/SRS/2014-IESBA-Handbook-Final-tracked-changes.pdf>;

<http://lzra.lv/%C4%93tikas-kodeks.html>

⁸⁰⁰ Law on sworn auditors, Section 17 (2) 2)

⁸⁰¹ Survey No 45

⁸⁰² Table No 8.21

⁸⁰³ Table No 8.22

⁸⁰⁴ Table No 8.23

⁸⁰⁵ AML/CTF Law, Section 30

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cultural monument of state significance is involved in the transaction, a purchase agreement shall also be submitted to the State Inspection for Protection of Cultural Monument, which allows the verification of the transaction's details. When there is a transaction with a cultural monument of local significance, opportunities of the State Inspection for Protection of Cultural Monument to control AML/CTF are limited.

- 8.7.4. The State Inspection for Protection of Cultural Monument indicates that all transactions with cultural monument of state significance are performed by either drawing up a pre-emption agreement at a notary or by attracting a loan. Thus, the State Inspection for Protection of Cultural Monument assumes that identity of entities, who carry out transaction, and UBO is being established.
- 8.7.5. The total amount of the transactions with cultural monuments as a category in the DNFBP sector, according to an expert opinion, is assessed as low, profile of customers was not analysed, and cash turnover is low. Information provided by LEA also does not demonstrate that the cultural monuments would be involved in ML. Thus, it should be concluded that vulnerability of the transactions with cultural monuments is low.

9. Terrorism financing

Terrorism financing threat assessment leads to the conclusion that, until now, there has not been evidence for TF cases in Latvia or inflow of terrorist funds, or transit through Latvia. There is also no evidence of the use of non-profit organisations, public benefit (voluntary) organisations or business entities for the purposes of TF. However, the geopolitical location and the developed banking sector are TF risk contributory factors.

9.1. Risk of terrorism threats

- 9.1.1. There have not been any terrorism incidents in the territory of Latvia, and the terrorism threat level still remains low. In Latvia have not no persons, groups or organisations have been found, that would plan to use terrorist methods for reaching their ideological goals.
- 9.1.2. Although, in comparison with other European countries, the level of terrorism threat remains low, there are consequences of the radicalisation process as several Latvian citizens have joined terrorist group Daesh in Syria. It should be noted that the so called "returning fighters" remains as one of the main terrorism threat subjects in Europe. The increasing propaganda of terrorist groups, which is increasingly inviting persons to carry out terrorist acts in Europe, also cannot be ignored. Therefore the limitation of terrorism propaganda will be one of the significant challenges in the area of counterterrorism both in Europe and Latvia.⁸⁰⁶
- 9.1.3. Terror acts that took place and were prevented in recent years show that the threat level created by the Islamic terrorists in Europe will not decrease in near future. New trends regarding foreign terrorist fighters, recruitment for the purposes of training and traveling for terrorism and financing of terrorism activities or traveling for purposes of terrorism has been emerging. At a transnational level increased attention has been paid to aspects such as traveling for the purposes of terrorism, including operating the promotion and financing of such traveling, and self-study of terrorism, as well as recruitment for terrorism (including engaging in a terrorist group and self-study of terrorism) and glorification of terrorism, which should be criminalised in national regulatory enactments.
- 9.1.4. Currently the most significant terrorism risk factor is participation of Latvian citizens in the Syrian conflict and the possible joining the Islamic terrorist groups that exist there. Such activities can have direct influence on the security of Latvia, because there is a risk that after returning from Syria, Latvians who have gained the fighting experience can get involved in different types of terrorist activities in Latvia. The information available to SeP indicates that there are several representatives of Latvian Muslim community in the terrorist-controlled regions of Syria/Iraq.
- 9.1.5. In 2015 criminal proceedings were initiated in SeP in accordance with Section 77¹ of Criminal Law on illegal participation in an armed conflict in Syria. This was the first case in history of Latvia that criminal proceedings were initiated on possible joining of Latvian citizen to an Islamic terrorist group in conflict region. Currently SeP has recorded 9 criminal proceedings against Latvian citizens, who are suspected of illegal participation in an armed conflict in Syria or Ukraine. Investigations are ongoing and cannot be commented in more details.
- 9.1.6. In accordance with Section 77¹ of the CL, three new criminal proceedings regarding unlawful participation in an armed conflict in Syria were initiated in 2016. One of the criminal proceedings is currently in the trial of the court of the first instance, while another is delivered to the prosecutor's office for initiation of criminal prosecution. Information available at the disposal of the SeP shows that in 2016 some other several representatives of the Muslim community in Latvia showed an interest on travelling to the territories controlled by Daesh in Syria and Iraq, as well as tried to implement the plans.
- 9.1.7. The analysis performed by the SeP shows that converts, who have gone to study in the countries with the increased presence of terroristic organisations, have experienced the radical interpretation of Islam on various internet sites or places of

⁸⁰⁶ 2016 Public report of SeP

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imprisonment, and have travelled to the territories of armed conflicts, are exposed to the increased risk of radicalisation. Considering the fact that converts will, most probably, be the most active part of Muslims residing in Latvia in the future, the radical views adopted by them may negatively affect both the Muslim community of Latvia as well as the national security of Latvia.

- 9.1.8. According to the information available at the disposal of the SeP, several representatives of the Muslim community in Latvia, are currently staying in the territories of Syria and Iraq controlled by the terrorist organisation Daesh and probably have performed both, passed trainings in terrorist training camps as well as got involved in battle activities and performed other activities of supporting Daesh, including distribution of propaganda. Information being at disposal of the SeP shows that persons of various profile from Latvia are staying in the territories of Syria and Iraq, being controlled by the terrorist organisation Daesh.
- 9.1.9. The fact, that several terror acts in Europe in 2016 were committed by persons, who are considered to be so called homemade terrorists and who were influenced by materials of Daesh propaganda, proves that distribution of such materials translated into Latvian may potentially increase the risks of radicalisation to great extent and subsequently increase the threat to the national security of Latvia.
- 9.1.10. Along with obtaining information on the possible risks of radicalisation in Latvia, the SeP continued to draw attention to⁸⁰⁷ the entry of foreigners to Latvia in cooperation with other state authorities. In comparison with 2015, a minor increase of requests for visas and residence permits was observed. There were 1 978 visa invitations and requests for residence permits for 3 038 persons in total examined in 2016. In addition to such invitations and calls, the SeP performed also examination of 1 862 of requests for visas made by foreigners and 562 residence permits in 2016. As a result of the performed examinations the SeP initiated to refuse to issue visas in 121 cases, to reduce the number of days of entry - in 16 cases, and to approve with specific instructions of the SeP - in 20 cases. In its turn, in 44 cases of the examined requests for residence permits it was proposed to refuse the residence permit, but in 43 cases - to approve with other comments. It should be noted that unlike the previous periods, two refusals (one refusal of request for visa and one for request of residence) were related to the risk of terrorism.
- 9.1.11. Two categories were dominating among the foreigners to be examined - tourists and students. Studying in the higher education institutions of Latvia was one of the key reasons, encouraging the persons to arrive to Latvia from the states, where the presence of terrorist groups is common, also in 2016. More than one hundred of nationals of such countries studied in the higher education institutions of Latvia in 2016. Although the number has decreased, in comparison with the previous years, there is still the risk existing that the radically disposed persons may try to enter Latvia, claiming to be students and thus having a possibility to freely move also across the territory of other countries of the Schengen Area. The above mentioned was mostly affected by the fact that in certain higher education institutions examinations of compliance of the potential foreign students are still performed in a superficial manner.
- 9.1.12. As far as the experience of the European partnering services shows that the Islamic terrorists continue to use also the flow of refugees for entry to the Europe, the SeP continued in-depth evaluation of the requests of asylum seekers in 2016. In case if 310 persons requested for asylum in Latvia in 2015, then the number of such persons was only 166 last year, returning to the level of 2013. Persons from Afghanistan, Iraq, Russia, Pakistan, Tajikistan and other countries requested for asylum in Latvia. In addition to the regular examinations of foreigners, in 2016 attention was paid to the examination of the asylum seekers, who are staying in other EU Member States. In accordance with the Order of the Cabinet⁸⁰⁸, adopted in 2015, officials of the SeP in cooperation with the officials of the State Border Guard and Office of Citizenship and Migration Affairs performed the selection and examination of the moved and relocated asylum seekers by going to Greece and Turkey. In total the SeP performed examination of 184 such persons. It should be noted that the SeP performed the necessary control, including interviews with persons to be relocated, also in Turkey in cooperation with the Embassy of Latvia in Turkey and the State Border Guard. The SeP recommended not to admit 18 out

⁸⁰⁷ The SeP regularly performs inspection of the foreigners, who arrive from the countries or territories with the significant presence of terrorist groups.

⁸⁰⁸ Cabinet Order No 759 "Action Plan for Movement and Admission in Latvia of Persons who Need International Protection", adopted on 2.12.2015.

of the persons to be examined, who were planned to be relocated to Latvia from Italy and Greece, upon the existing risk on the possible relation of such persons with any of the terrorist or armed groups.

- 9.1.13. Number of refugees and immigrants in Latvia is currently small and increase is not expected, because social guarantees and life conditions in Latvia are not appealing to refugees. Also the language barrier in Latvia is larger than in English speaking countries. At the same time it should be noted that in accordance with CSB data the number of young people in Latvia decreases on average by 5.7% every year. It creates risk that in future there will be a lack of employees and the amount of immigrants will grow, among which could also be refugees from areas of armed conflicts.

9.2. Risk of Terrorism Financing Threats

- 9.2.1. International practice and experience of LEA of several countries shows that non-governmental organisations are particularly vulnerable and may be abused for the purpose of TF. Radicalised local residents, who are well informed on their national legal framework and who do not cause reinforced suspicions on abuse of organisations, can be used to establish and maintain such organisations.
- 9.2.2. Latvia is not considered to be a state of interest or destination of terrorist groups. Currently TF risks are evaluated as low, but the global trends, Latvia being located within the transit way from East to West and from South Europe to North Europe, as well as the significant role of Latvian banking sector in Baltic States, creates risks that the amount of TF cases could further increase. The main threats are caused by financial resources from different foreign sources. At the same time it should be taken into consideration that within recent years the regulation of AML/CTF has been enforced by taking up international and European Union requirements.
- 9.2.3. In 2014, the risks linked to financial transparency and legitimacy control of the associations were identified, namely, possibility of associations to freely receive donations without recording their sources, and the control of use of target donations, on which SeP prepared suggestions for improvement of the legal framework – amendments were adopted on Cabinet Regulation No 808 of 3 October 2006 "Regulation on Annual Accounts of Associations, Foundations and Trade Unions", which provides for detailed information on the use of donations.
- 9.2.4. Also Parliament is revising the amendments to the Associations and Foundations Law, which are developed by taking into account the interests of national security, and by assessing the possible risks of threats to country and public.⁸⁰⁹ FIU performed an analysis of transactions of public benefit organisations. Suspicion of TF threats was not detected.
- 9.2.5. Currently the sector of non-governmental organisations in Latvia is formed by associations and foundations, as well as political parties, religious organisations and trade unions. Associations, foundations and trade unions are registered in the Register of Associations and Foundations, religious organisations – Register of Religious Organisations and political parties – Register of Political Parties, which are all held by RE. Information about the entries of the register and documents submitted to the register authority is publicly available. Associations and foundations shall submit financial annual report of their activities to SRS, which is also made publicly available by RE.
- 9.2.6. Associations and foundations, as well as religious organisations, may receive the public benefit status according to the Public Benefit Organisation Law.⁸¹⁰ In order to obtain the status of public benefit organisation, an application must be submitted to SRS, which will evaluate the compliance of the organisation with the criteria laid down in the Public benefit organisation law and take a decision on granting or not granting of the status. Register of Public Benefit Organisations is being held by SRS and published on its website.
- 9.2.7. Political organisations are registered in the Political Parties Register of RE. Information about entries of register and documents submitted to the institution is publicly available. Each year the political organisation (party) shall submit to KNAB the annual report, but to SRS – the duplicate of the report. KNAB shall perform

⁸⁰⁹<http://titania.saeima.lv/LIVS12/saeimalivs12.nsf/0/F669DEA5ABA5709FC2257FA10028E51E?OpenDocument>

⁸¹⁰ <http://likumi.lv/doc.php?id=90822>

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supervision and control of gifts (donations), payers of membership fees and joining fees, and examine the origin of the financing sources. In accordance to the Law On Financing of Political Organisations (Parties) political parties can not be financed by legal persons, including NGOs.

- 9.2.8. Religious organisations are registered in the Register of Religious Organisations held by RE. Information about entries of register and documents submitted to the institution is publicly available. Religious organisations that start their activity in the RL for the first time and don't belong to any religious communities (churches) that are already registered, must for the first ten years re-register in RE each year. By re-registering the religious organisation RE uses ground provided in opinion of MoJ on the conformity of religious organisation activity in previous period to requirements of regulatory enactments. To provide a valid opinion, MoJ also receives opinions of SeP and Municipality Police about on the actual activity. Religious organisations must each year submit a report of their activity to MoJ, but to SRS - annual report or its parts - income and expenses report, donation and gifts report - derivative. Activities of religious organisations are supervised by SeP, which informs MoJ about the stated violations of regulatory enactments in the activities of religious organisations.
- 9.2.9. Trade Unions are registered in Associations and Foundations Register of RE. Information about entries of register and documents submitted to the institution is publicly available. Every year a trade union shall submit to SRS the annual report of their activities, which is made publicly available by RE.
- 9.2.10. By the end of 2016, there are 22,890 active non-governmental organisations, from which the most - 9,643 - are registered in Riga⁸¹¹. As to the typologies - in the practice of Control Service NGO have appeared in materials very rarely (1-2 times per year) and in relation with misappropriation.
- 9.2.11. Study "Report on NGO sector in 2013" conducted by Civic Alliance - Latvia is also publicly available⁸¹² and reflects information on activity environment of associations and foundations and changes therein, as well as the financial indicators in the period from 2011 to 2013.
- 9.2.12. The FIU has received 2 types of reports on the possible relation with TF:
- reports on the transaction, where probably a customer, who is a suspect of committing an act of terrorism or participation thereof and is included in the list of persons, regarding the subject of the law of which the supervision and control institutions has been informed by the control service, is participating (the majority of them are reports on the persons included in the lists of sanctions). (Latvian national terrorist list does not have any).
 - reports on transactions, causing suspicions on relation with act of terrorism, financing of an individual terrorist or terrorist group.
- 9.2.13. Number of reports directly linked to the suspicion of TF from 2011 – 2016 have not significantly changed, which indicates a constant tendency. The number of reports is small – in comparison with the total number of reports on ML, reports on suspicion of TF draw up far less than 1%.
- 9.2.14. In most cases, after analysis of received reports, it is concluded that there is not a reasonable ground for suspicion of TF. From 2015 – 2016 FIU has sent 10 materials to SeP, however until the end of 2016 criminal proceedings for TF have not been initiated for any of them.⁸¹³

9.3. Evaluation of terrorism and terrorism financing vulnerability

- 9.3.1. In Latvia criminal liability has been prescribed for terrorism and its financing, incitement to terrorism, terrorism threats, recruitment and training to carry out terrorist acts, as well as participation in an armed conflict and its financing, recruiting, training for and dispatch to an armed conflict⁸¹⁴, for production, storage,

⁸¹¹ https://www.lursoft.lv/lursoft_statistika/?&id=50

⁸¹² http://www.nvo.lv/site/attachments/03/11/2014/Petijums_Parskats_par_NVO_sektoru_LV_2013.pdf

⁸¹³ Image No.9.1

⁸¹⁴ AML/CTF Law, Section 5 and CL, Sections 88., 88.¹, 88.², 88.³, 77.¹, 77.², and 77.³

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movement, use and distribution of nuclear, chemical, biological, bacteriological, toxin and other mass destruction weapons⁸¹⁵, for financing of production, storage, movement, use and distribution of mass destruction weapons⁸¹⁶ and for violation of sanctions imposed by International organisations and the RL⁸¹⁷.

- 9.3.2. Criminal liability is also prescribed for establishment of criminal organisation for the purposes to carry out terrorism, TF or other crimes related to terrorism⁸¹⁸, as well as involvement in such organisation⁸¹⁹. It provides the possibility to carry out criminal investigation of the mentioned criminal offences, as well as to apply the necessary investigation methods and to impose penalties.
- 9.3.3. Moneyval 4th Round Report (2012) detected deficiencies in the definition of TF. These were addressed by amendments to the AML/CTF Law, which came into force on 16 September 2014 and amendments to the CL, which came into force on 29 October 2014 and TF regulatory framework currently complies with the requirements of International Convention for the Suppression of the Financing of Terrorism.
- 9.3.4. In a political level, sufficient attention has been addressed in Latvia for combating of terrorism and TF. In 22 October 2015, signing of Additional protocol for the Council of Europe Convention on the Prevention of Terrorism was held in Latvia and Latvia was one of the first countries to sign this protocol. MoJ has also drafted amendments to CL, with which the requirements of Additional protocol, as well as recommendation for the Parliament and Council of Europe Directive on combating terrorism and replacing Council Framework Decision 2002/475/JHA on combating terrorism, are adopted. A number of activities, which are not criminalized in international or national level, for example traveling for the purposes of terrorism, to involve in terrorist group, to train someone or -self-study on terrorism and financing of such traveling, receiving training on terrorism (-self-study), recruiting to participate in terrorist group, involvement in terrorist group, as well as public glorification of terrorism, acquittal or denial of committed terrorism, and distribution of materials containing glorification of terrorism, denial or acquittal of committed terrorism, as well as incitement to terrorism, are planned to be criminalised with the mentioned amendments.
- 9.3.5. The mentioned documents and the related amendments in Latvian regulatory enactments will significantly strengthen the capabilities of SeP to effectively address threats related to terrorism at an early stage.
- 9.3.6. Since 01.03.2016 the Law on International Sanctions and National Sanctions of Latvia has come into force. Cabinet of Ministers is responsible for defining the national Sanctions. Respectively, compliance with the UN Security Council (UNSCRs) resolutions 1267 and 1373, as well as 6th and 7th recommendations of FATF is ensured. Previously the implementation of the sanctions determined by the international organisations was regulated by the law of 5 October 2006 "On Implementation of the Sanctions Determined by the International Organisations in Latvia". With entry into force of Law on International Sanctions and National Sanctions of Latvia, the deficiencies, which were detected in the Moneyval 4th Round Report (2012) regarding the compliance with 6th recommendation of FATF (previously SR III), were addressed.
- 9.3.7. Since 11.03.2016 Cabinet Regulation No 138 "Regulations Regarding Countries and International Organisations that Have Established Lists of Persons Suspected of Involvement in Terrorist Activities or Preparation, Storage, Movement, Use or Distribution of the Weapons of Mass Destruction" has come into force.
- 9.3.8. Since 22.07.2016 Cabinet Regulation No 468 "Procedures for the Execution of International and National Sanctions" has come into force and Law on Register of Accounts will come into force on 01.07.2017. It is also important to mention that the Law on Processing of Aircraft Passenger Data will come into force on 03.04.2017.
- 9.3.9. Relevant regulatory enactments are applied on a daily basis by imposing the obligation to the subjects of AML/CTF Law to identify, evaluate and mitigate risks

⁸¹⁵ CL Section 73

⁸¹⁶ CL Section 73.¹

⁸¹⁷ CL Section 84

⁸¹⁸ CL, Section 88.³

⁸¹⁹ CL, Section 89.¹

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of TF. The capability of FIU and LEA, as stated by law, to perform freezing of funds, provides effective and timely suspension or investigation of possible cases of TF.

- 9.3.10. TF issues in Latvia are competence of SeP. SeP is one of three institutions of Latvian national security, which implements state policy in the area of national security and whose activities are usually related to increased secrecy. SeP performs counterintelligence and operative activity measures in order to obtain proactive information regarding terroristic activities planned by the persons in order to prevent them in a timely manner. SeP has established Counter Terrorism Centre.
- 9.3.11. In cooperation with other institutions involved in ensuring counterterrorism measures, the SeP has developed National Counterterrorism Plan⁸²⁰, as well as response plans in cases of an attack against civil aviation, maritime traffic and its infrastructure as well as objects on land.
- 9.3.12. In 2016, SeP continued to strengthen and improve the preventative national counterterrorism system. SeP also carried out current review of the National Counterterrorism Plan and development of the content of plan in accordance with the existing challenges in the area of counterterrorism. This was implemented in close cooperation with other institutions involved in counterterrorism measures. The Plan determines preventive measures to be carried out by the institutions involved in counterterrorism measures in accordance with four levels of terrorism threats. The National Counterterrorism Plan was first approved on 2008 and then reviewed on 2011 and 2013.
- 9.3.13. To prevent the possibility of proliferation, SeP continues to develop the national contact point, which was developed in 2015, for reporting on suspicious transactions with explosion precursors, thefts and disappearances thereof.⁸²¹ Largest business entities of Latvia that are involved in movement of explosion precursors on a daily basis, was provided with information on how to recognize suspicious transactions and how to act if theft or disappearance of explosion precursors was detected. In addition, in 2016, an informative seminar on safety aspects of explosion precursors was organised to the largest importers, sellers and manufacturers of explosion precursors, as well as respective state institutions.
- 9.3.14. SeP, as authority that coordinates counterterrorism measures, continues to develop the national counterterrorism system that is developed in the state. SeP continues to improve inter-institutional cooperation, inspect critical infrastructures and mass gathering of people objects, and prepare recommendations on necessary improvements in the introduced security measures, as well as they organised informative seminars on counterterrorism issues to educational institutions and municipalities. On 8 September 2016, in cooperation with SJSC "RIGA" International Airport" (hereinafter – Airport "Riga"), SeP organised in the territory of Airport "Riga" counterterrorism training "Ikars 2016" with full force deployment, during which the institutions and authorities responsible for counterterrorism measures was examined for their responsiveness to terrorist attacks against civil aviation object.⁸²²
- 9.3.15. To draw the attention of judges and employees of courts to the fight against terrorism and TF, special training is organised.
- 9.3.16. Currently the counterterrorism forces of Latvia corresponds with the current level threats, but with its increase, it is possible that, the capacity of SeP, State Police, including counterterrorism unit "Omega" should be increased. The cooperation of national authorities can be evaluated at a high level and significant deficiencies in this field have not been identified. The coordinated cooperation of Counterterrorism centre and different Latvian authorities in the area of counterterrorism is efficient and corresponds with the current level of threats. In discussion with field experts it is noted that development of new cooperation platform could facilitate a stronger cooperation.
- 9.3.17. In the area of counterterrorism risk identification and neutralisation, SecP SeP closely cooperates with the foreign partner services conducting regular information and situation analysis exchange. Communication channels have been established that operate continually 24 hours a day to promptly exchange with the latest

⁸²⁰ Cabinet Order No 219 "On National Counterterrorism plan" of 22.04.2008, <https://likumi.lv/doc.php?id=174338>

⁸²¹ Cabinet Regulation No 110 "Procedure on Reporting of Explosion Precursors" of 3.03.2015.

⁸²² 2016 Public report of SeP

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information, if necessary. There are many other cooperation formats: meetings of chiefs of services and terrorism experts, exchange of expertise, conferences, etc.

- 9.3.18. FIU has established the counter terrorism financing system established on regulatory basis, methodological materials, and network of contact persons for subjects of the AML/CTF Law. Two responsible FIU persons carry out processing, combining into consolidated lists and distribution of the list of terrorists and their supporters, examination of reports by the subjects of the law and other measures. FIU is included in a database of Counter-Terrorism Committee Executive Directorate of UN (CTED) as the responsible institution in Latvia for freezing of funds related to terrorism or its financing. From August 2016, in accordance with the part four of Section 4 of AML/CTF Law, FIU maintains in its website the information on the listed persons and makes it available to the obliged entities and their supervisory and control authorities. In 2015, a typology with signs that possibly indicate to TF and/or foreign terrorists-fighters, was sent out to all obliged entities. In 2016, a methodology on combating financing of terrorism and mass destruction weapons was sent to all credit institutions and payment institutions.
- 9.3.19. FIU regularly exchange information with credit institutions and other financial institutions, as well as prepare and transfer of information on latest criteria, which help to identify the alleged cases of TF. Methodological materials are also being prepared and transferred to the obliged entities for reducing of risks of financing of terrorism and mass destruction weapons, as well as information on persons, who could be related to terrorism or its financing, is provided.

10. Financial inclusion products

- 10.1. In Latvia, the level of access to finance is very high. In 2015, 94% of the residents of Latvia had at least one payment account in a bank.⁸²³ Financial institutions in Latvia do not offer products that could be considered financial inclusion products according to the WB methodology, which provides that a financial inclusion product is a product which meets the following three criteria:
- a) the product is aimed towards disadvantaged groups of society to create access to finance products;
 - b) the product has a low ML/TF risk level;
 - c) the product is intended or planned to be exempt from ML/TF controls.
- 10.2. In 2017, a product was introduced in Latvia, which complied with one of the three WB methodology criteria (the product is aimed towards disadvantaged groups of society to create access to finance products) - and new regulations were incorporated in the PSEML regarding the basic accounts of consumers.⁸²⁴ This legal framework was introduced to comply with the requirements of EU directive.⁸²⁵ The regulation of this Directive was adopted in order to introduce a new, simplified banking product for the disadvantaged groups of the society (for example, former prisoners, the homeless, refugees and people with low income or poor credit history). Since Latvia has a high level of access to finance, it is currently assumed that such a product could be relevant only to refugees and perhaps to certain citizens with a low income level, when they decide to change already existing account for a basic account.
- 10.3. It is not expected that the consumer's basic account could have a lower ML/TF risk, as it may be of interest for refugees, and thus the geographical origin of the person and the potential international transfers would not allow to classify these customers as having a low ML/TF risk. The regulatory framework does not provide for simplified AML/CTF requirements and the bank is entitled to refuse to open an account if the opening or maintenance of the account would result in non-compliance with AML/CTF requirements.⁸²⁶

⁸²³ Available: http://www.klientuskola.lv/images/Latvijas_finansu_pratiba_FKTF_2015.pdf

⁸²⁴ 02.03.2017 Amendments to the Payment Services and Electronic Money Law

⁸²⁵ 2014/92/EU of the European Parliament and of the Council on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features

⁸²⁶ PSEML, Section 97.² (6) 1)

11. Description of the simplified customer due diligence detection tool

11.1. About the simplified customer due diligence detection tool

11.1.1. The simplified customer due diligence detection tool is intended for the detection of cases where:

- a. client due-diligence is not needed;
- b. it is allowed to do the simplified due-diligence;
- c. simplified due-diligence is not allowed, and due-diligence should be made.

A simplified customer due diligence detection tool is expected to be used by AML/CTF Law obliged entities.

11.1.2. The simplified due diligence detection tool is primarily based on the AML/CTF Law, as well as FCMC Regulations No. 3 "Regulatory provisions for credit institutions and licensed payment and electronic money institutions on enhanced customer due diligence" and Cabinet of Ministers No 670 "Regulation on unusual transaction indicator list and procedure for reporting unusual and suspicious transactions". These specific sources were chosen to ensure that simplified customer due diligence detection tool complies with Latvian legislation.

11.2. Application of the simplified due diligence detection tool

11.2.1. In order to ensure adequate compliance with the requirements of the AML/CTF Law, the simplified due diligence detection tool has been tailored to each of the groups of entities referred to in the national risk assessment - banks, investment broking companies, insurers, other financial institutions, and non-financial businesses and professions. The tool is based on Microsoft Office Excel software. Each of the above mentioned entity groups has a separate Microsoft Office Excel document that is tailored to the specific requirements and circumstances of each entity group.

11.2.2. The simplified customer due diligence tool is organized in a questionnaire form, where each answer to a question leads to the next question, which is related to the answer to the previous question. There are two types of questions - questions with only one possible answer to be chosen from predefined answers, and checklists in which one or more answers are to be chosen.

11.2.3. The questions in the tool are divided into three parts. Questions in the first part refer to the particular transaction being analysed. The answers provided in this section help the user to determine whether it is necessary to identify the customer and continue using the tool, or whether, based on the answers given to the questions in the first part, the AML/CTF Law entity is entitled to conduct a simplified client review. The second part of the tool

includes questions that refer to the client who carries out the specific transaction, such as client type, countries affiliated with the client. It provides answers to questions that help identify cases where the particular AML/CTF Law obliged entity is not entitled to apply a simplified client review or it is necessary to continue using the tool to assess the ML/TF risk inherent in a transaction or client. In the third part the user completes a checklist of factors elevating the degree of risk inherent in the transaction or the client, which determine whether the AML/CTF Law obliged entity is entitled to apply a simplified customer due diligence or a more in-depth client/transaction review is required.

- 11.2.4. Application of the simplified customer due diligence tool leads to three outcomes that determine the subsequent actions of the AML/CTF Law obliged entity. The first outcome is a case where no identification of the client is necessary and there is no need for a client review. In such cases, the AML/CTF Law obliged entities are entitled to carry out the particular transaction with the client without having to identify and review it. The second outcome is a case where a simplified client review is needed in order to carry out the particular transaction or start a business relationship with the client. The third outcome is a case where the AML/CTF Law entity is not entitled to apply the simplified client review and a more in-depth review of the client is required before carrying out the particular transaction or commencing a business relationship with the client.

Appendix No 1 "Abbreviations and Terminology"

1.	3rd Directive	Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, and Commission Directive 2006/70/EC of 1 August 2006 laying down implementing measures for Directive 2005/60/EC of the European Parliament and of the Council as regards the definition of politically exposed person and the technical criteria for simplified customer due diligence procedures and for exemption on grounds of a financial activity conducted on an occasional or very limited basis
2.	4th Directive	Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 684/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC
3.	4th round Moneyval report	4th round Moneyval report on Latvia, adopted 05.07.2012
4.	AIFM	Alternative investment fund manager
5.	Altum	AS "Development Finance Institution Altum"
6.	AML	Anti-money laundering
7.	AML/CTF	Anti-money laundering and countering terrorism financing
8.	AML/CTF Law	Anti-money laundering and countering terrorism financing law
9.	AML/CTF Law obliged entities	Obligated entities listed in Section 10 of AML/CTF Law
10.	ARO	Asset Recovery Office
11.	Assessment period	Years 2013 - 2016
12.	AVC	Latvian Administrative Violations Code
13.	bln	billion
14.	BoL	Bank of Latvia
15.	Bureau de change	Company that has acquired BoL license for foreign cash currency purchase and sale
16.	CA	Court administration
17.	Cabinet	Cabinet of Ministers of the Republic of Latvia
18.	CCPD	Central Criminal Police Department of the State Police
19.	CDD	Customer due diligence
20.	CIS	Commonwealth of Independent States
21.	CL	Criminal Law
22.	CO	Criminal offence
23.	CP	Criminal proceeds
24.	CPCB	Corruption Prevention and Combating Bureau
25.	CPL	Criminal Procedure Law
26.	CRPC	Consumer Rights Protection Centre
27.	CSB	Central Statistical Bureau
28.	CU	Credit unions
29.	DNFBPs	Certain non-financial activities and professions subject to the AML/CTF Law
30.	Domestic customer serving banks	Banks focusing on domestic market and serving of domestic customers
31.	ECDD	Enhanced customer due diligence
32.	EEA	European Economic Area
33.	EC Supranational Risk Assessment	European Commission Supranational ML/TF Risk Assessment Report (2017)

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34.	EMI	Electronic Money Institution
35.	EU	European Union
36.	Eurojust	EU's Judicial Cooperation Unit
37.	FATF	Financial Action Task Force
38.	FATF recommendations	Financial Action Task Force 40 recommendations (2012 version)
39.	FCMC	Financial and capital market commission
40.	FIU	Financial investigation unit (Office for prevention of laundering of proceeds derived from criminal activity)
41.	Foreign customer serving banks	Banks focusing on serving foreign customers. Foreign customer serving banks account for 94.4% of banking sector foreign deposits.
42.	FSDC	Financial sector development council
43.	GDP	Gross domestic product
44.	GPO	General Prosecutors Office
45.	IBS	Investment brokerage companies
46.	ICMoI	Information Centre of Ministry of Interior
47.	ICS	AML/CTF internal control system (including the AML/CTF Law compliance function)
48.	IMC	Investment management company
49.	IT	Information technology
50.	JIT	Joint Investigation Team
51.	JSC	Joint-stock company
52.	KRASS	Criminal Procedure Information System
53.	LACA	Latvian Association of Certified Auditors
54.	LACB	Latvian Association of Commercial Banks
55.	AEECDL	Latvian Association of Extrajudicial Recovery of Debt
56.	LCSA	Latvian Council of Sworn Advocates
57.	LCSN	Latvian Council of Sworn Notaries
58.	LEA	Law enforcement agencies
59.	LGSI	Lottery and gambling supervision inspection
60.	LIA	Latvian Insurers Association
61.	LLC	Limited liability company
62.	LP	AS "Latvijas Pasts" (Latvian Post)
63.	LREA	Latvian Real Estate Association
64.	LVL	Lats (the Latvian national currency until 01.01.2014)
65.	Lursoft	Lursoft DATU bāze LLC (a system offering paid services) (Register of Enterprises Information System and other LURSOFT databases)
66.	MA	Ministry of Agriculture
67.	ME	Ministry of Economics
68.	Methodology	Methodology developed by the World Bank for assessing national ML/TF risks
69.	MF	Ministry of Finance
70.	ML	Money laundering
71.	ML/TF risks	Money laundering and terrorism financing risks
72.	mln	million
73.	MoI	Ministry of Interior

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74.	MoI PA	Prison Administration of Ministry of Interior
75.	MoJ	Ministry of Justice
76.	Moneyval	European Council's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
77.	MoT	Ministry of Transport
78.	MP	Military Police
79.	NACE2	Statistical classification of economic activities in the European Community, NACE Rev. 2
80.	OCG	Organised criminal group
81.	OCMA	Office of Citizenship and Migration Affairs
82.	OECD	Organisation for Economic Co-operation and Development
83.	OECD Report	Report of Organisation for Economic Co-operation and Development
84.	PEP	Politically exposed person
85.	Phishing	Classic ML scheme associated with laundering of proceeds of victims obtained through fraud
86.	PI	Payment institution
87.	PI/EMI	Payment service institution or electronic money institution
88.	POIFEC	Prosecution office for investigation of financial and economical crimes
89.	PPF	Private pension funds
90.	Providers of information	Altum, SP, FIU, ME, SP ECB, FCMC, MF, LGSI; MoI; ARO; CPCB; LIA; BoL; LACB; LP; LCSA; LCSN LACA; obliged entity; OCMA; Latvian Assay office; The Prosecution Office; CRPC; SBC; MoT; Regulator; MoJ; RE; SRS; SRS CPD; SRS FPD; SP; CA
91.	PSEML	Payment Services and Electronic Money Law
92.	RE	Register of Enterprises of the RL
93.	Regulator	Public Utilities Commission
94.	Report	This national AML/CTF risk assessment report
95.	Report supplement	Supplement of national AML/CTF risk assessment report with sectoral ML/TF risk assessment (2018)
96.	RL	Republic of Latvia
97.	SBC	State border control
98.	SeP	Security Police
99.	SP	State police
100.	SP ECB	State Police Central Criminal Police Department Economic Crimes Bureau
101.	SP ISB	Internal Security Bureau of State Police
102.	SPOOCOS	Specialised prosecution office for organised crime and other sectors
103.	SRS	State revenue service
104.	SRS AML Department	Anti-Money Laundering Department of the State Revenue Service
105.	SRS CD	State Revenue Service Customs Division
106.	SRS CPD	State Revenue Service Customs Police Department
107.	SRS FPD	State Revenue Service Financial Police Department
108.	SRS TCPD	State Revenue Service Tax and Custom Police Department
109.	Supervisory bodies	Supervisory and control bodies listed in 45 Section of AML/CTF Law
110.	TF	Terrorism financing
111.	thous.	thousands
112.	UBO	Ultimate beneficial owner

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- 113. UN United Nations
- 114. USA United States of America
- 115. VAT Value added tax (standard rate 21% during time period from year 2013-2016)
- 116. Working group Working group for analysis of NILLTF risk

Appendix No 2 "Tables and images"

Image No 1.1

Sectors / Obligated entity	Vulnerability	Rating	Ratio
Foreign customer serving banks	7.1	0.71	10
Domestic customer serving banks	5.1	0.51	10
Investment management companies	3.66	0.61	6
Securities sector	1.65	0.55	3
PI/EMI sector	1.28	0.64	2
Persons trading in means of transport	0.68	0.68	1
Lottery and gambling operators	0.64	0.64	1
Tax advisers, external accountants, providers of legal services	0.63	0.63	1
Persons acting as real estate agents or intermediaries in real estate transactions;	0.58	0.58	1
Persons trading in precious metals and precious stones	0.58	0.58	1
Sworn attorneys	0.45	0.45	1
Bureaux de change	0.45	0.45	1
Non-bank lenders	0.44	0.44	1
Life insurance companies	0.39	0.39	1
Sworn notaries	0.36	0.36	1
Latvian Post	0.29	0.29	1
Certified auditors	0.2	0.2	1
AIFM	0.14	0.14	1
Persons providing cash collecting services	0.12	0.12	1
Altum	0.08	0.08	1
Private pension funds	0.05	0.05	1
Credit unions	0.01	0.01	1

Image No 1.2. – Sectoral ML level

ML- sectoral division	ML threat level	ML vulnerability level	ML risk level
Foreign customer serving banks	High	High	High
Domestic customer serving banks	Medium	High	Medium high
PI/EMI	Medium	High	Medium high
Investment management companies	Medium low	High	Medium
Securities sector	Medium low	High	Medium
Lottery and gambling operators	Medium low	Medium high	Medium
Tax advisers, external accountants, providers of legal services	Medium low	Medium high	Medium
Car dealers	Low	Medium high	Medium
Real estate agents and intermediaries	Medium	Medium	Medium
Persons trading in precious metals and precious stones	Medium low	Medium	Medium
Sworn advocates	Medium low	Medium	Medium
Bureaux de change	Medium low	Medium	Medium
Non-bank lenders	Medium low	Medium	Medium
Sworn notaries	Medium low	Medium low	Medium low
Certified auditors	Medium low	Medium low	Medium low
Life insurance companies	Low	Medium low	Medium low
Latvian Post	Low	Medium low	Medium low
Debt collection service providers	Low	Medium low	Medium low
AIFM	Low	Low	Low
Persons providing cash collecting services	Low	Low	Low
Altum	Low	Low	Low
Private pension funds	Low	Low	Low
Savings and loans associations	Low	Low	Low
Entities, who carry out transactions with cultural monuments	Low	Low	Low

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Image No 1.3. – Sectoral ML risk trends

ML- sectoral division	Trends		
	No changes	Increases	Reduces
Foreign customer serving banks	✓		
Domestic customer serving banks		✓	
PI / EMI		✓	
Investment management companies	✓		
Securities sector	✓		
Car dealers	✓		
Lottery and gambling operators	✓		
Tax advisers, external accountants, providers of legal services			✓
Real estate agents and intermediaries	✓		
Persons trading in precious metals and precious stones	✓		
Sworn advocates	✓		
Bureaux de change			✓
Non-bank lenders	✓		
Life insurance companies	✓		
Sworn notaries	✓		
Latvian Post	✓		
Certified auditors	✓		
Debt collection service providers	✓		
AIFM	✓		
Persons providing cash collecting services	✓		
Altum	✓		
Private pension funds	✓		
Savings and loans associations	✓		
Entities, who carry out transactions with cultural monuments	✓		

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Table No 2.1 - Corporate tax rates in EU in 2016

Country	Percent
Malta	35 %
Belgium	33.3 %
France	33.3 %
Italy	31.4 %
Germany	29.72 %
Luxembourg	29.22 %
Greece	29 %
Austria	25 %
Netherlands	25 %
Spain	25 %
Denmark	22 %
Slovakia	22 %
Sweden	22 %
Portugal	21 %
Britain	20 %
Croatia	20 %
Estonia	20 %
Finland	20 %
Czech Republic	19 %
Hungary	19 %
Poland	19 %
Slovenia	17 %
Romania	16 %
Lithuania	15 %
Latvia	15 %
Cyprus	12.5 %
Ireland	12.5 %
Bulgaria	10 %

Source: Deloitte

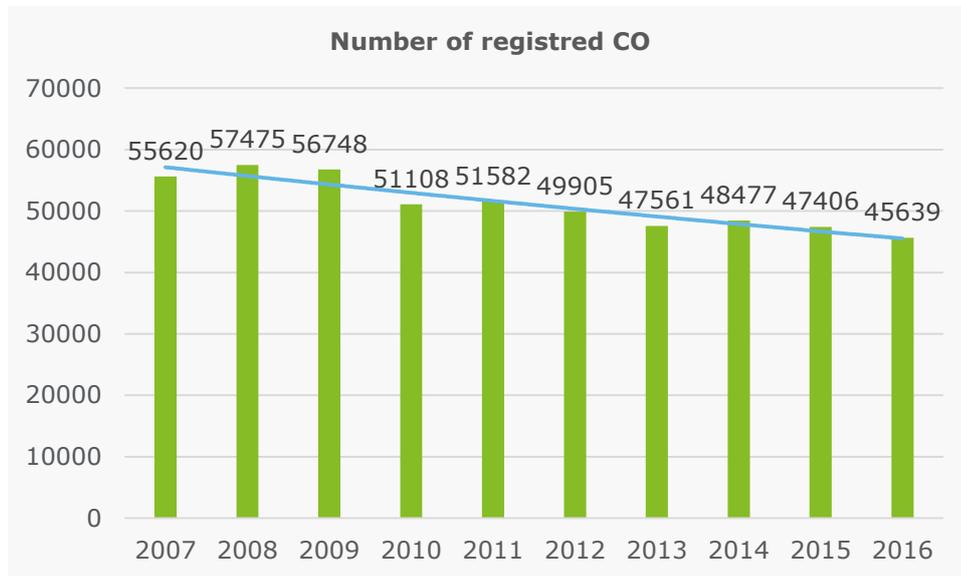
Table No 4.1. - Average CO registered by police on 100 000 citizens

Country	Number
Latvia	2 350
Lithuania	2 500
Finland	7 830
Estonia	2 229

Source: Deloitte

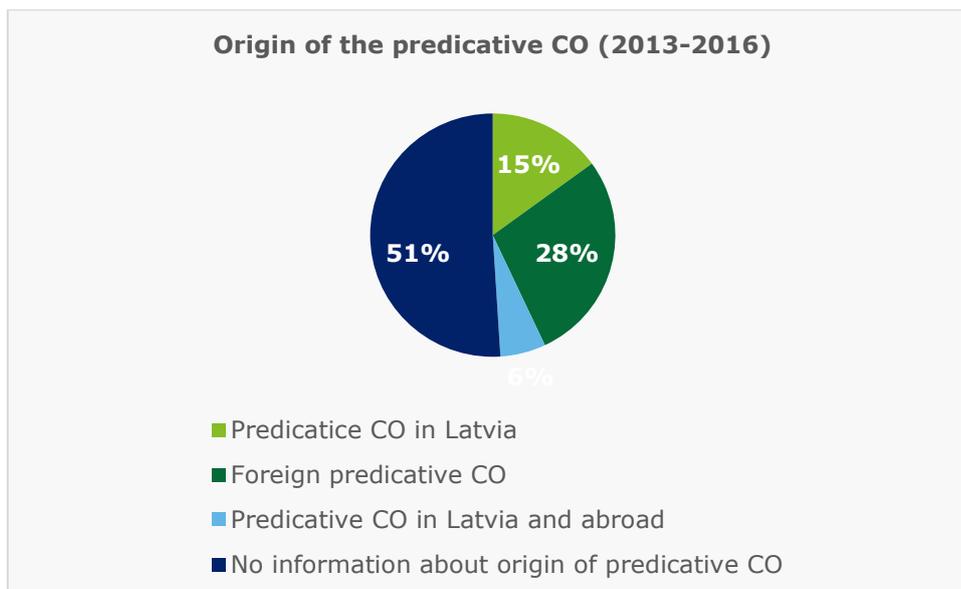
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Image No 4.2



Source: ICMoI

Image No 4.3



Source: SP

Second National ML/TF risk assessment 2018

Table No 4.4- Overview of ML criminal proceedings and ML criminal proceedings transferred to the Prosecution office in the period under review

	2013	2014	2015	2016
Number of initiated ML criminal proceedings	100 (103) *	126 (132)*	250 (252)*	139 (140)*

* - jointly with requalified CO

Source: ST ECB and SRS FPD jointly

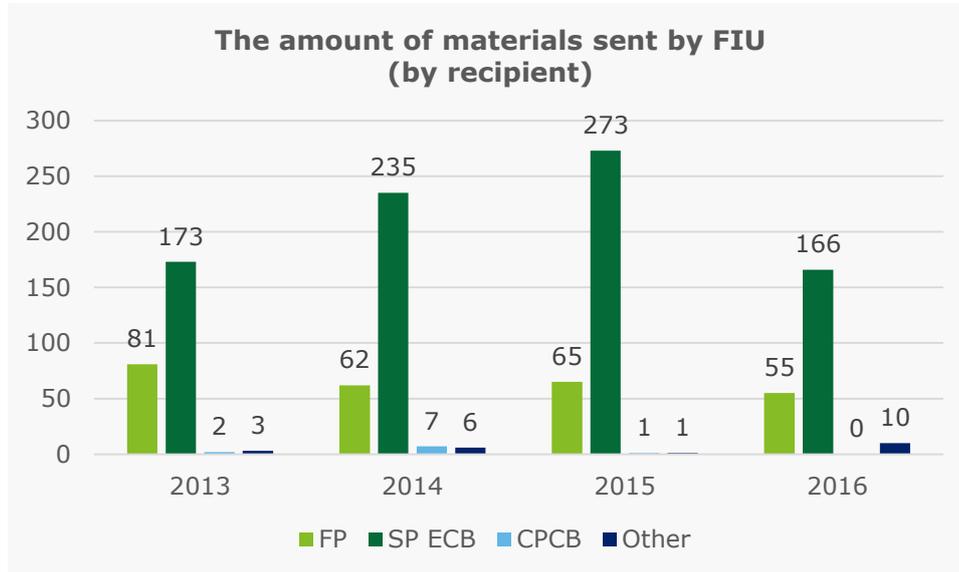
Table No 4.5 - The most significant proceeds - generating CO

Predicate CO	Criminal proceedings				Accusations				Convictions			
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016
Trafficking of Psychotropic substances and drugs	650	658	692	603	362	291	367	399	299	316	270	
Fraud	389	385	342	280	62	101	146	121	74	63	69	261
CO in the tax area	276	256	191	235	121	141	135	118	55	53	78	256
Theft	228	266	266	194	28	19	19	29	19	24	2	65
Smuggling	52	49	55	67	16	16	16	12	11	10	9	41
Corruption and bribery	58	29	35	25	29	24	18	22	5	11	10	43
Extortion	25	22	24	23	13	7	11	8	8	11	4	32
Human Trafficking	22	19	15	15	11	10	8	10	14	9	11	42

Source: FIU

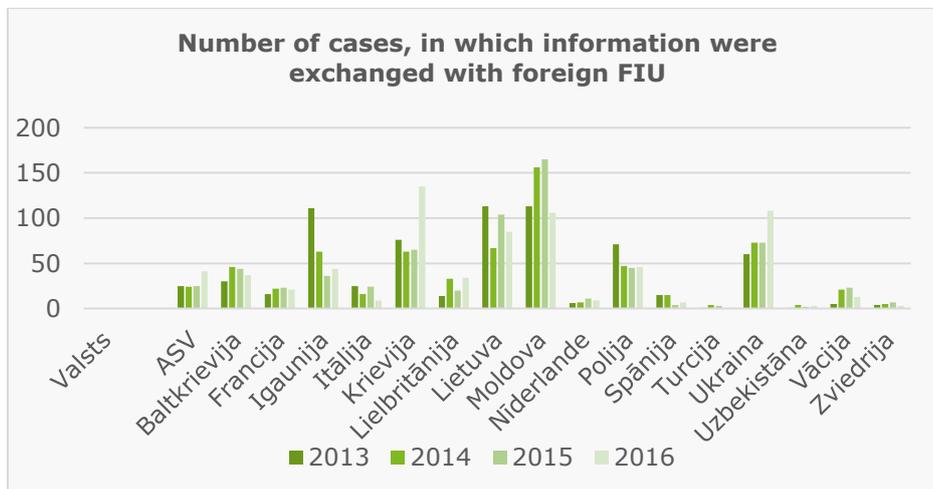
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Image No 4.6



Source: FIU

Image No 4.7



Source: FIU

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Table No 4.8 - Cross-border threats

Country	ML threats				Direction of threats				Trend			
	High	Medium/high	medium	Medium/low	low	Incoming	Outgoing	Both directions	Uncertain	Stable	Increases	Decreases
USA			v					v		v		
Belarus			v					v		v		
France			v					v		v		
Estonia			v				v					v
Italy				v			v					v
Russia	v					v						v
United Kingdom	v							v			v	
Lithuania	v						v			v		
Moldova			v			v				v		
Netherlands				v				v		v		
Poland		v						v				v
Spain				v			v					v
Turkey					v			v		v		
Ukraine		v				v					v	
Uzbekistan				v		v				v		
Germany			v				v				v	
Sweden				v			v			v		

Source: FIU

Table No 4.9. – The total number of criminal proceedings on ML initiated in the financial sector in the Assessment period , the number of actions initiated on ML, the total number of judgments of conviction and the number of persons convicted for ML offences

	Number of ML criminal proceedings involving the sector	Number of actions initiated on ML involving the sector	Number of judgments of conviction on ML	Number of convicted persons for ML
Domestic customer serving banks	339	42 (2016)	20	21
Foreign customer serving banks		82 (2016)	18	18
PI / EMI		8	5	0
Savings and loans associations		0	0	0
IBS		0	0	0
IMC		0	0	0

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	Number of ML criminal proceedings involving the sector	Number of actions initiated on ML involving the sector	Number of judgments of conviction on ML	Number of convicted persons for ML
Licensed AIFM	0	0	0	0
Registered AIFM	0	0	0	0
PPF	0	0	0	0
Life insurance companies	1	0	0	0
Altum	0	0	0	0
LP	0	1	0	0
Non-banking lenders	1	0	2	5
Persons providing debt collection services	0	0	0	0
Bureaux de change	5	5	0	0
Persons providing extrajudicial debt collection services	0	0	0	0

Source: SP, SRS, CPCB, Prosecutors Office, CA, FIU

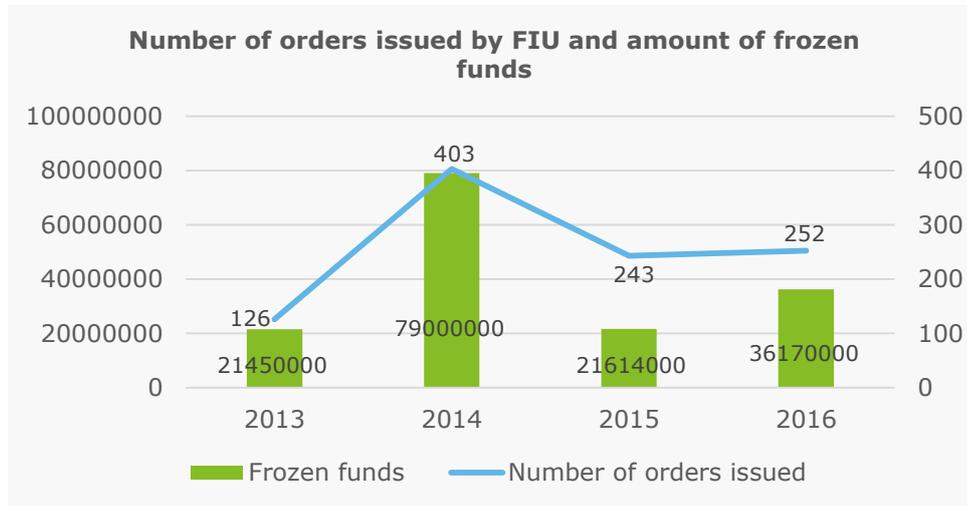
Table No 4.10 - The total number of all non-financial institutions

	2013	2014	2015	2016
Car dealers	n/a	n/a	n/a	Ap 12 000
Tax advisers, external accountants, providers of legal services	n/a	n/a	n/a	
Real estate agents and intermediaries	n/a	n/a	n/a	
Persons trading in precious metals and precious stones	n/a	n/a	n/a	
Sworn advocates	1265	1268	1267	1265
Sworn notaries	112	112	109	107
Certified auditors	171	170	169	167
Licensed lottery and gambling operators	17	15	14	14
Entities, who carry out transactions with cultural monuments	n/a	n/a	n/a	n/a

Source: LGSJ, SRS, LCSN, LCSA, LACA

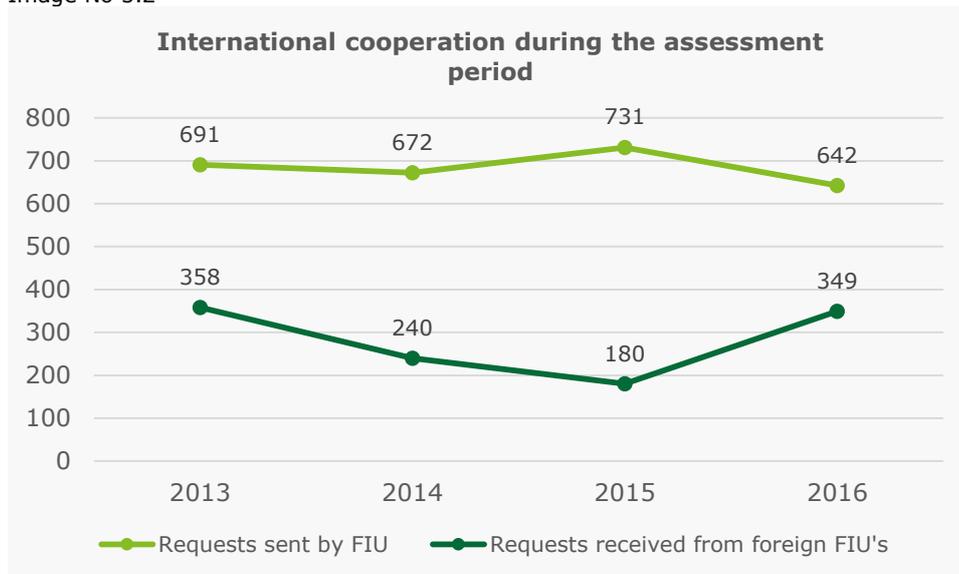
Second National ML/TF risk assessment 2018

Image No 5.1



Source: FIU

Image No 5.2



Source: FIU

Table No 5.3 – Number of employees of FIU in the period under review*

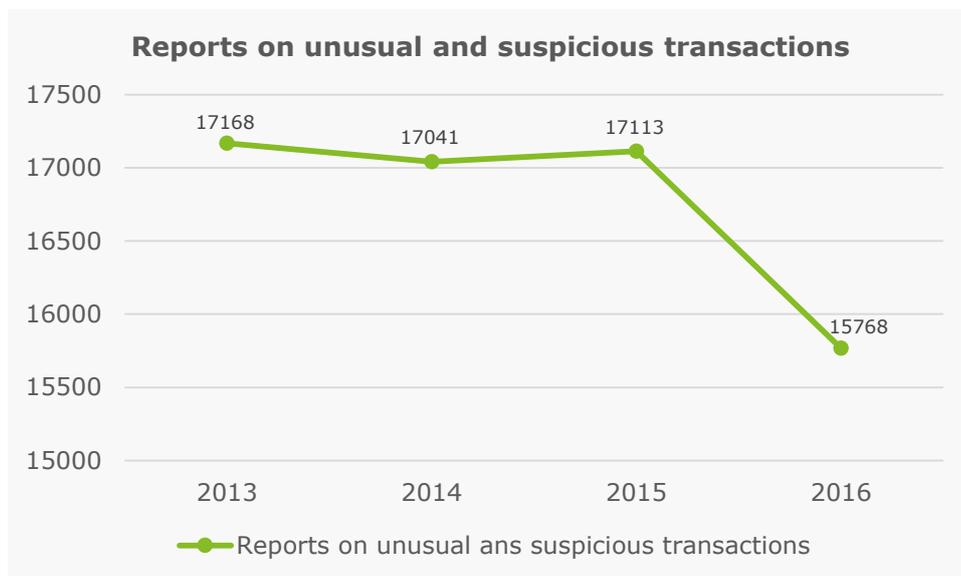
	2013	2014	2015	2016
Number of employees	24	27	27	30

* - the data in table is provided for the beginning of each year

Source: FIU

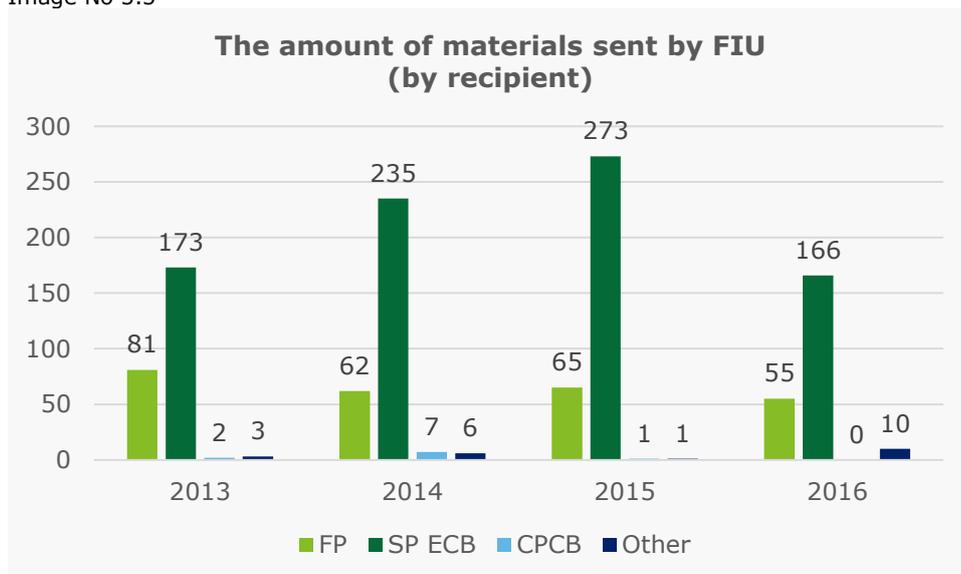
Image No 5.4

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Source: FIU

Image No 5.5



Source: FIU

Table No 5.6 - Overview of the confiscated financial means and property

	2013	2014	2015	2016
Financial means (distribution by currency)				
EUR	323 146.38	1 394 361.71	788 595.22	3 099 984.13
LVL	314 756.84	20 305.36	52 733.85	0
USD	480 397.98	3 728 932.23	384 571.69	78 245 113.34
RUB	0	3 681 475.51	0	34 963 696.98

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	2013	2014	2015	2016
Financial means (distribution by currency)				
EEK	0	0	36 444.61	0
GBP	0	0	0	19.68
CHF	2819.79	0	0	1 375 196.73
Confiscated property				
Cars	0	0	1- Mercedes Benz Vito; 1 - PLYMOUTH GRAND VOYAGER	1 - RENAULT MASCOTT; 1- AUDI A5
Real estate	0	0	2	0
Other property	12 100 (twelve thousand one hundred) SPDR Gold Trust Undated (ISIN code - US78463V1070) investment certificates	0	0	0

Source: CA

Table No 5.7 - Overview of criminally obtained money and property confiscation

	2013	2014	2015	2016
Return of cash to the owner or lawful possessor				
Number of CP	8	3	4	8
Number of the decisions	9	3	4	8
Total amount of returned funds (EUR)	15 441 782	236 834	22 808 414	10 627 631
Transfer of the confiscated assets into State budget				
Number of criminal proceedings	9	13	5	21
Number of the decisions	28	18	8	30
Total amount of funds transferred to the State budget (EUR)	2 592 463	3 278 755	274 082	47 358 456

Source: SP

Table No 5.8. – Overview of ML criminal proceedings of SP

	2013	2014	2015	2016
Number of initiated ML criminal proceedings	54	93	229	127
Number of ML cases transferred to the Prosecution office	2	1	4	3
Number of ML criminal proceedings transferred to foreign countries*	3	7	12	14
Number of terminated criminal proceedings	4	7	7	7

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* - countries, to which ML criminal proceedings were transferred: In 2013 - Estonia, Russia; 2014 - France, Ukraine, Russia; 2015 - Kazakhstan, Germany, Russia, Belarus, Spain, France, Belgium; 2016 - Ukraine, Russia, Germany, France, Belarus, Belgium, Lithuania, Poland

Source: SP

Table No 5.9 - SRS FPD initiated ML criminal proceedings and ML criminal proceedings transferred to the Prosecution office in the period under review

	2013	2014	2015	2016
SRS FPD initiated ML criminal proceedings	26 (29)*	15 (21)*	8 (10)*	7 (8)*
SRS FPD ML criminal proceedings transferred to the Prosecution office	20	18	13	5

* - jointly with requalified CO

Source: SRS FPD

Table No 5.10 – Seized means by SRS FPD

	2013	2014	2015	2016
The amount of traced and later seized assets (EUR)	1 832 519.12	1 805 416.06	399 033.72	2 797 423.45

Source: SRS FPD

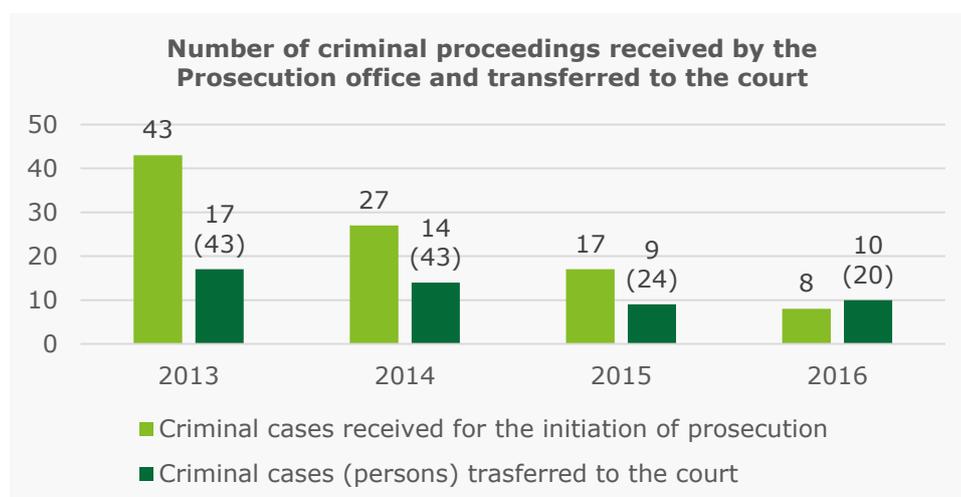
Table No 5.11 – The amount of confiscated proceeds of crime by SRS FPD

	2013	2014	2015	2016
Number of decisions regarding confiscation of proceeds of crime	13	17	15	13
Confiscated financial means, which are recognised as criminally obtained and transferred to the State budget (EUR)	484 217.15	1 077 117.17	435 969.43	952 891.47

Source: SRS FPD

Image No 5.12

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* - the status of received and non-transferred to the court cases may be as follows: 1) termination of criminal proceedings; 2) forwarding of criminal proceedings back to the investigation authority for the continuation of investigation; 3) suspension of criminal proceedings; 4) are in the record keeping of Prosecution office.

Source: Prosecution office of Republic of Latvia

Table No 5.13 – Overview of the work of Prosecution office of Republic of Latvia in pre-trial criminal proceedings (CL 195)

	2013	2014	2015	2016
Number of cases sent to the Court	17	14	9	10
Number of cases sent to the Court in accordance with the general procedures	17	14	7	9
Number of cases sent to the Court by entering into an agreement	0	0	2	1

Source: Prosecution office of Republic of Latvia

Table No 5.14 – Number of convictions and acquitted judgements of ML cases*

	2013	2014	2015	2016
Number of convictions	8	6	10	6
Number of acquitted judgments**	3	3	5	2

* - number of judgments in force in cases, in which persons are convicted or acquitted by aggregation of CO of Section 195 of the CL

** - exculpatory judgments in which the accused person was acquitted by Section 195 of the CL

Source: CA

Table No 5.15 – Average duration of ML proceedings (in months)

	2013	2014	2015	2016
First instance	11.1	24.0	25.2	38.8
Appellate instance	4.2	4.8	6.0	7.6

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Cassation instance	1.4	4.4	6.3	3.3
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* - data provided on district courts (excluding the case in Court of Justice of Supreme Court with duration 60.4 months)

Source: CA

Table No 5.16 – Decisions regarding recognition of the property illegally obtained

	2013	2014	2015	2016
Decision on the recognition of the property as CO	26	32	27	55

Source: CA

Table No 5.17 - Penalties applied in judgments in force (by aggregation of CO of Section 195 of CL)

	2013	2014	2015	2016
Total number of convictions for ML in force	8	5	12	6
Number of convicted persons for ML	15	10	21	9
Basic penalties – deprivation of liberty				
Number of suspended penalties	10	9	14	6
Deprivation of liberty up to 1 year (including)	0	0	2	0
Deprivation of liberty from 1 to 3 years (including)	0	1	2	0
Deprivation of liberty from 3 to 5 years (including)	4	0	1	0
Deprivation of liberty from 5 to 10 years (including)	0	0	1	0
Deprivation of liberty from 10 to 20 years (including)	1*	0	0	0
Other basic penalties				
Fine	0	2	2	4
The average amount of fine (EUR)	n/a	5600	2400	9328
Community service	0	1	0	0
Additional penalties				
Confiscation of property	3	1	2	2
Police control	2	0	3	0
Limitation of rights	1	0	4	5
Forfeiture of the rights to carry out business activities	1	0	4	5

* - adding unserved sentence (in accordance with Section 51 (1) of CL)

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Source: CA

Table No 5.18 - Assessment of the tax gap (2013-2015)*

Instance	2013	2014	2015
VAT gap in a million. EUR	485.1	454.57	419.31
VAT gap as a% of potential VAT mass	22.70%	20.40%	18.40%
SSSP crack together, million. EUR	642.61	606.07	617.88
SSSP gap, as a% of the total potential mass OF SSSP	23.20%	21.70%	21.00%
Personal income tax crack together, million. EUR	360.04	348.8	352.37
Personal income tax gap, as a% of the total potential mass of Personal income tax	22.60%	21.10%	20.70%

* - data about 2016 is not available

Source: SRS

Table No 5.19 - Transactions in cash

	2013	2014	2015	2016
The amount of the transaction conducted in cash (EUR)	77 099 095.88	60 514 617.82	60 149 948	60 323 924

Source: SRS

Table No 5.20 - Results of fight against "envelope salaries" (2016)

	2016
Legalized number of the employee	13446
State mandatory social insurance contributions additionally paid by employee to state budget (EUR)	3 339.3
Personal income tax additionally paid by employee to state budget (EUR)	1 507.3
Number of natural persons* that legalised their economic activities	2312
The number of natural persons **, which have declared their income	19
The total amount of declared income	34 500

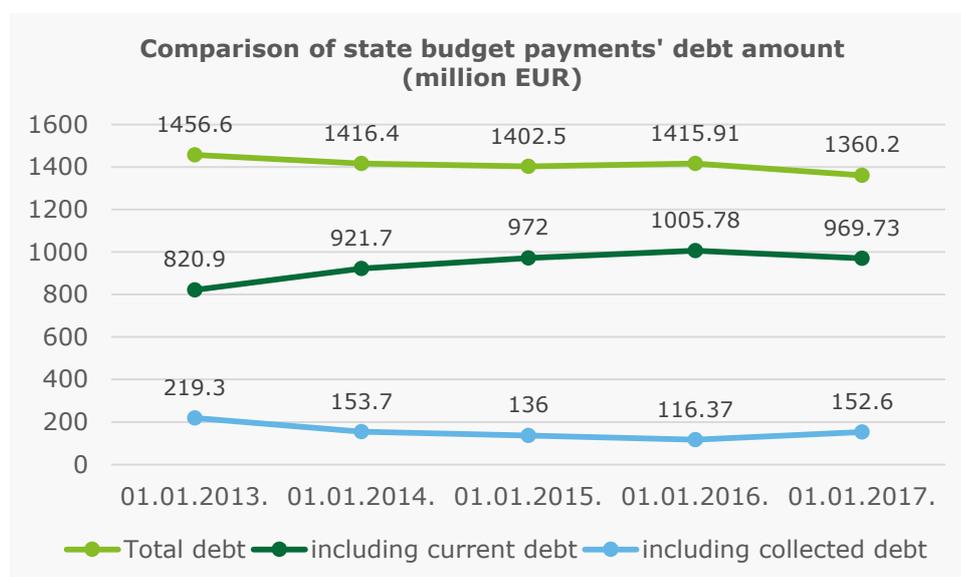
* - for natural persons registered as taxpayers.

** - was calculated from the number of natural persons that legalised their economic activity, population.

Source: SRS

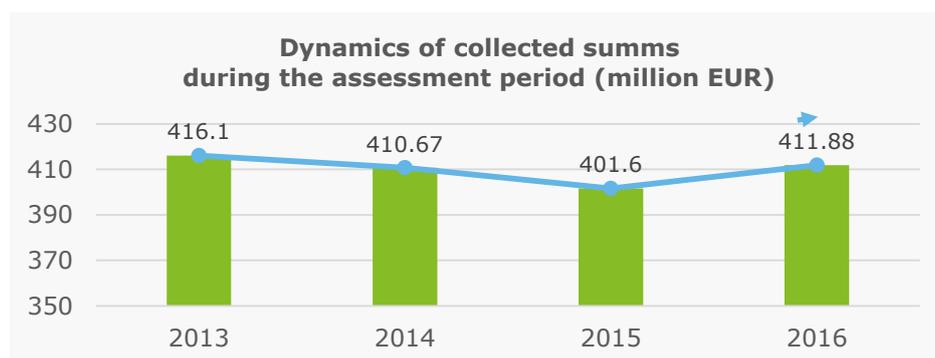
Image No 5.21

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Source: SRS

Image No 5.22



Source: SRS

Table No 7.1 - Total number of the registration applications and requests for granting a license of the financial institutions supervised by FCMC

	2013	2014	2015	2016
The total number of registration applications and requests for granting a license received from financial institutions	19	26	28	19
Banks	0	0	0	0
Licensed PI	0	5	7	3
Licensed EMI	3	0	1	2
CU	2	0	3	1
IBS	1	2	2	1
IMC	0	1	0	0
Licensed AIFM	1	3	1	1
Registered AIFM	0	7	2	3
PPF	0	0	0	0

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	2013	2014	2015	2016
Life insurance companies	0	0	0	0
Registered PI	10	8	7	5
Registered EMI	2	0	5	3

Source: FCMC

Table No 7.2 - Total number of employees in licencing department of FCMC who is responsible for licensing and registration of financial institutions

	2013	2014	2015	2016
Total number of staff in Licencing department of FCMC who is responsible for licensing and registration of financial institutions	14	14	18	12
Banks	3	3	3	3
Licenced PI				
Registered PI				
Licenced EMI	2	2	3	3
Registered EMI				
CU	1	1	2	2
IMC	2	2	2	
Licenced AIFM	1	1	2	2
Registered AIFM	1	1	2	
PPF	2	2	2	
Life insurance companies	2	2	2	2

Source: FCMC

Table No 7.3 - Breakdown of banks by risk categories as of 2016

	Domestic customer serving banks	Foreign customer serving banks	Frequency of full on-site inspections ⁸²⁷
Higher ML/TF risk category ⁸²⁸	0	10	once every year
Medium ML/TF risk category	1	3	once every two years
Lower ML/TF risk category ⁸²⁹	9	0	at least once every three years

Source: FCMC

Table No 7.4 - Breakdown of PI/EMI by risk categories⁸³⁰

	Number
<i>PI</i>	
1 st category – High ML/TF risk PI	10

⁸²⁷ In addition the AML/CTF targeted inspections of the banks are also carried out when and if necessary

⁸²⁸ High ML/TF risk is inherent to bank's business and ML/TF risk management is inadequate.

⁸²⁹ Low ML/TF risk is inherent to bank's business and ML/TF risk management is sufficient.

⁸³⁰ Number of PI shown in table No 7.12 and table No 7.12 are different, because the number in table No 7.5 are not the number that was at the end of 2014.

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2 nd category – Medium ML/TF risk PI	10
3 rd category – Lower ML/TF risk PI	13
<i>EMI</i>	
1 st category– Higher risk EMI	8
2 nd category – Lower risk EMI	4

Source: FCMC

Table No 7.5 - The number and type of administrative penalties imposed by FCMC for non-compliance with AML/CTF requirements

Type of penalty		Entity/ category	2013	2014	2015	2016
Fines	number	Domestic customer serving banks	-	-	-	1
	amount (EUR)		-	-	-	1 361 954
	number	Foreign customer serving banks	4	1	4	3
	amount (EUR)		327 244	70 000	2 211 830	4 571 682
	number	Registered PI	2	1	-	1
	amount (EUR)		14 229	7 000	-	-
	number	IMC	-	1	-	-
	amount (EUR)		-	25 000	-	-
	number	Securities sector	1	1	1	-
	amount (EUR)		106 715	25 000	72 000	-
Withdrawal of licence		Foreign customer serving banks	-	-	1	-
		IMC	1	-	1	-
		Registered PI	0	1	1	-
Suspension of licence		Registered PI	1	1	0	0
Penalised officials and employees	Number of monetary penalties	Foreign customer serving banks	-	-	4	1
	Amount of monetary penalties (EUR)		-	-	145 336	25 000
			-	-	4	-

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Type of penalty	Entity / category	2013	2014	2015	2016
Removal from managerial position	Registered PI	1	1	-	-
Warnings	Foreign customer serving banks	-	3	1	1

Source: FCMC

Table No 7.6 - Total number of employees in FCMC Compliance control department who perform AML/CTF supervision of respective financial institution

	Entity	2013	2014	2015	2016
Total number of employees in FCMC Compliance control department	All	5	5	5	18
Total number of employees in FCMC who are responsible for supervision	Banks	5	5	5	17
	Other obliged entities				13

Source: FCMC

Table No 7.7 - The number of AML/CTF trainings, attended by FCMC employees who perform the AML/CTF supervision of the respective obliged entity

	2013	2014	2015	2016
The number of external AML/CTF trainings	1	1	5	4
The number of internal AML/CTF trainings	0	0	0	23
The number of FCMC employees perform AML/CTF supervision and has acquired an internationally recognised certificate in the area of AML/CTF	1 - CAMS	1 - CAMS	1 - CAMS	4 - CAMS

Source: FCMC

Table No 7.8 - Licensing of the Bureaux de change

	2013	2014	2015	2016
The number of BoL's employees performing the AML/CTF supervision of bureaux de change	4	4	4	4

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	2013	2014	2015	2016
The number of the received applications for granting a licence for purchasing and selling cash foreign currencies	10	0	2	2
The number of the refusals to grant a licence for purchasing and selling cash foreign currencies	1	0	0	0
The number of the refusals to grant a licence for purchasing and selling cash foreign currencies due to AML/CTF deficiencies	1	0	0	0

Source: BoL

Table No 7.9 - The number of administrative penalties imposed by BoL for non-compliance with AML/CTF requirements

	2013	2014	2015	2016
Suspension of the licence	2	1	2	3
Withdrawal of the licence	0	2	2	0
A written notice of warning	4	6	5	2
Any other type of penalties*	6	3	9	4

* a minor offence, for which an administrative case is initiated, but is closed because of non-essential deficiencies

Source: BoL

Table No 7.10 - The total number of all financial institutions

	2013	2014	2015	2016
Domestic customer serving banks	14	13	12	10
Foreign customer serving banks	14	14	13	13
Licensed PI	0	0	3	3
Registered PI	36	34	33	26
Licensed EMI	0	2	3	3
Registered EMI	11	11	12	12
CU	n/a	Not available	34	34

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	2013	2014	2015	2016
IBS	Not available	Not available	4	4
IMC	11	12	12	12
Licensed AIFM	0	3	5	5
Registered AIFM	0	5	7	8
PPF	7	6	6	6
Life insurance companies	Not available	Not available	2	2
ALTUM	-	-	1	1
LP	1	1	1	1
Non-banking lenders	53	57	57	59
Persons providing encashment services	5	5	3	5
Bureux de change	66	58	50	42

Source: FCMC; BoL; CRPC

Table No 7.11 - The total number of suspicious and unusual transactions reported to the FIU by financial institutions and number of transactions included in the materials sent to the LEA by FIU

		2013	2014	2015	2016
Domestic customer serving banks	Suspicious	5381	5057	5221	4235
	Unusual	3475	2600	1770	1368
	Were used for materials	1947	1519	1790	1135
Foreign customer serving banks	Suspicious	5929	8975	10432	12003
	Unusual	3472	2996	2458	3479
	Included in materials	1809	1686	1585	1342
EMI	Suspicious	64	98	17	28
	Unusual	11	357	1009	1071
	Included in materials	0	0	11	6
PI	Suspicious	Information is not available			
	Unusual	Information is not available			
	Included in materials	21	146	0	13
Life insurance companies	Suspicious	5	0	4	0
	unusual	Information is not available			
	Included in materials	6	0	4	0
LP	Suspicious*	82	183	59	171
	Unusual*	0	1	5	7
	Included in materials	0	3	43	6
Bureux de Change	Suspicious	3702	1154	3299	2842
	Unusual	25	109	314	494

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		2013	2014	2015	2016
	Included in materials	5	8	3	0

Source: FIU

* Source: LP

Table No 7.12 - The total number of banks' employees with international certificate in the area of AML/CTF

	2013	2014	2015	2016
Domestic customer serving banks	1	1	2	3
Foreign customer serving banks	2	5	20	30

Source: Banks

Table No 7.13 - The number of criminal proceedings initiated against banks' employees for ML

	2013	2014	2015	2016
The number of Domestic customer serving banks, against which employees and officials criminal proceedings for ML have been initiated	1	0	0	0
The number of Foreign customer serving banks, against which employees and officials criminal proceedings for ML have been initiated	1	0	1	4

Source: SP

Table No 7.14 - The number of disciplinary cases against banks' employees for breaches of AML/CTF procedures and/or policies

	2013	2014	2015	2016
Domestic customer serving banks	63	39	43	4
Foreign customer serving banks	17	26	31	17

Source: Banks

Table No 3.1 - Summary of answers provided by the licenced debt collection service providers on the implemented AML/CTF measures and the ICS

Questions	Number of subjects		
	Yes	No	No information
The company identifies the customer and verifies the obtained identification data	23	2	2

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Questions	Number of subjects		
	Yes	No	No information
The company has access to the Invalid Document Register that is maintained by the Information Centre of the Ministry of Interior	7	18	2
When verifying the customer or performing the due diligence of a transaction, the company uses the sanction lists available on the FIU webpage.	17	8	2
When launching a business relationship or prior to starting a one-off business relationship with a cooperation partner the company verifies the association of the cooperation partner with a PEP, a family member of PEP or a person closely affiliated with a PEP	16	9	2
When entering into a transaction on the provision of debt collection services, the company acquires information on whether the obligor is a PEP, a family member of PEP or a person closely affiliated with a PEP	10	15	2
The company has cooperation partners – non-residents	10	15	2
The company assesses cases when the debt is repaid by a third person or several seemingly unrelated persons instead of the obligor	17	8	2
The company accepts payments in cash	2	23	2
If necessary the company performs due diligence of its customers or transactions	18	6	3
The company verifies the origin of the funds in case the obligor repays the debt by means of an atypical payment	13	12	2

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Questions	Number of subjects		
	Yes	No	No information
The company has defined transactions and/or cooperation partners that must be made subject to the due diligence or simplified review	14	10	3
Within the last 3 years the company has reported to the FIU on suspicious or unusual transactions	0	25	2
The company maintains a customer and/or transaction due diligence register, inter alia registers cases when no notification to the FIU is made after the customer's due diligence	11	14	2
The company collects debts only from private individuals	4	21	2
The company collects debts only from the citizens and non-residents of Latvia	12	12	3
The company collects debts only from legal entities registered in Latvia	14	11	2
The company monitors the payments received from third persons	19	6	2
The company monitors payments received from legal entities as payment for the debt of a private individual	16	8	3
The company monitors payments received from private entities as payment for the debts of legal entities	12	12	3

Source: CRPC

Table No 8.1 – The number of trainings provided by LGSI for lottery and gambling operators’ employees who are responsible for AML/CTF

	2013	2014	2015	2016
Number of licensed gambling operators	17	15	14	14
The number of training provided by LGSI for lottery and gambling operators’ employees who are responsible for AML/CTF	19	17	16	19

Source: LGSI

Table No 8.2 - The types and the number of gambling service providing places

	2013	2014	2015	2016
Gambling halls	324	321	322	317
Bingo halls	2	2	2	2
Casino	5	5	5	6
Bookmaker bet points	19	26	42	57
On-line interactive gambling	4	6	6	7

Source: LGSI

Table No 8.3 The types and number of inspections carried out by LGSI

	2013	2014	2015	2016
The Number of licensed gambling operators	17	15	14	14
The number of special on-site inspections in the area of AML/CTF	19	15	14	16
The number of off-site (distant) inspections in the area of AML/CTF	1926	1978	1823	1757
The total number of on-site inspection in the area of AML/CTF	547	605	655	634

Source: LGSI

Table No 8.4 - The total numbers of trainings and consultations provided by SRS

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	2013	2014	2015	2016
The number of compulsory AML/CTF trainings organised by SRS	0	0	0	0
The number of voluntary AML/CTF trainings organised by SRS	14	18	23	24
The number of the consultations in the area of AML/CTF provided by SRS	5815	3342	2418	3587
The total number of entities who were trained in trainings organised by SRS	105	586	508	1119

Source: SRS

Table No 8.5 – Capacity of SRS (number of employees; number of trainings provided to employees)

	2013	2014	2015	2016	
The number of SRS employees who supervises particular entities in the area of AML/CTF	Tax consultants and outsourced accountants	3	3	3	3
	Legal service providers	3	3	3	2
	Real estate agents	2	2	2	2
	Car dealers	2	2	2	2
	Precious metals and stones and articles thereof dealers	2	2	2	2
Number of employees who are trained and qualified to train obliged entities in the area of AML/CTF	1	1	1	1	
The number of external AML/CTF trainings, in which the SRS employees, who perform the relevant entities AML/CTF supervision, have participated	2	1	2	2	
The number of internal AML/CTF trainings, in which the SRS employees, who perform the relevant entities AML/CTF supervision, have participated.	0	0	4	0	
The number of SRS employees, who perform AML/CTF supervision and has acquired an internationally recognized certificate in the area of AML/CTF	0	0	0	0	

Source: SRS

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Table No 8.6 - The number of administrative penalties imposed by SRS to the obliged entities for non-compliance with AML/CTF requirements

		2013	2014	2015	2016
Tax consultants and outsourced accountants	number	1	-	1	1
	amount (EUR)	142,29	-	50	150
Legal service providers	number	-	-	-	17
	amount (EUR)	-	-	-	1 200
Real estate agents	number	-	-	-	-
	amount (EUR)	-	-	-	-
Car dealers	number	-	-	1	-
	amount (EUR)	-	-	200	-
Precious metals, precious stones and articles thereof dealers	number	-	1	1	-
	amount (EUR)	-	140	200	-

Source: SRS

Table No 8.7 - The number of employees of self-regulated bodies who carry out supervision of obliged entities

	2013	2014	2015	2016
Sworn attorneys	9	9	9	9
Sworn Notaries	30	30	30	24
Certified Auditors	33	36	36	35

Source: LCSA; LCSN; LACA

Table No 8.8 - The number of issued, refused and withdrawn lottery and gambling operators' licences

	2013	2014	2015	2016
Number of licensed gambling operators	17	15	14	14
Number of licensed lottery operators	1	1	1	1
Number of licensed interactive gambling operators	4	6	6	7
The number of persons to whom LGSI has refused to issue licence for an interactive gambling organising	0	0	0	0
The number of persons to whom LGSI has refused to issue licence for gambling organising	0	0	0	0

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	2013	2014	2015	2016
The number of persons to whom LGSI has refused to issue licence for lotteries organising	0	0	0	0
Withdrawn licences for gambling licenses	0	2	1	0
Withdrawn licences for interactive gambling	0	0	0	0
Withdrawn licenses for organisation of lotteries	0	0	0	0

Source: LGSI

Table No 8.9 - The number of the identified violations of the AML/CTF, the number of reports submitted by LGSI and number of imposed penalties

	2013	2014	2015	2016	
The number of inspections, during which the violations of the AML/CTF were identified	4	0	1	1	
The number of LGSI submitted reports on identified non-reported unusual transactions	4	0	1	1	
The number of LGSI submitted reports on identified non-reported suspicious transactions	1	0	1	2	
The number of the identified violations of the AML/CTF and applied penalties	4	0	1	1	
The amount of administrative penalties imposed by LGSI for non-compliance with AML/CTF requirements (EUR).	Natural persons	144,28	-	50	50
	Legal persons	-	-	-	-

Source: LGSI

Table No 8.10 - The total number of suspicious and unusual transactions reported to the FIU by lottery and gambling operators and number of transactions included in the materials sent to the LEA by FIU

	2013	2014	2015	2016
The number of reported suspicious transactions	2	0	0	5
The number of reported transactions	459	448	676	1471

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Were included in the materials sent to LEA	45	0	58	0
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Source: LGSI

Table No 8.11 – Capacity of LGSI (number of employees; number of trainings provided to employees)

	2013	2014	2015	2016
The number of LGSI employees performing, who carries out the licensing of gambling operator	3	3	3	3
The number of external AML/CTF trainings, in which the LGSI employees, who carries out obliged entities, licensing, have participated.	3	3	3	3
The number of internal AML/CTF trainings, in which the LGSI employees, who carries out obliged entities, licensing, have participated.	0	0	0	0
The number of LGSI employees, who carries out the supervision of lottery and gambling operators	8	7	8	8
The number of LGSI employees, who carries out the supervision of lottery and gambling organisers in the area of AML/CTF	1	1	1	1
The number of external AML/CTF trainings, in which the LGSI employees, who carries out the supervision of lottery and gambling organisers in the area of AML/CTF, have participated.	1	1	1	1
The number of internal AML/CTF trainings, in which the LGSI employees, who carries out the supervision of lottery and gambling organisers in the area of AML/CTF, have participated.	1	1	1	1
The number of LGSI employees, who perform AML/CTF supervision and has acquired an internationally recognized certificate in the area of AML/CTF	0	0	0	0

Source: LGSI

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Table No 8.12 - The total number of suspicious and unusual transactions reported to the FIU by obliged entities supervised by SRS and number of transactions included in the materials sent to the LEA by FIU

		2013	2014	2015	2016
Tax consultants	Suspicious	17	6	0	1
	Unusual	Information not available			
	Included in materials	2	0	0	0
Outsourced accountants	Suspicious	0	0	0	0
	Unusual	0	0	0	1
	Included in materials	2	0	0	0
Legal service providers	Suspicious	79	44	11	8
	Unusual	0	0	0	0
	Included in materials	3	4	0	0
Real estate agents	Suspicious	0	0	0	0
	Unusual	0	0	0	0
	Included in materials	0	0	0	0
Car dealers	Suspicious	Information not available			
	Unusual	7	27	37	28
	Included in materials	0	0	0	0
Precious metals, precious stones and articles thereof dealers	Suspicious	0	0	0	3
	Unusual	4	29	43	21
	Included in materials	0	2	0	0

Source: FIU

Table No 8.13 - Statistics of obliged entities' internal regulations (disciplinary liability)

	Tax consultants, outsourced accountants	Providers of legal services	Real estate agents	Car dealers	Precious metals, stones and articles thereof dealers
Does your industries internal regulations include disciplinary liability for AML/CTF procedure and / or policy violation? The answer - "no"	32%	19%	33%	29%	33%

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Does your industries internal regulations include disciplinary liability for AML/CTF procedure and / or policy violation? The answer - "more yes then no"	11%	12%	14%	-	4%
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Source: Entities supervised by SRS

Table No 8.14 - Statistic about verification made by obliged entities for the new employees

	Tax consultants, outsourced accountants	Providers of legal services	Real estate agents	Car dealers	Precious metals, stones and articles thereof dealers
Evaluate the person's education	96%	96%	98%	100%	100%
Evaluate the personal reputation	93%	92%	95%	93%	100%
Evaluate person's criminal records	66%	66%	73%	73%	71%

Source: Entities supervised by SRS

Table No 8.15 - Statistic of the oblige entities opinion about those industry professionals loyalty

	Tax consultants, outsourced accountants	Providers of legal services	Real estate agents	Car dealers	Precious metals, stones and articles thereof dealers
Do you think that professionals in your industry are loyal and will not engage in criminal activities? Answer - "yes"	56%	47%	60%	44%	60%

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Do you think that professionals in your industry are loyal and will not engage in criminal activities? Answer - "more yes than no"	41%	53%	37%	44%	25%
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Source: Entities supervised by SRS

Table No 8.16 - Statistics on the obliged entities' ability to identify suspicious transactions

	Tax consultants, outsourced accountants	Providers of legal services	Real estate agents	Car dealers	Precious metals, stones and articles thereof dealers
Does your internal regulation provides an opportunity for timely review of potential suspicious transactions, which should be reported to FIU? The answer - "yes"	59%	63%	58%	71%	55%
Does your internal regulation provides an opportunity for timely review of potential suspicious transactions, which should be reported to FIU? The answer - "more yes then no"	30%	23%	28%	7%	33%

Source: Entities supervised by SRS

Table No 8.17 - The number of self-regulated bodies

	2013	2014	2015	2016
Number of sworn attorneys (all)	1265	1268	1267	1265
Sworn attorneys	1251	1253	1251	1249

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Sworn attorneys from EU member states	14	15	16	16
The number of assistants of sworn attorneys	75	81	96	111
The number of a sworn notaries	112	112	109	107
The number of assistants of sworn notaries	67	67	66	66
Number of certified auditors	171	170	169	167

Source: LCSA; LCSN; LACA

Table No 8.18 - The number of sworn attorneys and assistants of sworn attorneys applications, granted status and refusal to assign the status

	2013	2014	2015	2016
The number of persons who have applied for the qualification examination of sworn attorney	70	50	35	38
The number of persons who have applied for the qualification examination of an assistant of sworn attorney	48	74	71	47
The number of persons to whom has been granted status of sworn attorney	48	20	21	13
The number of persons to whom has been granted status of an assistant of sworn attorney	18	22	25	21
The number of persons to whom LCSA has refused in examination of a sworn attorney	1	3	0	7
The number of persons to whom LCSA has refused in examination of as assistant of sworn attorney	9	8	5	3

Source: LCSA

Table No 8.19 - The number of sworn notaries and assistants of sworn notaries applications, granted status and refusal to assign the status

	2013	2014	2015	2016
The number of persons who have applied for the qualification examination of sworn notary	0	0	0	29

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	2013	2014	2015	2016
The number of persons who have applied for the qualification examination of an assistant of sworn notary	10	5	4	7
The number of persons to whom has been granted status of sworn notary	0	0	0	0
The number of persons to whom has been granted status of an assistant of sworn notary	7	4	2	2
The number of persons to whom LCSN has refused in examination of a sworn notary	0	0	0	0
The number of persons to whom LCSN has refused in examination of as assistant of sworn notary	0	0	0	0

Source: LCSN

Table No 8.20 - The number of certified auditor applications, granted status and refusal to assign the status

	2013	2014	2015	2016
The number of persons who have applied for the qualification examination of certified auditor	9	6	10	6
The number of persons to whom has been granted status of certified auditor	7	3	2	2
The number of persons whom LACA has been refused in examination of a certified auditor	0	0	0	0

Source: LACA

Table No 8.21 - The number of AML/CTF trainings organized by supervisors for self-regulated bodies

	2013	2014	2015	2016
The number of trainings in AML/CTF organised by LCSA for Sworn attorneys	6	8	8	1

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The number of trainings in AML/CTF organised by LCSN for Sworn Notaries	0	0	0	3
The number of trainings in AML/CTF organised by LACA for Certified Auditors	1	1	1	0

Source: LCSA; LCSN; LACA

Table No 8.22 - The number of self-regulated entities participated in trainings

	2013	2014	2015	2016
Sworn Attorneys	192	216	346	34
Sworn Notaries	0	0	0	297
Certified Auditors	38	35	21	75

Source: LCSA; LCSN; LACA

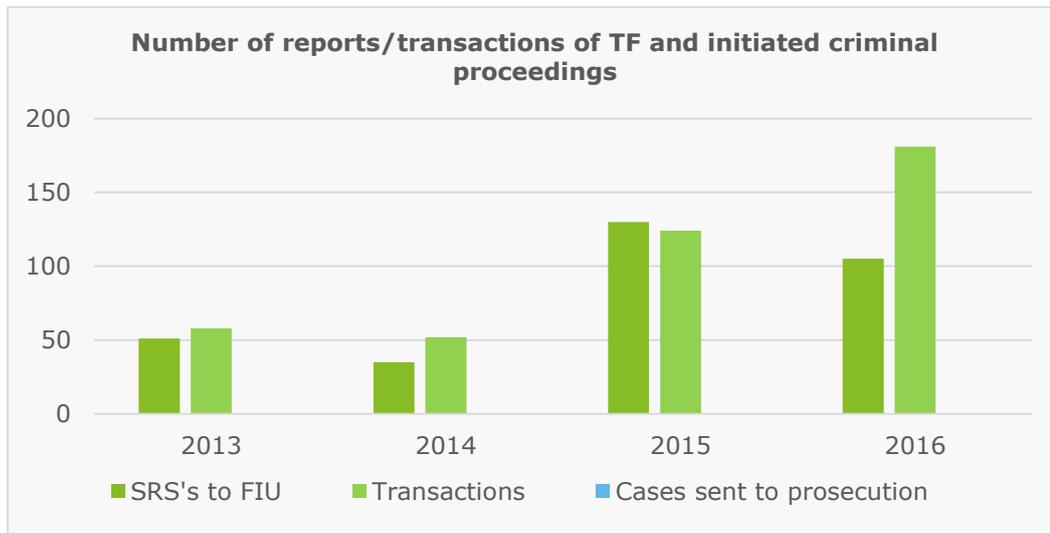
Table No 8.23 - The total number of suspicious and unusual transactions reported to the FIU by self-regulated entities and number of transactions included in the materials sent to the LEA by FIU

		2013	2014	2015	2016
Sworn Attorneys	Suspicious	79	44	11	8
	Unusual	0	0	0	0
Sworn Notaries	Suspicious	3	4	3	15
	Unusual	13	3	9	39
Certified Auditors	Suspicious	0	0	0	5
	Unusual	0	1	0	0

Source: FIU

Table No 9.1

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Appendix No 3 “List of surveys carried out within the Report ”

Survey No 1	2015 bank survey on IT systems
Survey No 2	2016 bank survey on vulnerability
Survey No 3	2017 bank survey on vulnerability
Survey No 4	2017 bank survey on inherent vulnerability
Survey No 5	2017 FCMC survey
Survey No 6	2017 FIU survey
Survey No 7	2017 Prosecution survey
Survey No 8	2017 securities sector survey on vulnerability
Survey No 9	2017 securities sector survey on inherent vulnerability
Survey No 10	2017 life insurance sector survey on vulnerability
Survey No 11	2017 life insurance sector survey on inherent vulnerability
Survey No 12	2017 PI/EMI survey on vulnerability
Survey No 13	2017 PI/EMI survey on inherent vulnerability
Survey No 14	2017 non-bank lenders survey on vulnerability
Survey No 15	2017 non-bank lenders survey on inherent vulnerability
Survey No 16	2017 CRPC survey
Survey No 17	2017 LP survey on vulnerability
Survey No 18	2017 LP survey on inherent vulnerability
Survey No 19	2017 MoT survey
Survey No 20	2017 Altum survey on vulnerability
Survey No 21	2017 Altum survey on inherent vulnerability
Survey No 22	2017 SRS survey
Survey No 23	2017 cash collection services provider survey on vulnerability
Survey No 24	2017 SP survey on cash collection services providers
Survey No 25	2017 cash collection services providers survey on inherent vulnerability
Survey No 26	2017 bureaux de change survey on vulnerability
Survey No 27	2017 bureaux de change survey on inherent vulnerability
Survey No 28	2017 BoL survey
Survey No 29	2017 AIFM survey on vulnerability
Survey No 30	2017 AIFM survey on inherent vulnerability
Survey No 31	2017 IMC survey on vulnerability
Survey No 32	2017 IMC survey on inherent vulnerability
Survey No 33	2017 CU survey on vulnerability
Survey No 34	2017 CU survey on inherent vulnerability
Survey No 35	2017 PPF survey on vulnerability
Survey No 36	2017 PPF survey on inherent vulnerability
Survey No 37	2017 SP survey
Survey No 38	2017 CA survey

Survey No 39	2017 sworn attorneys survey on vulnerability
Survey No 40	2017 sworn attorneys survey on inherent vulnerability
Survey No 41	2017 LCSA survey
Survey No 42	2017 sworn notaries survey on vulnerability
Survey No 43	2017 sworn notaries survey on inherent vulnerability
Survey No 44	2017 LCSN survey
Survey No 45	2017 certified auditors survey on vulnerability
Survey No 46	2017 certified auditors survey on inherent vulnerability
Survey No 47	2017 LACA survey
Survey No 48	2017 SRS supervised obliged entities survey on vulnerability
Survey No 49	2017 SRS supervised obliged entities survey on inherent vulnerability
Survey No 50	2017 SRS survey on supervised obliged entities
Survey No 51	2017 Latvian Assay office survey
Survey No 52	2017 lottery and gambling operators survey on vulnerability
Survey No 53	2017 lottery and gambling operators survey on inherent vulnerability
Survey No 54	2017 LGSI survey
Survey No 55	2017 SP ECB survey
Survey No 56	2017 RE survey
Survey No 57	2018 CRPC survey un interview
Survey No 58	2018 AEEDL survey and interview
Survey No 59	2018 CRPC survey on AEEDL
Survey No 60	2018 SP survey
Survey No 61	2018 CPCB survey
Survey No 62	2018 SRS TCPD survey
Survey No 63	2018 CA survey
Survey No 64	2018 SIPCM survey un interview