

**Combating  
Money Laundering  
in  
Latvia**

**August 2008**

## Contents

<b>Executive Summary .....</b>	<b>4</b>
Legislative Basis .....	4
Financial Intelligence Unit (FIU).....	4
Advisory Board of the FIU.....	4
Prevention of International Terrorist Financing .....	5
Financial and Capital Market Commission (FCMC).....	5
Lottery and Gambling Supervision .....	6
Conclusion.....	6
List of abbreviations.....	7
List of Laws and Secondary Legislation .....	8
<b>Prevention of Money Laundering.....</b>	<b>9</b>
Legal Basis .....	9
Proceeds from Crime.....	10
<b>Latvian Institutional System of Prevention of Money Laundering .....</b>	<b>11</b>
<b>Reporting System .....</b>	<b>12</b>
Reporting Institutions .....	12
Obligation of Reporting institutions.....	12
Unusual Transactions .....	13
Suspicious Transactions .....	14
Supervisory Authorities of Reporting Institutions.....	15
<b>Latvian FIU - Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity.....</b>	<b>16</b>
Purpose and Duties.....	17
Advisory Board of the FIU.....	18
Refraining from and Suspension of Suspicious Financial Transactions .....	19
Protection of Information .....	19
Liability and Protection of the Persons .....	20
Methods of Information Analysis .....	21
Co-operation of the FIU with Other Institutions .....	22
Co-operation with the Reporting institutions and their Supervisory and Control Authorities.....	22
Co-operation with State Institutions .....	23
Co-operation with Law Enforcement Authorities .....	23
International Co-operation.....	24
<b>System for Preventing International Terrorist Financing .....</b>	<b>26</b>
Legislative Basis .....	26
Administrative System .....	26
Verification of Terrorist Lists Under the Existing System for Preventing.....	27
International Terrorist Financing .....	27
<b>Supervisory Authorities .....</b>	<b>29</b>
Financial and Capital Market Commission (FCMC).....	29
Consolidated Regulator of Banking, Securities and Insurance Sectors. ....	29

Prevention of Money Laundering and Terrorist Financing .....	29
Obligations under the AML Law .....	29
On-site Audits .....	30
Banking Sector.....	30
Identification Demands Regarding High Risk Clients and Beneficial Owners.....	30
Insurance Sector.....	31
Statistical Information .....	32
Lottery and Gambling Supervision Inspection (LGSI).....	32
Supervision of Gambling Market Participants.....	33
Procedure for Reporting Unusual and Suspicious Transactions.....	33
Determination of unusual and suspicious transactions.....	33
Patterns of Unusual Transactions:.....	33
Patterns of Suspicious Transactions:.....	34
LGSI Guidelines for Formulation of Internal Control System.....	34
LGSI: Statistical Information.....	35

## **Executive Summary**

### **Legislative Basis**

The Republic of Latvia began to build its anti-money laundering legislation in 1997. Anti-terrorist financing legislation became an issue following the September 11, 2001 events. Currently there are more than 30 legislative acts and a number of guidelines from supervisory and control authorities that are applicable to credit and financial institutions including natural persons who conduct financial transactions. Moreover, credit and financial institutions have their own internal regulations that contribute to this joint effort.

The most significant law, i.e. the Law On the Prevention of Laundering of Proceeds Derived from Criminal Activity was enacted in December 1997 and became effective in June 1998. The Law established the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity, which is the Latvian financial intelligence unit (FIU). The Law has been amended a number of times in order to comply with all the international requirements. In some instances the law went beyond what international standards required.

The brand new Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing (the AML law) was adopted by the Latvian parliament on 17 July 2008. Adopting the new AML law EU Directives 2005/60/EC and 2006/70/EC were fully transposed into national legislation. Also deficiencies identified by the International Monetary Fund in the Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism published on 4 June 2007 were addressed.

### **Financial Intelligence Unit (FIU)**

The Latvian FIU receives, registers, processes, compiles, stores, analyzes information on unusual and suspicious transactions and provides this information to pre-trial investigative authorities and the court. Such information may only be utilized for the prevention, detection, pre-trial investigation or adjudication of activities linked to laundering or attempted laundering of criminal proceeds and terrorist financing or the respective predicate crime. The information is deemed confidential and it is protected by the law. Its release is subject to strict regulations. There are administrative and/or criminal sanctions for failure to report to the FIU. To encourage reporting, an exemption from legal liability applies to persons who make reports to the FIU.

The AML law requires a broad spectrum of financial institutions, professionals and legal persons engaging in financial transactions or providing financial services to promptly report to the FIU certain financial transactions (mandatory reporting based on a set criteria in accordance with the Cabinet of Ministers regulations), as well as about other kinds of suspicious transactions, based on the assessment of Reporting institutions themselves (voluntary reporting).

Another key responsibility of the FIU is the establishment of channels of communication and coordination with the Reporting institutions and professionals, state institutions, law enforcement authorities and foreign counterparts.

### **Advisory Board of the FIU**

To enhance the effectiveness of the Republic of Latvia's fight against money laundering and terrorist financing, the Advisory Board of the FIU was established in 1998. The Board is composed of representatives of the respective Ministries, business and professional associations, the Bank of Latvia, the Financial and Capital Markets Commission and the Supreme Court. The Prosecutor-General chairs the meetings of the Board.

### **Prevention of International Terrorist Financing**

In the aftermath of the September 11, 2001 terrorist attack in the United States, the Republic of Latvia expanded its anti money laundering laws to include measures to detect and prevent international terrorist financing. It should be noted that the FIU now compiles and verifies lists (from local and international sources) of persons and entities suspected of terrorist activities, conducts training sessions on anti-terrorism financing typologies and cooperates with its counterparties in other countries. Activities of the Latvian FIU are facilitated by Latvia's membership in key international organizations, such as the Egmont Group, and the fact that Latvia is a signatory to the applicable 12 international conventions.

### **Council for Financial Sector Development**

In January for 2005 the Latvian Government established the Council for Prevention of Laundering of Proceeds Derived from Criminal Activity to enhance coordination and efficiency of the anti-money laundering regime. The Council was chaired by the Prime Minister and its other members are the Ministers of Interior, Finance, Justice, the Chief Justice of the Supreme Court, the Prosecutor General, the President of the Bank of Latvia and the Chairman of the Financial and Capital Market Commission. The primary responsibility of the Council were issues that concern the prevention of laundering of proceeds derived from criminal activity.

In April 2007 the Council for Prevention of Laundering of Proceeds Derived from Criminal Activity was transformed to Council for Financial sector Development. The responsibilities of the newly organized council were broadened but the main focus of its tasks still is to prevent abuse of Latvian financial system by money launderers or terrorism financiers. According to the AML law the Financial Sector Development Council is the coordinating body and shall coordinate and improve the cooperation of public institutions and the private sector in the prevention of money laundering and terrorist financing.

The new Council members in addition to the already mentioned are the President of Latvian Commercial Bank association, the President of Latvian Insurers association, the Executive Director of the Latvian Securities Market Professional Members Association and Chairman of the Latvian-American financial forum.

### **Financial and Capital Market Commission (FCMC)**

The FCMC is an autonomous public authority and the consolidated regulator for the banking, securities and insurance sectors. It is responsible for the stability and development of the financial market. The FCMC has issued regulations regarding internal control mechanisms that financial institutions should have in place. The AML law has given the FCMC the authority to issue regulations for assessing the risks associated with money laundering and terrorist financing to be followed by credit institutions and financial institutions. FCMC conducts regular on-site examinations of market participants to determine, inter alia, their compliance with the Latvian AML and CTF legislation. Its key focus is on the efficiency of the internal control system of

financial services providers. With regard to banks, the adopted legal requirements have set the range of monetary fines up to 100 000 LVL, without limiting the other enforcement powers and actions given to the FCMC (imposing restrictions on provision of certain financial services, assessing fitness and properness of management etc.). The FCMC has imposed adequate and targeted sanctions on the market participants, which had not promptly taken appropriate measures to correct identified deficiencies.

### **Lottery and Gambling Supervision**

The gambling business as such is particularly vulnerable to the risks of possible money laundering and terrorist financing. To manage this risk, the Lotteries and Gambling Supervision Inspection has adopted stringent measures to prevent money laundering in gambling establishments. Among them are strict licensing requirements, mandatory video surveillance in casinos, reporting of unusual and suspicious transactions by the operators of gambling establishments. The Lotteries and Gambling Supervision Inspection has also issued guidelines for internal control in the gambling business.

### **Conclusion**

The Republic of Latvia has adopted laws and implemented an effective enforcement mechanism with oversight at the highest government levels to meet its international commitments and be a credible partner to the other members of the international community in fighting money laundering and terrorist financing.

**List of abbreviations**

**AML Law** – the Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing

**AML** – prevention of money laundering

**CTF** - counter-terrorism financing

**FCMC** – the Financial and Capital Market Commission of the Republic of Latvia

**FIU** – the Office for the Prevention of the Laundering of Proceeds Derived from Criminal Activity of the Republic of Latvia

**LGSI** – the Lotteries and Gambling Supervisory Inspection of the Republic of Latvia

### **List of Laws and Secondary Legislation**

- Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing, enacted on July 17, 2008, effective as of August 13, 2008
- Cabinet of Ministers Regulation No. 127 On the List of Indicators Pertaining to Unusual Transactions and the Reporting Procedure, effective as of March 24, 2001.
- Cabinet of Ministers Regulation No. 497 On the Procedure Pursuant to which Public Institutions Furnish Information to the Office for the Prevention of the Laundering of Proceeds Derived from Criminal Activity, approved by the Cabinet of Ministers on December 29, 1998.
- Criminal Law of the Republic of Latvia (by April 1, 1999; the Criminal Code of the Republic of Latvia):

Gambling and Lotteries Law, effective as of January 1, 2006;

- Cabinet of Ministers Regulations No. 1043 “Unified procedure of bookkeeping accountancy for organization of gambling and lotteries”, effective as of December 19, 2006;
- Cabinet of Ministers Regulations No. 96” Procedure whereunder report about organization of gambling and lotteries has to be submitted”, effective as of February 6, 2007;
- Cabinet of Ministers Regulation No.854 “Procedure for Registration and Identity Checking of Gamblers of the Interactive Gambling”, effective as of October 17, 2006;
- Cabinet of Ministers Regulation No.771 on the Procedure for Registration of Casinos’ Clientele and the Procedure for Processing of Information Included in the Registry of Clientele, effective as of September 19, 2006;
- Guidelines for the Formulation of an Internal Control System for the Prevention of Laundering Proceeds Derived from Criminal Activity adopted by the LGSI on March 1, 2005;
- Law on the Financial and Capital Market Commission, effective as of July 1, 2001;
- Credit Institution Law, effective as of October 24, 1995;
- Law on Insurance Companies and Supervision Thereof, effective as of September 1, 1998;
- Law on Investment Management Companies, effective as of July 1, 1998;
- Law on Financial Instruments Market, effective as of January 1, 2004;
- FCMC Regulations for the Formulation of an Internal Control System for the Prevention of Laundering of Proceeds Derived from Criminal Activity and Terrorist Financing, revised version effective as of May 20, 2006 .

# **Prevention of Money Laundering**

## **Legal Basis**

Following independence from the Soviet Union (1991), the Republic of Latvia began to build its legal basis, including the prevention of the laundering of proceeds derived from criminal activity and terrorist financing. Currently the legislative framework consists of more than 30 laws and the normative acts, as well as guidelines of the supervisory authorities. Today the Republic of Latvia meets its international obligations as a member of the European Union, the United Nations and the Council of Europe.

The most significant legal act is the 1997 Law On Prevention of Laundering of Proceeds Derived from Criminal Activity that entered into force on 1 June 1998. In the same year the Latvian FIU – the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity was established.

In order to implement all international requirements, the Law has been amended 6 times over the past 8 years. The Law on Prevention of Laundering of Proceeds Derived from Criminal Activity was replaced by the new AML law that came into force on 13 August 2008. The new AML law transposed the requirements of EU Directives 2005/60/EC and 2006/70/EC into national legislation as well as addressed deficiencies identified by the International Monetary Fund when it performed the detailed assessment on AML and CFT in Latvia.

## **Council for Financial Sector Development**

The Council for Prevention of Laundering of Proceeds Derived from Criminal Activity was established on January 25, 2005 for the purpose of improving and coordinating state institutions' activities in order to prevent money laundering and terrorist financing. The "Council for Prevention of Laundering of Proceeds derived from Criminal Activity" was on April 3, 2007 transformed to the "Finance Sector Development Council". According to the AML law Council for Financial Sector Development is the coordinating body for AML and CFT.

The responsibilities of the new council were broadened but among the others still includes responsibility to coordinate domestic and international cooperation of public and private sector for preventing laundering of proceeds derived from criminal activity.

The Council has the following functions:

- to encourage international competitiveness of the financial sector and financial service exports ;
- to coordinate state institutions' and private sector cooperation for financial sector development;
- to coordinate state institutions' and private sector cooperation for the prevention of money laundering and terrorist financing;

- to promote co-operation with foreign private and public institutions responsible for developments of financial sectors and prevention of money laundering and terrorist financing.

The Council for Financial Sector Development is comprised of high-level state officials:

- The Prime Minister (Chairman of the Council);
- The Minister of Interior;
- The Minister of Finance;
- The Minister of Justice;
- The Head of the Supreme Court;
- The Prosecutor General;
- The President of the Bank of Latvia;
- The Chairman of the Finance and Capital Market Commission.

The Council members in addition to the already mentioned are the President of Latvian Commercial Bank association, the President of Latvian Insurers association, the Executive Director of the Latvian Securities Market Professional Members Association and Chairman of the Latvian-American financial forum.

Since its establishment in April 2007 the Council has met 5 times.

### **Proceeds from Crime**

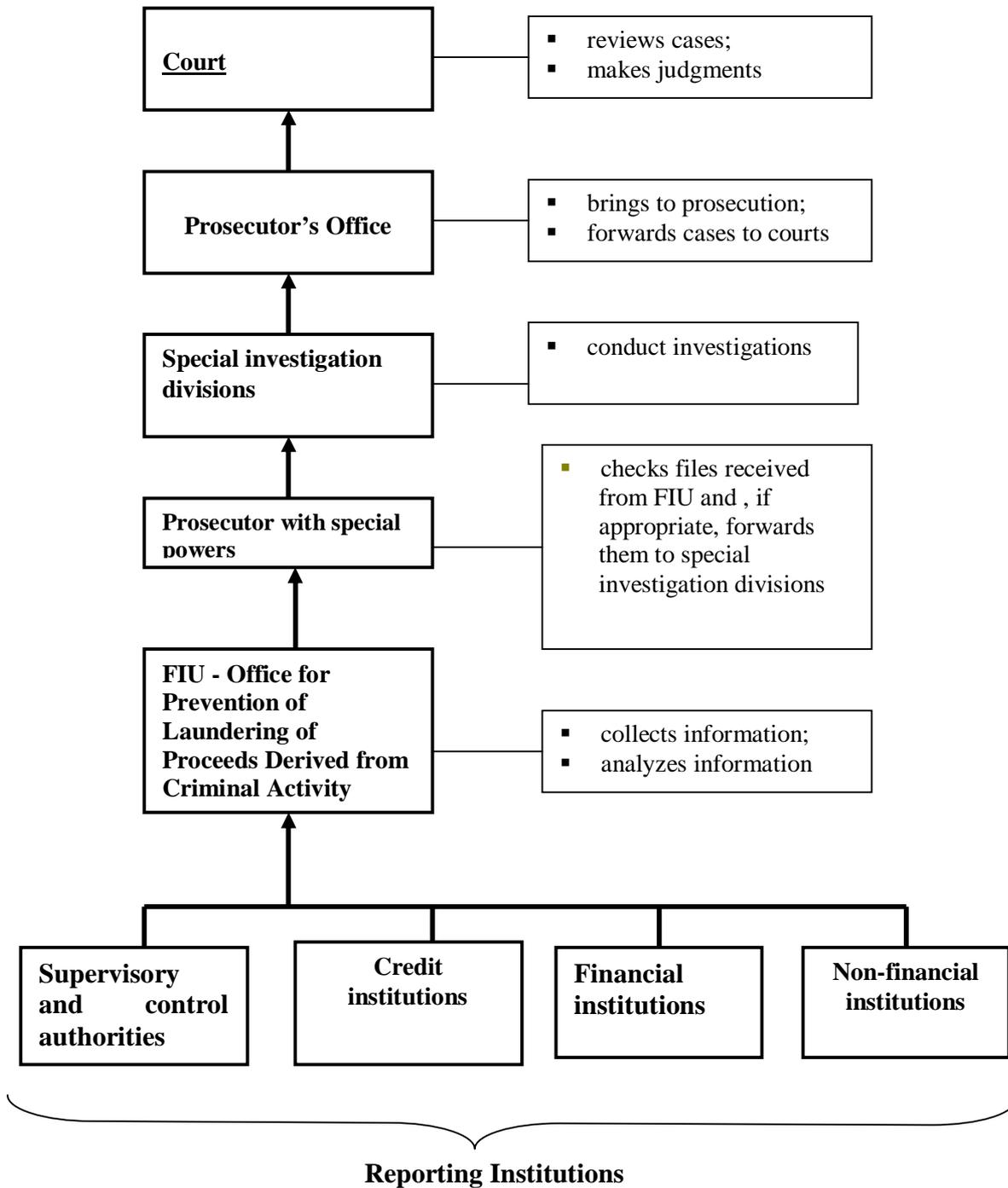
According to the AML Law, financial resources and other property, which have directly or indirectly been acquired as a result of criminal offences provided in the Criminal Law, are acknowledged (considered) as proceeds from crime.

The same applies also to financial resources and other property which is controlled (directly or indirectly) or the owner of which is:

- a person who is suspected of committing an act of terror or participation therein is included in one of the lists of such persons compiled by a state or international organizations in conformity with the criteria specified by the Cabinet of Ministers of the Republic of Latvia;
- a person regarding whom agencies performing investigative field work, pre-trial investigative institutions or the court have information, which gives sufficient grounds to hold such person under suspicion of committing or participating in terrorist-related criminal offence.

# Latvian Institutional System of Prevention of Money Laundering

## Chart of the System



## **Reporting System**

### **Reporting Institutions**

The requirements of AML Law apply to:

- 1) participants of the financial and capital markets, including credit institutions, insurance merchants that provides life insurance, private pension funds, life insurance intermediaries, investment brokerage firms, investment management companies, companies that engages in buying and selling cash foreign currency and other duly authorised providers of money transmission and remittance services;
- 2) tax advisors, external accountants, sworn auditors un commercial companies of sworn auditors;
- 3) sworn notaries, sworn advocates, other independent legal professionals when they act in the name and for the benefit of their customers to assist in the planning and execution of a transaction, to participate in any transaction or to perform other professional activity related to transactions for the benefit of their customer in the following cases:
  - a) buying or selling of real estate, shares in the capital of a commercial company,
  - b) managing a customer's money, financial instruments and other funds,
  - c) opening or managing all kinds of accounts with credit institutions or financial institutions,
  - d) creating, managing or ensuring the operation of legal arrangements, making investments necessary for creating, managing or ensuring the operation of legal arrangements;
- 4) trust and company service providers,
- 5) persons acting in the capacity of agents or intermediaries in real estate transactions,
- 6) organisers of lotteries and gambling,
- 7) persons providing money collection services,
- 8) other legal or natural persons involved in trading real estate, transport vehicles, items of culture, precious metals, precious stones and articles thereof or other goods, acting as intermediaries in the said transactions or providers of services, where the payment is made in cash in the amount equivalent to or exceeding 15 000 euros

Hereinafter all the above said institutions and persons are referred to as “Reporting Institutions”.

### **Obligation of Reporting institutions**

AML Law obliges (on a mandatory basis) all Reporting institutions including credit, financial institutions and their supervisory authorities to report to the FIU - Office for Prevention of Laundering of Proceeds Derived from Criminal Activity.

Reporting institutions have an obligation to:

- 1) identify a client, verify its identity and perform on a risk based approach customer due diligence or enhanced customer due diligence in accordance with the requirements of the AML Law;
- 2) report to the Financial Intelligence Unit any unusual transaction without delay;
- 3) report to the Financial Intelligence Unit any suspicious transaction without delay;

4) pursuant to a written request from the Financial Intelligence Unit to provide it within seven days with additional information and document about the customer or the transaction, the origin and further movement of funds, that is available to the Reporting Institution. In view of the extent of the information and documents to be submitted, the deadline for meeting the requirement may be extended with the consent of the Financial Intelligence Unit.

Where it is not possible for Reporting institution to identify a customer, to verify his/her identity or establish the beneficial owner as set out in the AML law, a credit institution and a financial institution are prohibited from servicing the account of such person, establish a business relationship or make any transactions, or has an obligation to terminate business relationship and report it to the FIU.

### **Unusual Transactions**

In submitting their reports to the FIU pursuant to the AML Law, Reporting institutions shall consider a financial transaction unusual if it matches at least one of the indicators of unusual financial transactions specified in the Cabinet of Ministers Regulation No. 127 On the List of Indicators Pertaining to Unusual Transactions and the Reporting Procedure, i.e.:

Concerning any financial transaction:

- a cash transaction in the amount equal to and in excess of 40 000 LVL;
- a transaction in the amount of and exceeding 1 000 LVL involving exchange of coins or small denomination banknotes for banknotes of larger denomination (or vice versa), or for other banknotes of equivalent denomination;
- a transaction using cash in the amount of and exceeding 10 000 LVL involving purchasing and selling of traveler's checks or other payment instruments using cash;
- a withdrawal within a period of a month by a customer of cash in the amount of and exceeding 40 000 LVL by using credit cards or other electronic payment cards;
- wire transactions in the amount of and exceeding 40 000 LVL without opening an account
- currency exchange at *bureaux de change* in the amount of and exceeding 5 000 LVL;
- a transaction involving a customer who is suspected of being involved in terrorist acts or complicity therein and has been included in the list of persons about which credit and financial institutions have been informed by the FIU;

In the gambling business the transactions are considered to be unusual if a customer collects a winning, performs a wire transaction, exchanges currency or acquires game participation means (e.g. tokens) from a gaming house in the amount of and exceeding of 5 000 LVL;

In securities investments the transaction is classified as unusual if:

- a customer of a credit institution or a brokerage company makes a single payment in cash of 10 000 LVL or in excess thereof for the services rendered in securities operations;

- a trading intermediary or a natural person purchases privatization certificates with the market value 10 000 LVL or more;

In the establishment of brokerage companies the indicators of unusual transactions include:

- a brokerage company has a small (up to 5 clients) number of customers and they represent institutions registered in no-tax or low-tax countries and territories;
- unreasonably high transaction expenses, commissions or profits.

In the field of insurance the transactions are considered to be unusual, if:

- the premium for a life insurance contract or a part of it is paid in cash in the amount equal or exceeding 25 000 LVL;
- the insurance premium payment amount made by a business entity or any other legal person registered in a no-tax or a low-tax country or territory equals or exceeds 25 000 LVL;
- the insurance contract is terminated before the expiration date and the insurer refunds the premium in the amount of or exceeding 10 000 LVL;
- the life insurance policy serves as a collateral for a loan and the insurance premium of the insurance contract equals or exceeds 25 000 LVL;
- the limit equals or exceeds 200 000 LVL in a property insurance contract and the policy holder appears to be any natural person or a legal entity registered in a no-tax or a low-tax country or territory;
- the limit equals or exceeds 40 000 LVL in an insurance contract for a vehicle (air, water or land vehicle) and the policy holder appears to be a natural person or a legal entity registered in a no-tax or a low-tax country or territory;

The aforementioned indicators currently are being revised and some of the thresholds will be lowered when new list of indicators of unusual financial transactions is drafted.

Note: For comparison purposes - 1 USD ~ 0.45 LVL      1EUR ~ 0.7 LVL

### **Suspicious Transactions**

According to the AML Law, Reporting institutions shall report transactions to the FIU which give rise to suspicion of laundering of proceeds from criminal activity (money laundering) or of terrorist financing or an attempt thereof, or of any other criminal offence related thereto .

The indicators of suspicious transactions are not set by the government, but are instead generated by Reporting institutions themselves. The typologies of possibly suspicious transactions are regularly discussed at the training sessions organized by the FIU for credit and financial institutions.

## **Supervisory Authorities of Reporting Institutions**

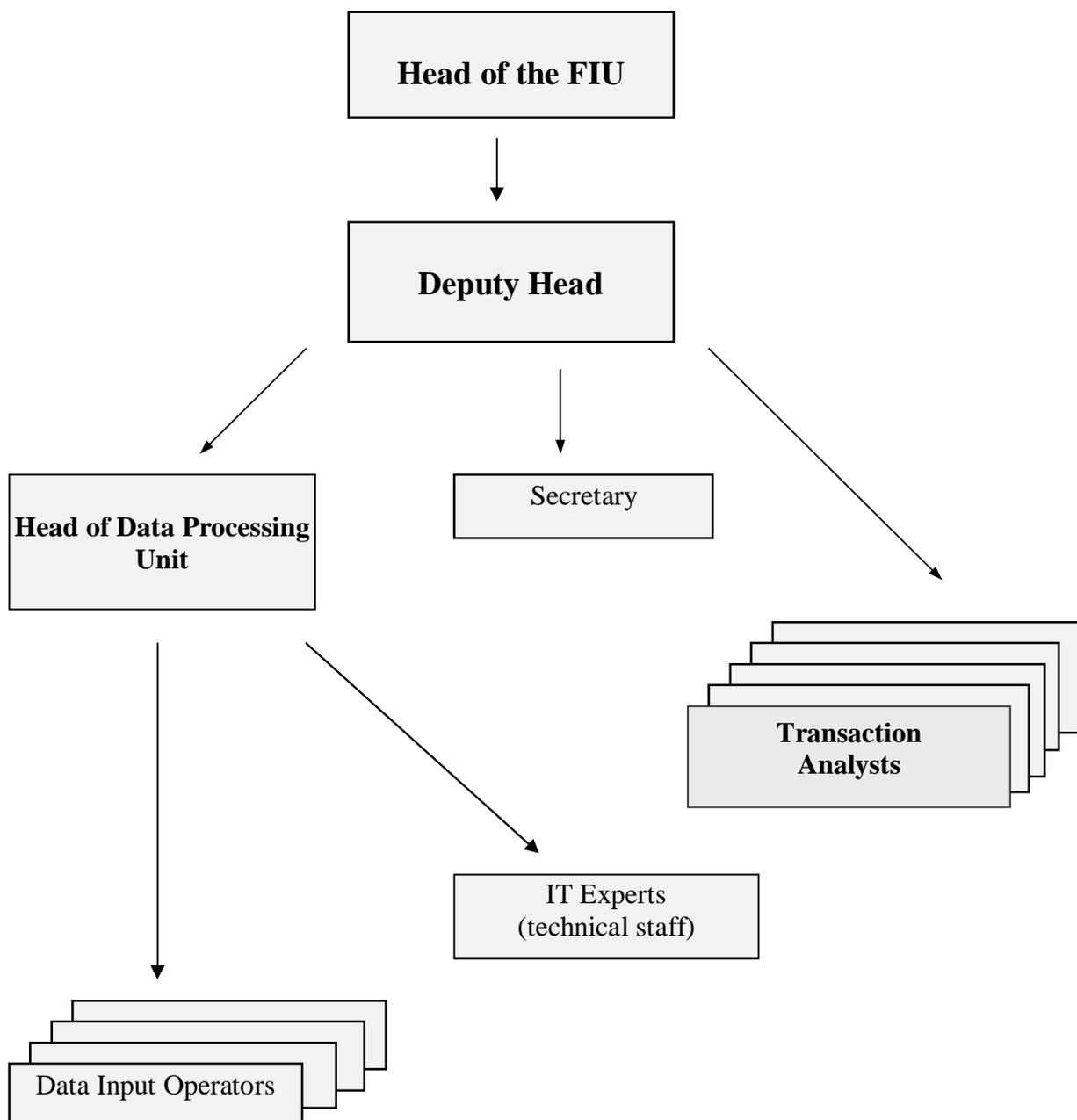
Supervisory and control authorities of Reporting institutions have a duty to report to the FIU the transactions discovered during the course of examinations whose parameters match the indicators included in the list of indicators of unusual transactions, or which give rise to suspicion of laundering of proceeds from criminal activity (money laundering) or of terrorist financing or an attempt thereof, or of any other criminal offence related thereto and regarding which the Reporting institutions have not notified the FIU.

In order to enable the supervisory and control authorities to perform their duties specified in the AML Law, they have the right, within the scope of their competence:

- to visit the premises that belong to or are used by the Reporting institution under their supervision or control and are connected with Reporting institution's economic or professional activities and carry out inspections there;
- to request that the Reporting institution submit information related to the fulfilment of the requirements of the AML law, request to produce original documents, review and get copies or duplicates thereof, get relevant explanations and perform activities to prevent or reduce the possibility of money laundering or terrorist financing;
- to prepare statements evidencing the violations of the requirements of the AML Law and the facts related thereto;
- to establish the deadline by which the Reporting institution has to remedy the detected violations of the requirements of the AML law and control the fulfilment of the remedial measures;
- to publish statistical information on the violations of the requirements of the AML law and sanctions applied;
- to request that state institutions submit any information available to them for the fulfilment of the responsibilities as set out in the AML law;
- to issue guidelines to the Reporting institutions related to their AML and CFT responsibilities.

# Latvian FIU - Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity

## Organizational System of the FIU



The FIU employs 19 persons including 8 analysts responsible for handling unusual and suspicious transactions;

The backgrounds of the employees of the FIU are different: they have worked at the police, the prosecutor's office, various credit and financial institutions. The level of education is also high: one employee has a doctor's degree, 6 have master's degrees, and 3 employees have multiple higher educations.

### **Purpose and Duties**

The Latvian FIU – The Office for Prevention of Laundering of Proceeds Derived from Criminal Activity was established in 1998 with the aim of preventing the possibility of laundering of proceeds from criminal activity in the Republic of Latvia. The FIU is a legal person monitored by the Office of the Prosecutor. Such monitoring is directly exercised by the Prosecutor-General and specially authorized prosecutors. The Council of the Prosecutor-General approves the Charter of the FIU.

The duties of the FIU are the following:

- to receive, compile, store and analyse the reports of the reporting institutions and information that is obtained otherwise to determine whether such information may be attributed to money laundering, terrorist financing, or other criminal offence;
- to provide pre-trial investigation institutions, the Office of the Prosecutor and the court information that may be used for the prevention, uncovering, pre-trial criminal proceedings or adjudicating money laundering, terrorist financing or an attempt thereof or other criminal offence;
- to analyse the quality of reports and efficiency of their utilization, and to provide a feedback to the Reporting institutions;
- to conduct analysis and research of the techniques of money laundering, terrorist financing and an attempt thereof, improve the methods for prevention and detection of these activities;
- to cooperate with international and foreign institutions that engage in the prevention of money laundering and terrorist financing;
- to provide supervisory and control authorities with information on the characteristic techniques for obtaining the proceeds from criminal activity, laundering such proceeds and financing terrorists and characteristic locations to enhance the measures that would reduce the possibility of money laundering and of terrorist financing, ensure training of the employees of supervisory and control authorities in relation to the prevention of money laundering and of terrorist financing;
- to provide to the reporting institutions and supervisory and control authorities the information on persons who are suspected of being involved in terrorist activities or may reasonably be suspected of the execution of or participation in a terrorist-related criminal offence;
- on request by supervisory and control authorities, to provide information about the statistics, quality and application efficiency of the reports submitted by the reporting institutions;
- provide the reporting institutions and supervisory and control authorities, pre-trial investigation institutions and the Office of the Prosecutor with recommendations for reducing the possibilities of money laundering and terrorist financing;

- to publish statistics about performance of the FIU, indicating the number of cases investigated and of persons brought to criminal prosecution during the previous year, the number of persons convicted for the criminal offence of money laundering or of terrorist financing and the volume of suspended and seized funds;
- to notify supervisory and control authorities on the detected violations of the requirements of AML Law by the reporting institutions;
- to compile and submit to the Advisory Board of the FIU the statistical information on the measures taken in the previous year in respect of the supervision and control of the reporting institutions.

### **Advisory Board of the FIU**

In order to facilitate the work of the FIU and to co-ordinate its co-operation with law enforcement institutions and the Reporting institutions, an Advisory Board was established.

The tasks of the Advisory Board are the following:

- to coordinate the cooperation of public institutions, the reporting institutions and their supervisory and control authorities to ensure compliance with the requirements of the AML Law;
- to develop recommendations for the FIU;
- to prepare and submit to the Financial Intelligence Unit proposals on amendments to the list of indicators of unusual transactions;
- on request by the Prosecutor General or on its own initiative, to notify the Prosecutor General on the performance of the Financial Intelligence Unit and submit proposals for its improvement.

The Advisory Board is comprised of the following:

- the Minister of Finance (2 representatives, including one from the State Revenue Service);
- a representative of the Minister of Interior,
- a representative of the Minister of Justice,
- a representative of the Bank of Latvia,
- a representative of the Finance and Capital Market Commission,
- a representative of the Latvian Association of Commercial Banks,
- a representative of the Latvian Association of Insurers,
- a representative of the Latvian Sworn Auditors Association;
- a representative of the Latvian Sworn Notaries Council;
- a representative of the Council of Latvian Sworn Advocates,
- a representative of the Supreme Court.

The Prosecutor-General chairs meetings of the Advisory Board. The head of the FIU and experts participate in the meetings of the Advisory Board.

## **Refraining from and Suspension of Suspicious Financial Transactions**

Reporting institutions shall refrain from executing one or several linked transactions or debit operations of a particular type on the customer's account where the transaction is related or may be reasonably suspected of being related with money laundering or terrorist financing

Pursuant to the requirements of the AML Law, the Reporting institutions shall immediately report to the FIU when they refrain to execute a transaction, enclosing with the report the available documents associated with the said transaction.

In 60 days time after receiving a report about refraining from executing a transaction the FIU shall issue an order to suspend the transaction or the particular debit operation on the customer's account or shall notify reporting institutions that a further refraining from executing the transaction is not motivated and shall be terminated.

If financial resources or other property are considered to be proceeds of crime, the FIU has the right to suspend the transaction or the debit operation of such financial resources in the account of the client for up to 45 days.

If financial resources or other property belongs to persons who are suspected of being involved in terrorist activities or may reasonably be suspected of the execution of or participation in a terrorist-related criminal offence the FIU has the right to suspend the transaction or the debit operation of such financial resources in the account of the client for up to six month.

The FIU may inform the Reporting institution as well as its relevant supervisory and control authority that information has been sent to pre-trial investigation authorities or that it cannot be sent.

Where an order for suspension of transaction or the debit operation of financial resources in the account of the client is issued, the FIU has to submit information to pre-trial investigation authorities or Office of the Prosecutor within 10 business days.

The FIU may issue an order to the state information system managers such as register of enterprises, land register etc. to prevent the re-registration of the property.

If the Reporting institutions are not able to refrain from conducting a suspicious transaction, or if the action in itself of refraining from the conducting of such a transaction may tip off the customer involved in the laundering of the proceeds from crime and help such customer to evade liability, the reporting institution has the right to conduct the transaction, and report it to the FIU after the transaction has been conducted. This does not apply to transactions by persons in respect of which the United Nations Security Council or the European Union established financial restrictions.

## **Protection of Information**

The FIU performs the necessary administrative, technical and organizational measures, in order to ensure the protection of information, to prevent unauthorized access, unauthorized tampering with, unauthorized distribution or destruction of information on unusual and suspicious transactions.

The procedures for the registration, processing, storage and destruction of information received by the FIU are determined by the “Regulations Pertaining to Registration, Processing, Storing and Destroying of the Information Received by the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity”, approved by the Council of the Prosecutor General on 28 December, 1999.

The FIU may use the information at its disposal only for the purposes and in accordance with the procedures prescribed by the AML Law.

In performing the information exchange with the FIU, the person who manages the personal data processing system or performs the data processing is prohibited from disclosing to other natural or legal persons the fact of the information exchange and the content of information.

In order to ensure that confidentiality requirements are complied with, thorough staff selection requirements have been established at the FIU. The Head and employees of the FIU must comply with the requirements, which are provided for in the Law on Official Secrets. Their compliance with these requirements shall be examined and certified by the Constitution Protection Bureau.

The information provided by the FIU may become public at the moment when the relevant person is subject to criminal liability.

The officials and employees of Reporting institutions do not have the right to inform a client or a third party that information regarding the client or his or her transactions has been reported to the FIU.

The supervisory and control authorities of the Reporting institutions and their employees do not have the right to inform the clients of the Reporting institutions or third parties, that the FIU has been notified.

State institutions may use the information provided to them by the FIU only for the purpose for which it has been received.

The supervisory and control authorities of the Reporting institutions have the right to publish statistics concerning the violations of the AML Law and the sanctions imposed.

### **Liability and Protection of the Persons**

Administrative and criminal sanctions have been instituted in Latvia for violations concerning the protection of information. The Administrative Violations Code prescribes liability for failure to report on unusual or suspicious transactions as well as for violations concerning customer identification (disclosure) requirements. The Criminal Law prescribes liability for failure to report a committed crime if the person in question knows that money laundering or terrorist financing has or is taking place.

If the Reporting institution or an official or an employee of such an institution has filed a suspicious activity report with the FIU in compliance with the requirements of the AML Law, irrespective of whether the fact of the laundering of the proceeds from crime or terrorist financing is proved or not during the investigation or at trial, the reporting to the FIU shall not be deemed to be the disclosure of information not to be disclosed and therefore the Reporting

institution and the officers or employees of such institution shall not be subject to legal liability. Compliance with the provisions of the AML Law shall not be considered a violation of the norms regulating the professional activities of the Reporting institutions or their supervisory and control authorities, as well as the officials and employees thereof.

If the Reporting institutions have refrained from a transaction in accordance with the requirements of the AML Law, in relation to such refraining from or delaying the transaction, the Reporting institutions or an official or employee of such institutions shall not be subject to legal liability, irrespective of the results of the utilization of the information provided.

If a Reporting institution has suspended a debit operation in a customer's account or suspended other movement of the customer's property in accordance with the Law, then irrespective of the outcome of such suspension, a Reporting institution, as well as officials and employees of such institution, shall not be subject to legal liability.

If the order regarding the suspension of the debit operation in the client's account or suspension of movement of other property has been given in conformity with the provisions of the AML Law, the FIU and its officials shall not be subject to legal liability for the consequences of the order.

The Reporting institutions the supervisory and control authorities of such persons, the FIU and their officials and employees do not have the right to disclose to a third parties data regarding the employees designated and responsible for maintaining contact with the FIU.

### **Methods of Information Analysis**

The FIU uses a commonly used methodology for the analysis of financial transactions. The main methods of information analysis include:

- search for information in databases,
- the verification of the legitimacy of the transaction,
- matching the reported transactions against money laundering or terrorist financing typologies.

Cabinet of Ministers Regulation No. 497 entitles the FIU to receive information from all state and municipal databases (there are about 500 in Latvia). The FIU actively uses about 350 such databases. Currently the number of online databases accessible to the FIU has reached about 80, which included 4 foreign registers (e.g. the commercial registers of the UK, Czech Republic); 23 Latvian registers (e.g. the Commercial Register, Population Register) and 46 Latvian data storage sites (e.g. timber trade data, licenses issued, etc).

The software used by the FIU is developed in-house and has an open source. The software is the most significant means of information analysis, which not only helps find the necessary information in the database, but also allows performing a number of other operations. For example:

- to identify links between several customers through transactions, family, common investments into companies as well as to create systemized schemes which can also be visualized,

- to produce all kinds of statistical data;

- to match the list of terrorists with the lists of persons in the FIU databases, to match persons listed in two different lists to find any links between them:

The last function is primarily used for matching the list of terrorists with the lists of persons in the database of the FIU.

The software's function of comparison is also used for verifying the information submitted to the State Revenue Service by public officials in their annual declarations. If the FIU sees that there is a transaction performed by a public official in the FIU database but he/she has failed to declare it, the FIU opens a case.

### **Co-operation of the FIU with Other Institutions**

The Latvian FIU plays a central role in the Latvia's anti-money laundering system, therefore it is very important to maintain efficient relationships with all its cooperation partners.

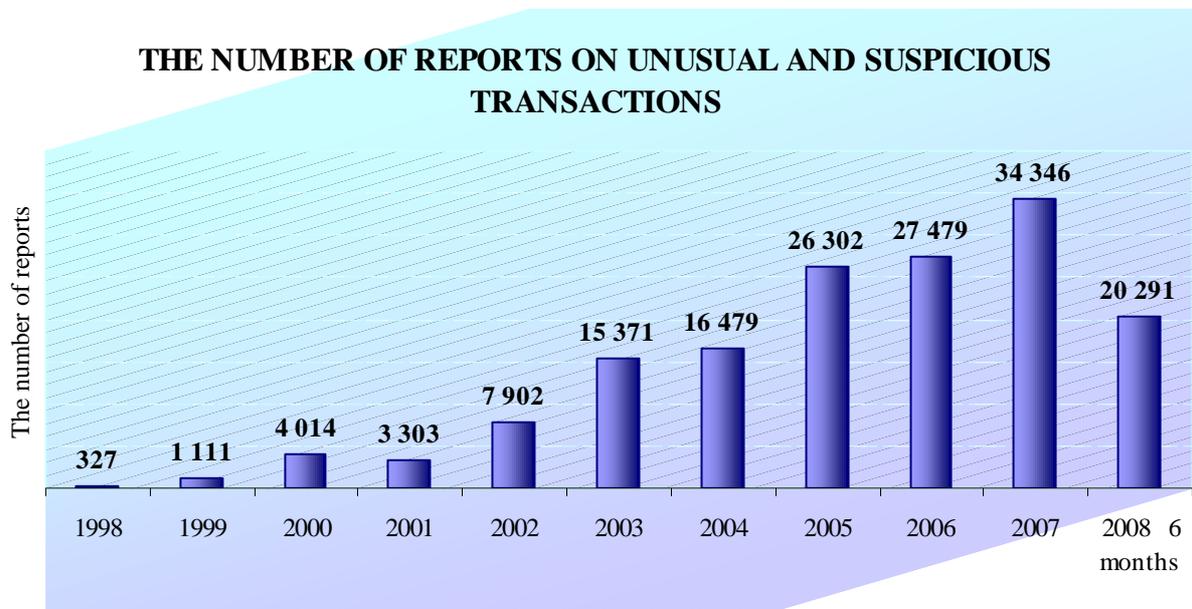
Organizing training courses is a beneficial method to foster cooperation. Over the past 10 years, 197 training sessions have been conducted in Latvia and abroad (including visits to Azerbaijan, Armenia, Kyrgyzstan, and Kazakhstan on a United Nations mission facilitating the development of anti-money laundering and anti-terrorism and terrorism finance regimes. 215 publications or appearances in mass media have been made to inform the public not only about the danger posed by money laundering and terrorist financing, but also on the results of the work done by the FIU.

### **Co-operation with the Reporting institutions and their Supervisory and Control Authorities**

The FIU actively cooperates with various credit, financial and non-financial institutions and their supervisory and control authorities: banks, insurance companies, sworn notaries, the notaries of the Enterprise Register, lottery and gambling businesses, the regional departments of the State Revenue Service, the Interpol Bureau of Latvia, and other state institutions.

Reports are also sent to the FIU by supervisory and control authorities, for instance, the Financial and Capital Market Commission, which exercise supervision over banks, insurance companies and participants of the securities market. The FCMC also verifies whether the internal control systems of financial market participants are adequately designed and effective in the prevention of money laundering.

The FIU organizes, on a regular basis, meetings with the banks' compliance officers who are specially designated to maintain contacts with the FIU. The total number of Reports on unusual and suspicious transactions on a year-on-year basis is as follows:



*Source: the FIU statistics on 30.06.2008.*

Cooperation with the financial sector, including regular provision of information on money laundering typologies to the sector concerned, has led to the increase in the number of Reports that the FIU receives.

### **Co-operation with State Institutions**

The procedure according to which the public institutions co-operate with the FIU is regulated by the Cabinet of Ministers Regulation No. 497 On the Procedure Pursuant to which Public Institutions Furnish Information to the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity, approved by the Cabinet of Ministers on December 29, 1998.

According to the requirements of the regulations:

The FIU should submit an information request with a description according to which the required data can be identified.

The recipient of such a request has no right to disclose the subject matter of the furnished information to a third party or to the natural and legal persons about which the information is furnished.

The response to the FIU's request should be furnished within 7 days from the day of receipt of the request.

### **Co-operation with Law Enforcement Authorities**

There is a close and productive relationship between the FIU and various law enforcement agencies. In order to successfully analyze different financial transactions, most of the employees of the FIU are former employees of the financial sector, the police and the Prosecutor's Office. Thus the FIU does not conduct preliminary investigations and investigations because this function is performed by professionals in the police forces and at in the Prosecutor's Office.

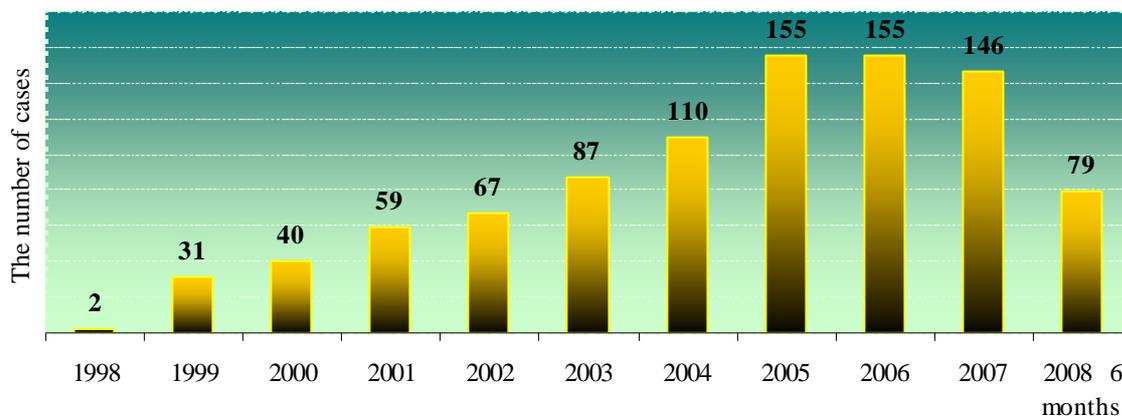
If it could be reasonably suspected that a crime has been committed, the FIU prepares a case and sends it to the competent police force – either the Economic Crime Police or the Financial Police, for investigation.

The FIU has prepared a training program for the law enforcement officials that includes information on:

- 1) the legislative basis,
- 2) money laundering typologies (the Egmont Group material on sanitized cases has been translated),
- 3) the legal aspects of money laundering cases with reference to the Criminal Law,
- 4) a textbook on the institutional basis of anti-money laundering systems in the world,
- 5) a textbook on the criminal, criminological and forensic characteristics of laundering of proceeds derived from criminal activity,
- 6) a textbook on the fight against the money laundering and financing of terrorism.

The above is intended for students of the Police Academy and other interested parties who would like to learn more about the specifics of money laundering as an offence. The said materials are distributed by the FIU to law enforcement officers at training courses.

#### **THE NUMBER OF CASES FORWARDED TO LAW ENFORCEMENT AUTHORITIES**



*Source: FIU statistics on 30.06.2008*

The police can request information from the FIU through the Division of Prosecutors with Special Powers for the purposes of their criminal or preliminary investigations. Over the past 7 years the FIU has compiled a sizable database, enabling the FIU to respond to such requests and provide information of financial nature to the requesting authority.

#### **International Co-operation**

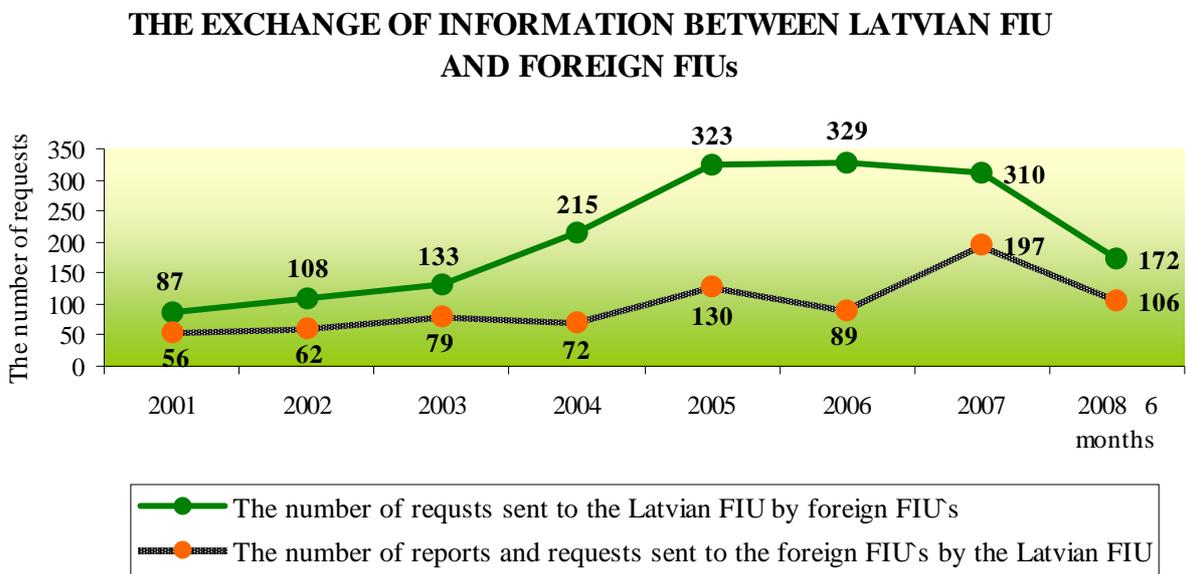
The FIU may freely, on its own initiative or on request, conduct an exchange of information

with authorized foreign institutions that exercise duties equivalent in essence to those of the FIU provided that:

- confidentiality of data is ensured and the data shall be used only for mutually agreed purposes;
- it is guaranteed that the information shall be utilized to prevent and detect only such types of criminal offences, which are criminally punishable in Latvia.

Information to foreign investigation institutions and courts can be provided by Latvian FIU in due course of international contracts on mutual legal assistance in criminal cases and via the public institutions of the Republic of Latvia. This information shall refer only to offences that are criminally punishable in the Republic of Latvia, where the international contracts on mutual legal assistance in criminal cases do not establish otherwise.

The number of requests and responses is shown in the chart below.



*Source: FIU statistics on 30.06.2008*

## **System for Preventing International Terrorist Financing**

In the aftermath of the September 11, 2001 events, several important amendments have been made to several legislative acts and a system to prevent terrorist financing in the Republic of Latvia has been radically changed.

### **Legislative Basis**

According to the recently enacted AML Law (in force since August 13, 2008), financial resources and other property are acknowledged as proceeds from crime when controlled (directly or indirectly) or the owner of which is:

- a person who in connection with suspicion of committing an act of terror or participation therein is included in one of the lists of such persons compiled by a state or international organization in conformity with the criteria specified by the Cabinet of Ministers of the Republic of Latvia;
- a person reasonably suspected of the execution of or participation in a terrorist-related criminal offence on the basis of information available to bodies performing investigatory operations, pre-trial investigation institutions, the Office of the Prosecutor or the court.

Amendments have been made to the Cabinet of Ministers Regulation of March 20, 2001 No.127 "On the List of Indicators of Unusual Transactions and the Reporting Procedure". An additional indicator has been added: a transaction shall be considered as an unusual transaction if it involves a customer who is suspected of being involved in acts of terrorism or complicity therein and has been included in the list of persons about which credit and financial institutions have been informed by the FIU.

On October 5, 2004 the Cabinet of Ministers issued Regulation No. 840 "On the Countries and International Organizations who's Lists Include Persons Suspected of Committing Acts of Terrorism or Complicity". On 29 August 2006 the regulation No. 840 was updated and replaced by regulation No. 731.

According to the regulation No. 731 Latvia recognizes lists of terrorist suspects of European Union and United Nations Security council as well as such lists individual countries that are members of European Union or NATO.

Law On the Implementation of International Sanctions in Latvia came in force on 1 January 2007 This law defines international sanctions as restrictions set forth according to the international public law which are applicable in relations with a country or any other addressee stated by United Nations Organization or European Union and which are targeted to ensure or renew peace, security and the rule of law in the country to which the restrictions are applied or in relation to any other addressee or the region overall. According to the aforementioned law the FCMC is the institution responsible for the implementation of the financial restrictions stipulated by the international organizations .

### **Administrative System**

The FIU created a comprehensive and efficient anti-terrorist financing system in Latvia:

1. Two employees of the FIU were appointed as the persons responsible for anti-terrorist financing;
2. Following a written instruction from the FIU, all Reporting institutions and their supervisory and control authorities established a separate e-mail address to which terrorist lists would be sent by the FIU as well as appointed a compliance office whose responsibility would be maintenance of updated terrorist lists and reporting to the FIU should there be a positive identification;
3. Guidelines and internal control procedures were amended to provide prevention measures for terrorist financing;
4. The FIU conducts regular training sessions for Reporting institutions and law enforcement authorities explaining the way the anti-terrorist financing system works in practice. The supervisory and control authorities conduct regular audits to ascertain the adequacy of anti-terrorism financing systems put in place in Reporting institutions. The FIU translates and electronically disseminates the key FATF documents, including explanatory notes, on anti-terrorist financing.
5. The Latvian FIU is a member of the Egmont Group since 1999 having online access to the Egmont Secure Web (ESW). As of 2004 the FIU has online access to the FIU NET network. The possibilities offered by both networks are being utilized for the exchange of information pertinent to the prevention of terrorist financing. The FIU also conducts information exchange with foreign anti-terrorism agencies, which are not FIUs, such as the FBI in the United States. Such co-operation is allowed by the national legislation only in terrorism related matters.
6. The Prosecutor's Office regularly monitors the FIU activities and the functioning of the anti-terrorism financing system. The FIU also reports to the government, in particular to the Council for the Prevention of Laundering of Proceeds Derived from Criminal Activity, which is chaired by the Prime Minister, on the operation and the results concerning money laundering prevention and anti-terrorist financing.

The effectiveness of the system is regularly reviewed, implementing changes when necessary.

### **Verification of Terrorist Lists Under the Existing System for Preventing International Terrorist Financing**

The verification of terrorist lists is split into the following stages:

The Latvian FIU receives (directly or via the Ministry of Foreign Affairs) a terrorist list (in electronic format) from a country or an international organization and checks whether it complies with the requirements of the Cabinet of Ministers Regulation No. 731.

The FIU imports the data into the Consolidated Terrorist List of the FIU and the data is matched with information already contained in the FIU database.

The consolidated list is then electronically (through a special network) sent to all credit and financial and non-financial institutions and supervisory authorities.

Reporting institutions match the names from the Consolidated Terrorist List with the data contained in their databases.

In case of positive matches the institution concerned immediately makes a report to the FIU and refrains from executing financial transactions.

The FIU registers the report, compares the data from the report with the terrorist list, and prepares an order for freezing funds or other property. The FIU also files a report with the Prosecutor General's Office. In case of doubt a request to countercheck is made to the country or organization that included the person concerned into the terrorist list.

The head of the FIU then signs an order stopping any further financial transactions. The order is immediately sent to the respective institution by a courier or by a fax. A report is also sent to the Prosecutor General's Office to decide whether a criminal case should be initiated.

The country or international organization that compiled the list is informed about the actions taken by the FIU.

## **Supervisory Authorities**

### **Financial and Capital Market Commission (FCMC)**

#### **Consolidated Regulator of Banking, Securities and Insurance Sectors.**

The FCMC performs its duties under the Law on the Financial and Capital Market Commission and is responsible for the stability and development of the financial market. It enjoys full rights of an autonomous public institution and, in compliance with its goals and objectives, regulates and monitors the functioning of the financial and capital market and its participants. The FCMC makes independent decisions within the limits of its authority, executes functions assigned to it by Law, and takes responsibility for their execution. No one shall be entitled to interfere with the activities of the FCMC, except for institutions and officials authorized by Law.

There are 95 employees currently working in FCMC, of which 25 are on-site whose duties include verification of the compliance of market participants with the AML legislation. Coordination of on-site inspections in the area of AML as well as methodological issues are performed by the Financial Integrity Division of the FCMC.

#### **Prevention of Money Laundering and Terrorist Financing**

##### **Obligations under the AML Law**

Since the AML Law became effective on June 1, 1998, FCMC (the Bank of Latvia was responsible for banking supervision prior to June 30, 2001) has an obligation to monitor compliance of the financial and capital market participants with the requirements of the AML Law. According to the AML Law, financial and capital market participants are responsible for developing a comprehensive internal control system that is aimed to cover all aspects of AML framework. Apart from evaluating the internal control systems of the financial and capital market participants during the regular audits, FCMC is also responsible for reporting to the FIU suspicious and unusual transactions that are discovered throughout the course of audits.

According to the Law on Credit Institutions, FCMC is responsible for performing on-site audits of the banks at least once in two years, including in the area of AML. The law has set the fine rates up to 100 000 LVL for a breach of the AML Law.

The AML Law stipulates the duties, rights and responsibilities of FCMC as a supervisory body, namely, FCMC is entitled to issue regulatory provisions for the supervision and control of the prevention of money laundering and terrorist financing and establish binding requirements for credit institutions and financial institutions, for the fulfillment of their responsibilities set out in the AML Law in respect of the establishment of an internal control system, of the identification of the beneficial owner and of assuring that the person indicated as the beneficial owner is the beneficial owner in respect of the customer, of the supervision of the transactions made by the customer and of knowing the customer's economic activity. Among the other regulatory provisions it has to establish the methodology for assessing the risks associated with money laundering and terrorist financing to be followed by credit institutions and financial institutions including establishing the minimum extent of the enhanced customer due diligence in respect of various categories of customers, the procedure for enhanced monitoring of customer transactions, and the indicators for the services provided by the credit and financial institutions

and for the customer transactions that require enhanced customer due diligence when credit institutions and financial institutions uncover them.

### **On-site Audits**

The FCMC has developed a manual on auditing for on-site examiners to help verification of compliance with the AML Law. Any discrepancies discovered in the course of an audit are reflected in audit reports. In case of a detected violation of AML Law, the banks and other financial and capital market participants must take swift corrective measures. In these cases, the FCMC may apply regulatory action, in order to restrict opening new accounts or replacing the management of the respective financial market participant. If the financial and capital market participants do not take the necessary action within the given time frame, or do not eliminate the discrepancies discovered in the course of audits to the full extent, the FCMC has regulatory powers to revoke their license or suspend the providing of certain financial services.

### **Banking Sector**

The Latvian financial sector is clearly dominated by banks. There are 21 banks in Latvia, which account for over 95% of all financial system assets. Four banks are owned by large Nordic and German banking groups (SEB, Swedbank, Danske bank, DnB Nord , ), representing 43% of the total banking system assets. Three banks owned by top-tier banks from the Russian Federation (MDM bank and the Bank of Moscow) and two by large Ukrainian private banks (Privatbank, Pivdenny), and altogether they account for 4% of the total banking system assets. One bank is a 100% state-owned (LHZZ), accounting for 4% of the total banking system assets). The number of clients who have opened accounts at banks in Latvia was 4.3 million as of December 2007. At the end of June 2008 , the total value of deposits held by the Latvian banking system was 23,100 million US dollars<sup>1</sup>.

Foreign deposits have always been a permanent feature of Latvia's banking system. At the end of 2007, foreign deposits comprised 44% of total deposits in the Latvian banking system. The reasons for non-residents to bank in Latvia are that Latvia has always been an important transit hub in the international trade of goods and services between Russia, the CIS countries and the West. The neighboring countries, such as Russia, extensively use Latvian ice-free ports.

### **Identification Demands Regarding High Risk Clients and Beneficial Owners**

The basic indicators that attest to the fact that a client is of higher risk are provided in the AML Law and additionally made more precise in the FCMC regulations. According to the provisions of the AML Law an enhanced CDD (customer due diligence) procedure must be applied to certain categories of clients, including PEPs and non face-to-face clients. High-risk clients are non-resident clients, especially where their actual credit turnover exceeds 200 000 LVL per month or 0,5 million LVL per quarter or the equivalent in any another currency; politically exposed persons and companies in which a nominal holder owns the majority of shares (often called offshore companies).

Regarding the identification of beneficial owners, in accordance with the AML Law, banks are obliged to identify the beneficial owners at least for all clients subject to enhanced CDD

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<sup>1</sup> Source: the Bank of Latvia

requirements and for all clients acting on the behalf of third persons. In practice it means that all high-risk customers, who include most non-resident customers, are obliged to sign a written declaration where the identity of the beneficial owners is disclosed. Latvian Criminal Law foresees criminal liability for deliberately providing false information to credit or financial institutions on beneficial ownership of funds or other property.

Due to requirements set in the Latvian legislation, Latvian banks have substantially invested in their IT systems to design programs for identifying suspicious activities, especially with regard to high-risk clients.

Banks and other financial and capital market participants may not maintain business relationships with persons or organizations that they suspect of money laundering or having links to terrorist organizations. If they discover such a business relationship, they must notify the Latvian FIU immediately and refrain from the execution of transactions.

According to the AML Law banks shall be forbidden to conduct transactions with shell banks. The definition of a shell bank also covers shell bank-like entities, including commercial companies which conduct non-cash transfers on behalf of third parties, except for cases where such transfers are carried out by an electronic money institution or they are carried out among companies (participants) of a single concern registered according the procedure established by the law.

Establishment of shell banks in Latvia is prohibited.

On July 5, 2005, all banks signed a declaration prepared by the Association of Latvian Commercial Banks. By signing the declaration, the banks have undertaken to comply with the best international KYC (know-your-customer) and AML practice, and have undertaken to regularly review the efficiency of their internal control system.

### **Insurance Sector**

There are 15 insurance companies operating in Latvia.

The Regulations for the Formulation of an Internal Control System for the Prevention of Laundering of Proceeds Derived from Criminal Activity and Financing of Terrorism are also applicable to the insurance sector. Regulations provide patterns of suspicious activities in the insurance sector, such as:

- the insured risk does not exist,
- insurable interests of the insured person do not exist,
- the client expresses his or her desire that the place of entering into the contract stated in the insurance contract be different from the actual place of entering into the insurance contract,
- the client expresses his/her desire that the provisions regarding insurance premiums or payouts which are untypical of the client's economic or personal activity be included in the insurance contract,
- recurring termination of insurance contracts before expiration of their term,
- an untypical or unclear change of the accounts of the client within the insurance period,
- untypical or unclear use of insurance intermediaries in transactions (high or untypical insurance premiums or remuneration to insurance intermediaries, etc.).

In order to prevent using insurance companies for the purpose of money laundering, the Law on Insurance Companies and Supervision Thereof provides that the insurance companies can only enter into reinsurance relationship with reinsurers to which a reputable international rating agency has granted an investment grade rating.

### Statistical Information

Finance and capital market participants <sup>2</sup>	Number	Assets, in millions of LVL	Share of total assets, in %
Banks	21	21 303	96.49
Insurance companies	15	351	1.92
Investment management companies	14	15	0.02
Investment funds	35	211	0.44
Investment plans <sup>3</sup>	25	277	0.59
Private pension funds	6	1	0.02
Pension plans	18	73	0.31
Credit unions	35	8	0.06
Insurance brokerage firms <sup>4</sup>	69	4	0.05
Investment brokerage firms	7	4	0.10
Riga Stock Exchange	1	2	
Latvian Central Depository	1	1	
Issuers	53	n/a	n/a
Insurance brokers – natural persons	713	n/a	n/a
<b>Total</b>	<b>487</b>	<b>8 136</b>	<b>100</b>

Source: FCMC: Statistical Information on March 31, 2008

### Lottery and Gambling Supervision Inspection (LGSI)

The Republic of Latvia Lotteries and Gambling Supervisory Inspection (hereinafter – the LGSI) is an administrative institution under the supervision of the Ministry of Finance, established for the supervision of the organization of lotteries and gambling, and lotteries of goods and services.

The LGSI, as a supervisory and control institution, is under an obligation, within its competence, to exercise responsibilities stated by the AML Law.

<sup>2</sup> Financial and capital market participants subject to the supervision of the FCMC

<sup>3</sup> Investment plans designed for second-tier pension plans (with state-funded pension plan assets).

<sup>4</sup> The listed volume of assets for the year 2004 is approximate.

## **Supervision of Gambling Market Participants<sup>5</sup>**

A company must receive a special permission (license) issued by the LGSI for organizing lotteries and gambling in the territory of the Republic of Latvia. To receive the license the company files an application to the LGSI, accompanied by documents in accordance with the Law on Lotteries and Gambling. The documentation includes comprehensive information, such as financial statements, detailed information on liabilities, information on the source of funds, a business plan for next year, as well as information on the shareholders of the company. Using the said data, the LGSI ascertains that the company is not suspected of money laundering or terrorist financing. In such cases, the license for organizing lotteries and gambling is not issued.

The LGSI requires continuous video recording of every gambling table, casinos' entrance, reception desk and cashier's desk during working hours in all casinos. The Participant has an obligation to store these recordings for at least seven days.

The Participants require registration of all casino clients before they enter the room where games are organized. Casino clients are registered at every entrance they are asked to produce identity documents, and information on customers is filed in the casino's registry. All casinos submit this information to the LGSI on monthly basis. The LGSI stores this information for five years.

The goal of registration is to determine identity of all the casino visitors in order to prevent gambling house attendance of minors, as well as laundering of proceeds derived from criminal activity.

## **Procedure for Reporting Unusual and Suspicious Transactions**

### **Determination of unusual and suspicious transactions**

In accordance with the Cabinet of Ministers Regulation No.127 Regarding List of Elements of Unusual Transactions and Procedures for Reporting passed on March 20, 2001, Participants have worked out procedures featuring cases on how unusual and suspicious transactions of a client's business and private activities are being detected, how the Participant's officials in charge of compliance with the AML Law are being informed, as well as the reporting procedure of Reports to the FIU.

### **Patterns of Unusual Transactions:**

- a client wins 5 000 LVL or more;
- a client by changing means of gambling (for instance, chips) carries out a non-cash payment transfer or exchanges the currency for the sum equivalent to 5 000 LVL or more;
- a client in a gambling club gains means of gambling (for instance, chips) for 5 000 LVL or more.

Participants must promptly notify the FIU about every financial transaction that matches at least one of the criteria of unusual transaction.

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<sup>5</sup> Participants – capital companies under the supervision or control of the LGSI that have received a special permission (licence) for organizing and maintenance lotteries and gambling.

### **Patterns of Suspicious Transactions:**

- problems with identifying a client;
- information is available that a third party has provided a client with money for gambling;
- a client is dealing with large sums of money carelessly;
- suspicion of links with terrorism financing (client's name can be found in the Consolidated Terrorist List);
- the Participant or its employee is aware of the financial situation of a client and the client deals with sums exceeding assets at his/her disposal;
- a transaction is connected with another transaction of which the FIU has been already notified;
- reports on the suspicious nature of a transaction effected by a customer are received from other authorities (e.g. police);
- a transaction is connected with a suspicious transaction carried out abroad.

The Participant must refrain from carrying out a certain transaction in case a grounded suspicion arises or it is ascertained that a specific case is linked with money laundering or an attempt of money laundering. The Participant may demand from a client an acknowledgment in writing on the source of funds.

The Participant's management authorizes a person entitled to make a decision on refraining from carrying out transactions.

Decisions on refraining from certain transactions or ceasing such refraining must be motivated, recorded in writing and they are to be promptly reported to the FIU.

### **LGSI Guidelines for Formulation of Internal Control System**

The LGSI has drawn up the Guidelines for Formulation of Internal Control System for the Prevention of Laundering of Proceeds Derived from Criminal Activity and Terrorist Financing which are worked out on the basis of the AML Law, including amendments to the Law adopted by the Saeima on May 26, 2005 and regulatory acts for the LGSI operation (the Gambling and Lotteries effective as of January 1, 2006).

The Guidelines determine the main requirements the Participants, subject to supervision and control of LGSI, must include in drafting, recording and putting into effect their Internal Control System.

All the Participants make use of the Guidelines, adopting them to the specifics of each Participant.

The aim of the Guidelines is to prevent regulated institutions from being misused for money laundering and terrorism financing.

### **LGSI Main Requirements in Formulation of Internal Control System**

In order to meet requirements of regulatory enactments, reduce the risk of dealing with customers who are involved in money laundering or terrorist financing, as well as prevent reputational risk and other damage resulting from loss of confidence, the Participants are

recommended to work out relevant policies and procedures that provide for setting high and adequate professional standards.

In order to carry out requirements set by the AML Law, the Participants are recommended to approve regulations of internal control and ensure their implementation.

The Participants' policy and procedures must comprise of the following elements:

- determination of potential circle of customers;
- identification of clients and determination of beneficial owners;
- detection of unusual and suspicious transactions;
- determination of "high risk" clients;
- regular supervision of transactions by clients;
- refraining from completing transactions, possibly connected with money laundering or terrorist financing;
- prevention of financing of terrorism.

### **LGSI: Statistical Information**

The LGSI supervises and controls 19 capital companies that have received a special permission (license) for organizing and providing gambling and one licence operating lotteries by state owned capital company LatLotto. They rent or own 496 gambling halls, and 13 are casinos (data at the end of second quarter 2008).

In 2007, LGSI has received information from the Participants about 264 transactions that exceeded 5 000 LVL.

In 2007, LGSI carried out 20 examinations with regard to compliance with the provisions of the Law.