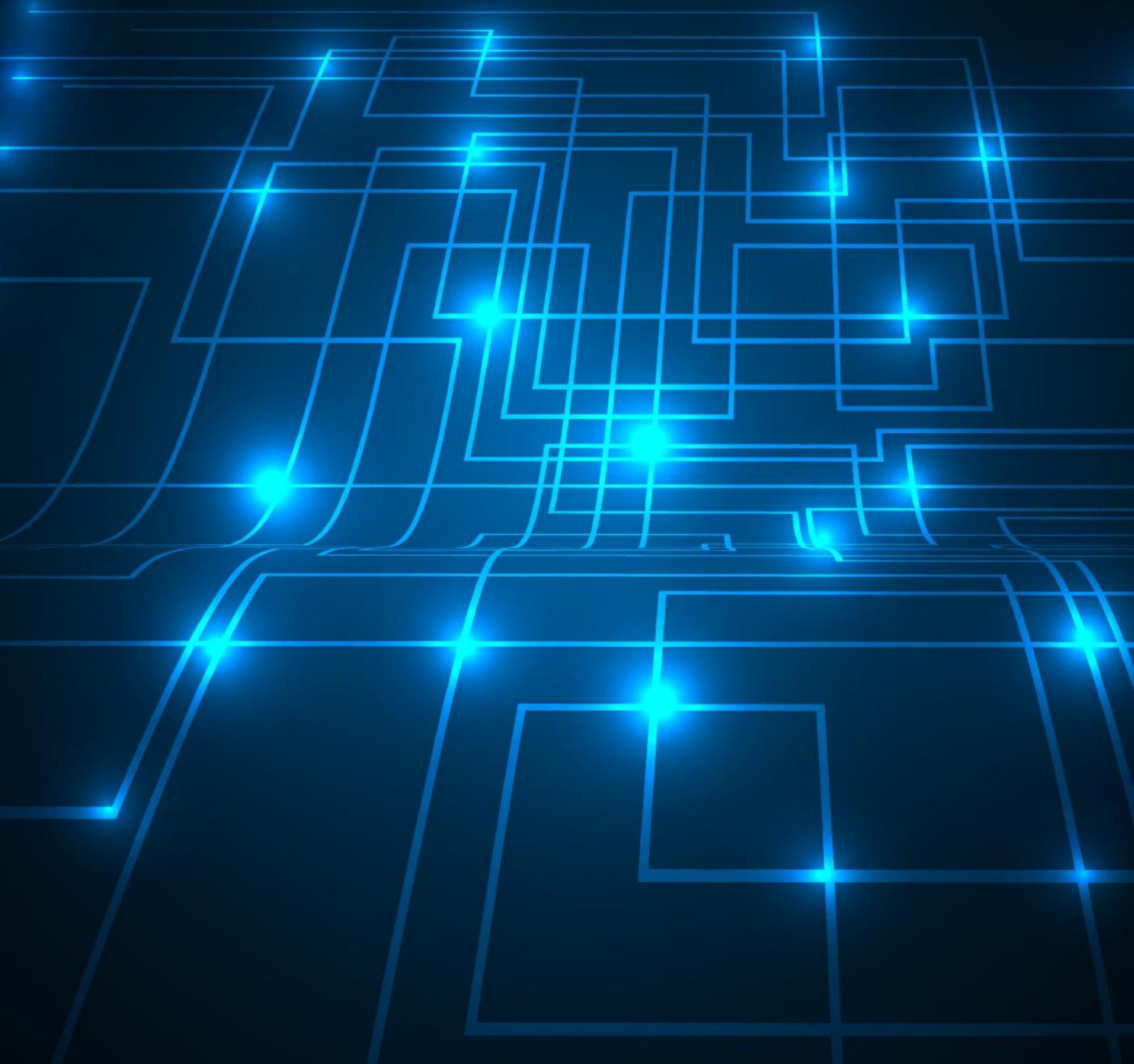


# COMBATING MONEY LAUNDERING IN LATVIA

2014



# Contents

<b>Executive Summary</b> .....	<b>3</b>
General information.....	3
Legislative Basis.....	4
Financial Intelligence Unit (FIU).....	4
Advisory Board of the FIU.....	4
Prevention of International Terrorist Financing.....	5
Council for Financial Sector Development.....	5
Financial and Capital Market Commission (FCMC).....	5
Lottery and Gambling Supervision.....	6
Conclusion.....	6
<b>List of abbreviations</b> .....	<b>7</b>
<b>List of Laws and Secondary Legislation</b> .....	<b>8</b>
<b>Latvian Institutional System of Prevention of Money Laundering</b> .....	<b>9</b>
Chart of the System.....	9
Legal Basis.....	10
Proceeds from Crime.....	10
Council for Financial Sector Development.....	10
Latvian FIU.....	12
Purpose and Duties.....	13
Advisory Board of the FIU.....	13
<b>Reporting System</b> .....	<b>15</b>
Reporting Entities.....	15
Obligations of Reporting Entities.....	15
Unusual Transactions.....	16
Suspicious Transactions.....	16
The Supervisory Authorities.....	17
Refraining from and Suspension of Suspicious Financial Transactions.....	17
Targets of the Orders Issued by the FIU.....	18
Orders for Transaction Monitoring.....	18
Protection of Information.....	19
Liability and Protection of the Reporting Entities.....	19
Methods of Information Analysis.....	20
Co-operation of the FIU with Other Institutions.....	20
Co-operation with the Persons Subject of the AML Law and their Supervisory Authorities.....	21
Co-operation with Law Enforcement Authorities .....	22
International Co-operation.....	23
<b>System for Preventing International Terrorist Financing</b> .....	<b>24</b>
Legislative Basis.....	24
Administrative System.....	24
Verification of Terrorist Lists under the Existing System for Preventing International Terrorist Financing.....	25
<b>Supervisory Authorities</b> .....	<b>26</b>
Financial and Capital Market Commission (FCMC).....	26
Prevention of Money Laundering and Terrorist Financing.....	26
On-site Examinations.....	27
Banking Sector.....	27
Identification Requirements Regarding Enhanced Customer Due Diligence and Beneficial Owners.....	27
Statistical Information.....	29
Lottery and Gambling Supervision Inspection (LGSi).....	30
Supervision of Gambling Market Participants .....	30
Procedure for Reporting Unusual and Suspicious Transactions.....	30
Patterns of Unusual Transactions: .....	31
Patterns of Suspicious Transactions: .....	31
LGSi Guidelines for Formulation of Internal Control System .....	31
LGSi Main Requirements in Formulation of Internal Control System .....	32
LGSi: Statistical Information (data on December 31, 2014).....	32

### General information

Latvia is located in the Baltic region of northern Europe and is bordered by Estonia to the north, Russia to the east, Lithuania to the south and Belarus to the south-east. The western border of the country is the Baltic Sea, with which the country has a 498 kilometre (km) coastline. Latvia is divided into four historical districts: Kurzeme (western Latvia), Zemgale (southern Latvia), Vidzeme (northern Latvia) and Latgale (eastern Latvia). Latvia covers an area of approximately 64,559 square kilometres.

Overall population as of 01.01.2014. is 2,001,468 out of which 1,357,682 live in urban area. The capital city is Riga which has a population of approximately 643,368.

The country is low lying and generally flat, rising steadily from west to east, reaching its highest point of 312 metres above sea level at Gaizinkalns. Latvia shares its longest border with Lithuania (588 km), followed by Estonia (343 km), Russia (276 km) and Belarus (161 km).

Latvia is a democratic, parliamentary republic. Legislative power is in the hands of the single chamber Saeima, which has 100 deputies. Parliamentary elections are held every 4 years. Latvia's head of state, the President, is elected by the Saeima for a period of 4 years. The President signs laws, chooses the Prime Minister (who heads the government) and performs representative functions.

Prime Minister must be approved by the Saeima.

The President can send legislation back for revision and amendment. Latvia's modern-day presidents have effectively used their offices to promote Latvia's foreign policy objectives, and have been active and influential in international diplomacy, particularly in achieving Latvia's membership in NATO and the EU.

Latvia's geographical location, with its ports on the Baltic Sea and the land borders with other Baltic States, makes it a major transit point. The current risks and vulnerabilities in relation to money laundering and financing terrorism that are faced in Latvia are considered to be connected with the "shadow economy" and phishing schemes abroad. Money laundering in Latvia is related mainly to illegal proceeds generated by:

- Evasion of taxes (VAT), which has been identified as a domestic predicate crime. Illegal proceeds are laundered in Latvia or in other countries (for example in Estonia or Lithuania) mostly by creating large schemes of transactions executed by a number of legal persons.
- Fraud, identified as phishing schemes related to internet crimes in Germany and some other countries.

Latvia has an "all crimes approach", which implies that every criminal offence, including terrorist financing, can be a predicate offence for money laundering.

### 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 authorities that are applicable to credit and financial institutions as well as designated non-financial businesses and professionals. Moreover, reporting entities 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.

Alongside with the entry into force of the new AML Law over December 2008 – January 2009 the Government adopted a number of normative acts subordinated to the new AML law.

### Financial Intelligence Unit (FIU)

The Latvian FIU receives, registers, processes, compiles, stores, analyses 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. To encourage reporting, an exemption from legal liability applies to the persons that reported unusual or suspicious transactions to the FIU (reporting entities). Failure to report unusual or suspicious transactions can lead to the administrative and/or criminal sanctions.

Another key responsibility of the FIU is the establishment of channels of communication and coordination with the persons subject to AML Law, state institutions, law enforcement authorities and foreign counterparts.

### Advisory Board of the FIU

To enhance the effectiveness of the Republic of Latvia fight against money laundering and terrorist financing and to coordinate the cooperation of public institutions and reporting entities the

## Executive Summary

---

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 Market 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. FIU compiles and verifies lists 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 were 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 responsibilities 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 the President of Latvian Private Bank association.

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

The FCMC is an autonomous public authority and the consolidated regulator for the banking, financial, securities and insurance sectors. It is responsible for the stability and development of the financial market.

FCMC conducts regular on-site examinations of market participants to determine, inter alia, their compliance

## Executive Summary

---

with the Latvian AML and CTF legislation. Its key focus is on the efficiency of the internal control system of financial services providers.

FCMC can apply wide range of sanctions to the credit and financial institutions for failure to comply with AML/CFT requirements. Sanctions can vary from monetary fines on a legal person up to 10 per cent of the net revenue of the previous financial year, imposing of restrictions on provision of certain financial services, assessing fitness and properness of management up to revoking of license of the credit or financial institution.

### **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 and gaming halls, 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. 36 On the Countries and International Organizations, which have compiled Lists of Persons suspected of being involved in Terrorist Activity, approved by the Cabinet of Ministers on January 13, 2009;

Cabinet of Ministers Regulation No. 1071 On the List of Indicators of Unusual Transactions and the Procedure according to which Reports on Unusual and Suspicious Transactions shall be made, approved by the Cabinet of Ministers on December 22, 2008;

Cabinet of Ministers Regulation No. 1092 On the Procedure according to which State and Municipal Authorities provide Information to the Office for Prevention of Laundering of Proceeds derived from Criminal Activity, approved by the Cabinet of Ministers on December 22, 2008;

Cabinet of Ministers Regulation 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, approved by the Cabinet of Ministers on November 25, 2008;

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, approved by the Cabinet of Ministers on December 19, 2006;

Cabinet of Ministers Regulations No. 96 Procedure where under report about organization of gambling and lotteries has to be submitted, approved by the Cabinet of Ministers on February 6, 2007;

Cabinet of Ministers Regulation No. 854 Procedure for Registration and Identity Checking of Gamblers of the Interactive Gambling, approved by the Cabinet of Ministers on 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, approved by the Cabinet of Ministers on September 19, 2006;

Cabinet of Ministers Regulation No. 512 Procedure for Supervision and Control over Arrangement and Maintenance of Gambling and Lotteries, approved by the Cabinet of Ministers on June 27, 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 June 8, 2009;

Law on the Financial and Capital Market Commission, effective as of July 1, 2001;

Credit Institution Law, effective as of October 24, 1995;

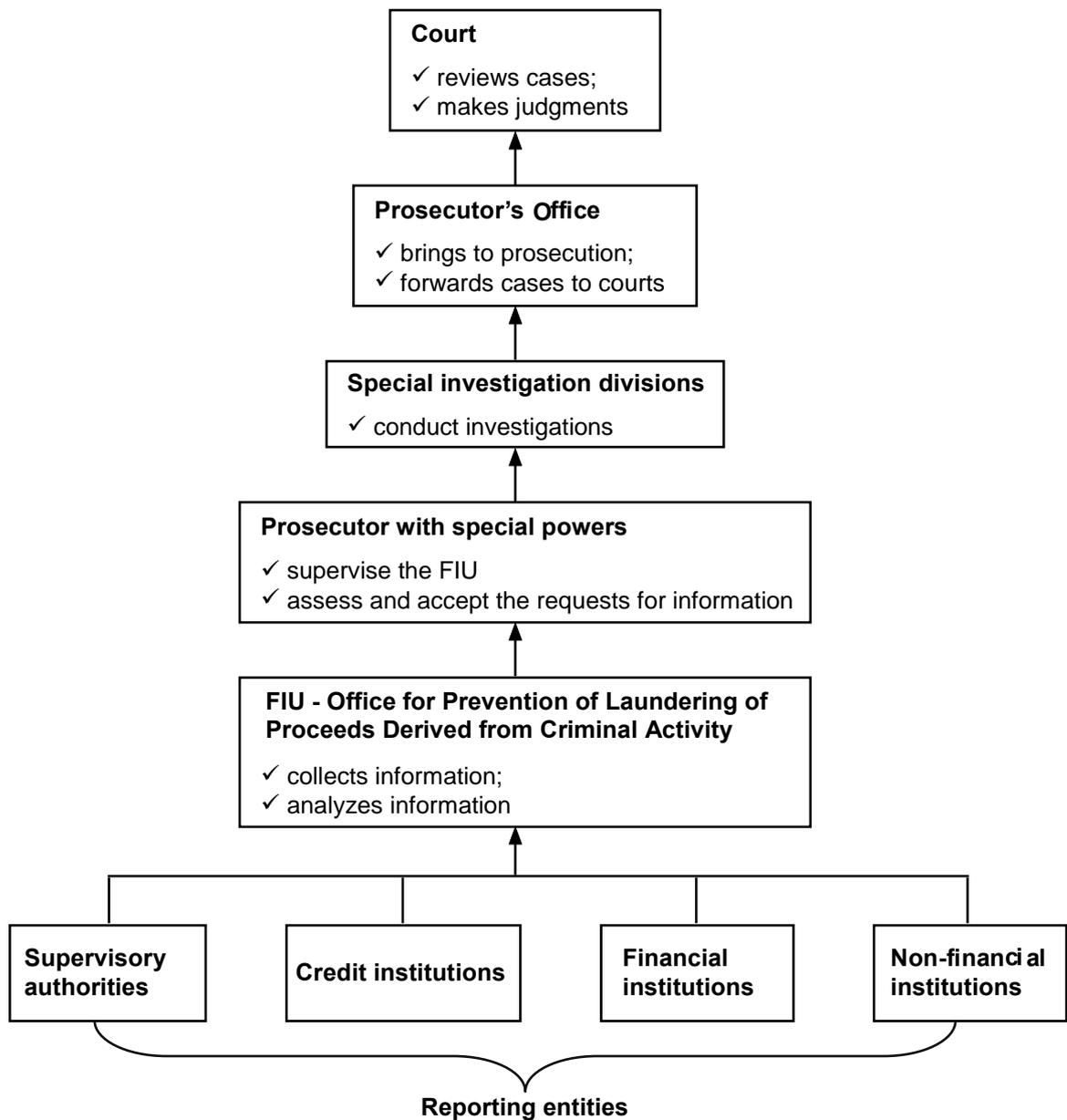
Law on Insurance Companies and Supervision Thereof, effective as of September 1, 1998;

Law on Investment Management Companies, effective as of July 1, 1998;

Law on Financial Instruments Market, effective as of January 1, 2004;

FCCM Regulations for Enhanced Customer Due Diligence, approved by the FCCM on August 27, 2008

## Chart of the System



## 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 was the 1997 Law On Prevention of Laundering of Proceeds Derived from Criminal Activity (AML Law) 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 AML Law was amended 6 times over the past 10 years. The Law on Prevention of Laundering of Proceeds Derived from Criminal Activity was replaced by the new AML Law (Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing) 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.

## Proceeds from Crime

According to the AML Law, any financial resources and other property, which have directly or indirectly been acquired as a result of any criminal offences provided in the

Criminal Law are recognized as proceeds from crime.

The same applies also to financial resources and other property which is controlled (directly or indirectly) or owned by the owner which is person who is listed as terrorism suspect by the FIU or 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.

Compiling list of terrorism suspects FIU follows Regulation No. 36 On the Countries and International Organizations, which have compiled Lists of Persons suspected of being involved in Terrorist Activity, approved by the Cabinet of Ministers on January 13, 2009. The Regulation defines the countries and international organizations whose compiled lists of persons, suspected of being involved in terrorist activity, are recognized by the Republic of Latvia, i.e., the terrorist lists compiled by European Union and North Atlantic Treaty Organization member states, the terrorist lists compiled by the United Nations Security Council and the European Union Council. So far no domestic persons, suspected of being involved in terrorist activity are included in the list of terrorism suspects.

## Council for Financial Sector Development

According to the AML law Council for Financial Sector Development is the coordinating body for AML and CFT in Latvia.

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 transformed to the "Finance Sector Development Council" on April 3, 2007.

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

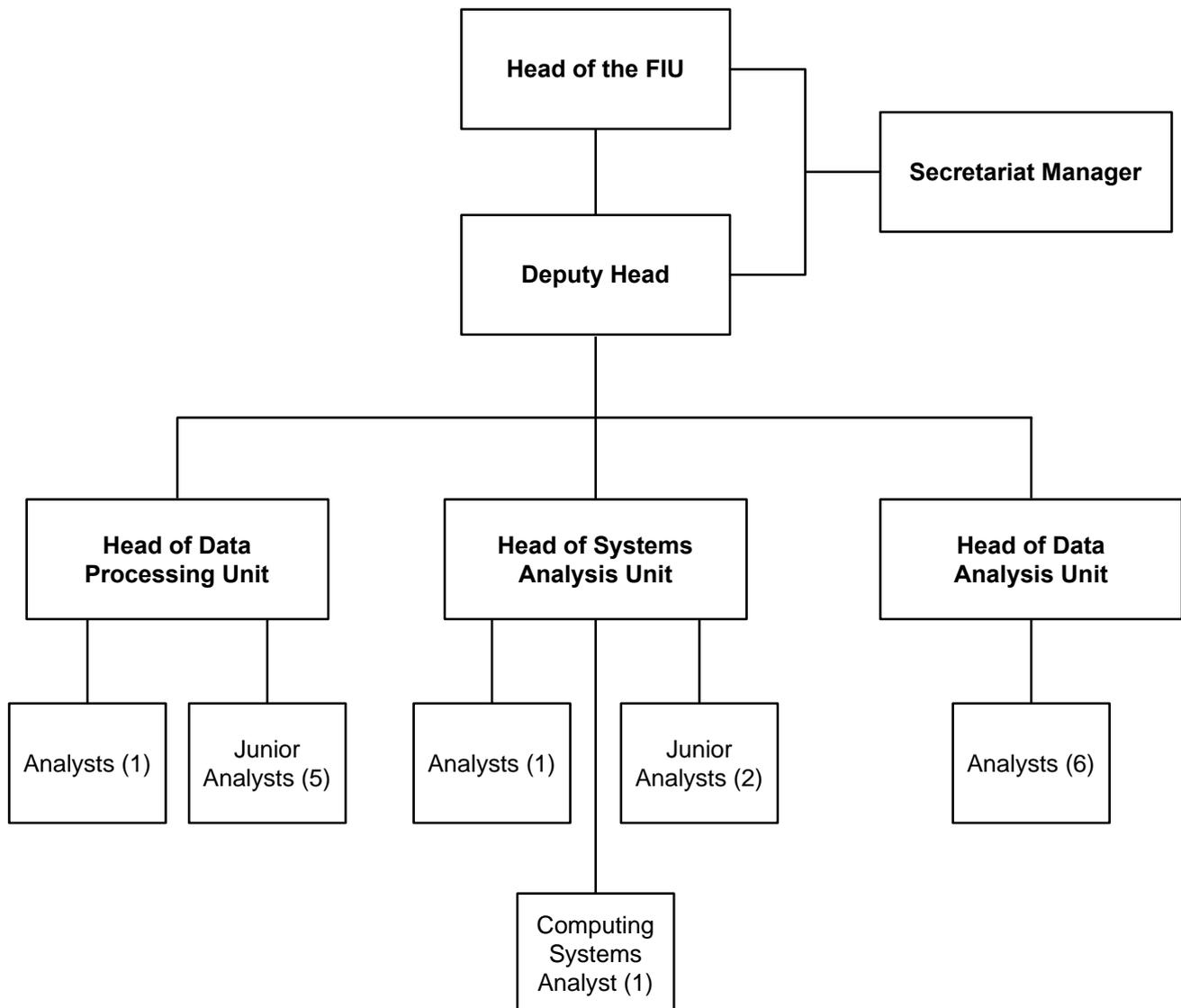
The Council for Financial Sector Development is comprised of high-level state officials - the Prime Minister (Chairman of the Council), Minister of Interior, Minister of Finance, Minister of Justice, Head of the Supreme Court, Prosecutor General, President of the Bank of Latvia, Chairwoman of the FCMC. Also President of Latvian Commercial Bank association, President of Latvian Insurers association, Executive Director of the Latvian Securities Market Professional Members Association and President of the Latvian Private Bank association are members of the Council.

# Latvian Institutional System of Prevention of Money Laundering

---

## Latvian FIU

### Organizational System of the FIU



## 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 entity 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:

- to receive, compile, store and analyze the reports of suspicious and unusual transactions;
  - to provide to an investigation institution, 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;
  - to analyze the quality of reports and efficiency of their application;
  - to make analysis and research of the techniques of money laundering, terrorist financing, improve the methods whereby these activities are prevented and discovered;
  - to cooperate with international and foreign institutions that engage in the prevention of money laundering and terrorist financing;
  - to provide supervisory authorities with information on the characteristic techniques for money laundering and financing of terrorists and to enhance the preventing of money laundering and terrorist financing.
- train employees of supervisory authorities in relation to the prevention of money laundering and of terrorist financing;
  - to compile and disseminate list of persons who are suspected of being involved in terrorist activities;
  - to provide supervisory authorities with information on the statistics, quality and application efficiency of the unusual and suspicious transaction reports;
  - provide all the stakeholders with recommendations on how to reduce the possibilities of money laundering and terrorist financing;
  - to publish information about FIU's performance, indicating the number of cases investigated and persons brought to criminal prosecution, the number of persons convicted for the money laundering or terrorist financing and the volume of suspended and seized funds;
  - to notify supervisory authorities on the detected violations of the requirements of the AML law by the persons under their supervision;
  - to compile and submit to the Advisory Board of the FIU the statistical information on the measures taken in respect of the supervision and control of the persons subject to the AML Law.

## Advisory Board of the FIU

In order to facilitate the work of the FIU and to co-ordinate its co-operation with pre-trial investigation institutions, the Office of the Prosecutor, the court and the persons subject to the AML Law an Advisory Board was established.

The tasks of the Advisory Board are:

- to coordinate the cooperation of public institutions, the persons subject to the AML Law and their supervisory authorities to ensure compliance with the AML Law;
- to develop recommendations for the FIU;
- to prepare and submit to the FIU proposals on amendments to the list of indicators of unusual transactions;
- submit proposals to the Prosecutor General for improvement of FIU performance.

Ministry of Finance, Ministry of Interior, Ministry of Justice, Bank of Latvia, FCMC, Association of Commercial Banks, Association of Insurers, Sworn Notaries Council, Sworn Auditors Association, Council of Sworn Advocate, Supreme Court and State Revenue Service are represented on the Advisory Board.

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

## Reporting Entities

According to the AML Law its requirements, including obligation to report any unusual or suspicious transaction applies to:

- credit institutions, life insurance companies, private pension funds, life insurance intermediaries, investment brokerage firms, asset management companies, currency exchange offices and providers of money transmission and remittance services, electronic money institutions, alternative investment fund managers, credit unions, providers of reinsurance services, providers of financial lease services;
- tax advisors, external accountants, sworn auditors un commercial companies of sworn auditors;
- sworn notaries, sworn advocates, other independent legal professionals when they act in the name and for the benefit of their customers:
  - buy or sell real estate or shares in the capital of a commercial company,
  - manage a customer's money, financial instruments and other funds,
  - open or manage all kinds of accounts with credit institutions or financial institutions,
  - create, manage or ensure the operation of legal arrangements, make investments necessary for creating, managing or ensuring the operation of legal arrangements;
- trust and company service providers,
- persons acting in the capacity of agents or intermediaries in real estate transactions,
- organizers of lotteries and gambling,

- persons providing money collection services,
- any persons merchant, intermediary or service provider, when the payment for goods or services is accepted in cash in the amount equivalent to or exceeding 15 000 euros.

In order to prevent money laundering or terrorist financing persons not listed as reporting entities by the AML Law, including public institutions, also have an obligation to report unusual or suspicious transactions. Legal defense mechanisms applied to these persons at the same level as to reporting entities.

## Obligations of Reporting Entities

Most important obligations of the reporting entities are customer identification and due diligence, reporting of any unusual or suspicious transaction to the FIU as well as to provide FIU upon its request with information and document about the customer or the transaction, the origin and further movement of funds.

Where the transaction is related or may be reasonably suspected of being related to the money laundering or terrorist financing reporting entities have obligation to refrain from executing such transactions and immediately report them to the FIU.

Where it is not possible for persons subject of the AML Law to identify a customer, to verify his/her identity or establish the beneficial owner, it is prohibited to establish business relationship with such person, service the account of such person, or make any transactions on such person's behalf.

## Unusual Transactions

Transaction is considered unusual if it matches at least one of the indicators of unusual transactions specified in the Cabinet of Ministers Regulation No. 1071 On the List of Indicators of Unusual Transactions and the Procedure according to which Reports on Unusual and Suspicious Transactions shall be made, approved by the Cabinet of Ministers on December 22, 2008.

Some of the indicators for unusual transactions are:

- transaction where one of the parties is a person included on the terrorism suspect list compiled by the FIU;
- cash transaction in the amount of 60 000 EUR and more (for real estate dealers and car dealers threshold is 30 000 EUR, for any other transaction related to real estate threshold is 20 000 EUR, threshold for sale/purchase of precious metals, precious stones and articles is 15 000 EUR); for money remittance and transfer services providers when they are providing transferring or remitting services in the amount of 40 000 EUR;
- coins or banknotes of a low par value are exchanged for banknotes of a higher denomination (or vice versa) or for other banknotes of the same denomination in the amount of 2 000 EUR or more;
- withdrawal of 60 000 EUR and more in cash using credit cards or other payment cards within a period of a month;
- selling or purchasing of foreign currency in the amount the equivalent of which is 8 000 EUR and more;
- insurance premium, or investments in a pension plan is 40 000 EUR or more and

it is made by a legal entity founded in a tax free or low tax country or territory;

- payment in cash for the securities in the amount of 15 000 EUR and more;
- winning of 8 000 EUR or more in a casino or lottery;
- buying of casino chips in the amount of 8 000 EUR equivalent and more;

Sworn auditors, sworn auditor companies, tax advisors, external accountants have an obligation to report cases when their client has received a loan from natural person in the amount of 60 000 EUR or more in cash.

Sworn notaries, sworn advocates and other independent legal services providers have to report every transaction when their client deposits cash in the amount of 15 000 EUR and more and every case when they provide the consultation or verification of a transaction that meets any of the indicator of the unusual transactions.

Merchants dealing with precious metals, precious stones and articles have to report every case when a client sells or offers for sale precious metals, precious stones and articles thereof for the price that does not exceed 50% of the market value.

## Suspicious Transactions

Persons subject to the AML Law must report transactions to the FIU which give rise to suspicion of 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 persons subject to the AML Law themselves. The typologies

## Reporting System

---

of possibly suspicious transactions are regularly discussed at the training sessions organized by the FIU for reporting entities.

### The Supervisory Authorities

Supervisory authorities of persons subject to the AML Law have a duty to report to the FIU the unusual and suspicious transactions discovered during the course of examinations regarding which the reporting entities have failed to notify the FIU themselves.

In order to enable the supervisory 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 entity under their supervision and carry out inspections there;
- to request that the reporting entity submit information related to the fulfilment of the requirements of the AML law, request to produce original documents, review and get copies thereof, get relevant explanations and perform activities to prevent or reduce the possibility of money laundering or terrorist financing;
- to prepare reports evidencing the violations of the requirements of the AML Law and apply sanctions;
- 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 entities related to their AML and CFT responsibilities.

### Refraining from and Suspension of Suspicious Financial Transactions

Persons subject to the AML Law are obliged to refrain from executing transactions where the transaction is related or may be reasonably suspected of being related to the money laundering or terrorist financing or it is reasonably suspected that the funds involved in the transaction have been directly or indirectly generated as a result of a criminal offence or are connected with terrorism financing or an attempt at committing a criminal offence.

Refraining from executing transaction is immediately reported to the FIU.

Within five business days after the report is received the FIU assesses if the decision to refrain from executing transaction is in line with the AML Law and whether it is proportionate. After that FIU issues reasonably grounded binding order for the person to discontinue refraining from executing a transaction or freeze the funds temporarily.

If the funds are temporary frozen, FIU has 40 days to gather and analyze additional information and make a decision whether to:

## Reporting System

---

- 1) issue an order regarding the freezing of funds for a specified period of time – up to 45 days (or 6 months if transaction is related to terrorism financing);
- 2) notify in writing the person subject to the AML Law that a further refraining from executing the transaction is not motivated and shall be terminated.

Where the customer provides information on the legal origin of money or other funds, FIU can revoke the order regarding the freezing of funds.

Where an order regarding the freezing of funds for a specified period of time is issued, the FIU has to submit information to pre-trial investigation authorities or Office of the Prosecutor within 10 business days.

The FIU is entitled to issue orders regarding the freezing of funds upon request of authorized institutions of other countries or international institutions preventing terrorism. The FIU can issue such order where the information in the request creates reasonable suspicion that a criminal offence is taking place, including a criminal offence of money laundering, of terrorist financing or of an attempt thereof, and where such order would be issued if a report on unusual or suspicious transactions was received in due course of the AML Law of Latvia.

The FIU also has the right to 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.

The orders issued by the FIU may be contested to a specially authorized prosecutor either by persons subject to the AML Law or the state information system manager and persons whose

funds have been frozen or the authorised representatives of such persons.

If the reporting entity is not able to refrain from executing a suspicious transaction, or if the action in itself of refraining from the execution of such a transaction may tip off the customer involved in the money laundering and help such customer to evade liability, the reporting entity has the right to execute the transaction, and report it to the FIU after the transaction has been executed. This does not apply to transactions by persons in respect of which the United Nations Security Council or the European Union established financial restrictions.

### **Targets of the Orders Issued by the FIU**

FIU has the right to issue orders issued suspending illegally obtained means including property arising from the conversion of criminal assets in other values.

Where illegally obtained means partially or in whole are added to means obtained from legitimate sources, orders issued by FIU refer to the illegally obtained funds and proceeds from legitimate sources in total.

Where the funds suspended by the FIU generate interest, orders issued by the FIU refer also to such interest in whole or to the part connected to the illegally obtained means.

### **Orders for Transaction Monitoring**

The Financial Intelligence Unit in the cases when based on the information received from persons subject to this Law or as a result of information exchange with the foreign authorities and

## Reporting System

---

institutions grounded suspicion of a criminal offence arises committed or being committed including money laundering, terrorism financing or an attempt of such activities, with the agreement of the prosecutor general or specially authorised prosecutor issues order for the person subject to this law to monitor the transactions on the customer's accounts – up to one month. If necessary, this period can be prolonged for a period up to one month by the prosecutor general or specially authorised prosecutor.

### Protection of Information

The FIU may use the information at its disposal only for the purposes and in accordance with the procedures prescribed by the AML Law. Other state institutions may use the information provided to them by the FIU only for the purpose for which it has been received. The information provided by the FIU may become public only at the moment when based on that information criminal charges are brought against individual.

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 Head of the FIU on 22 April, 2009.

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 officials and employees of the reporting entities as well as employees of supervisory authorities 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 reporting entities, the supervisory authorities and the FIU and their officials and employees also may not disclose to any third party data regarding the employees designated and responsible for maintaining contact with the FIU.

### Liability and Protection of the Reporting Entities

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 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 individual knows that money laundering or terrorist financing has or is taking place and

## Reporting System

---

is not reporting it to the law enforcement authorities, he/she can be held criminally liable for that offence.

If the person subject of the AML Law or an official or an employee of such an institution has filed in good faith a suspicious or unusual activity report with the FIU, irrespective of whether the fact of the laundering of the proceeds from crime or terrorist financing is proved or not, the reporting to the FIU shall not be deemed to be the disclosure of information not to be disclosed, therefore the persons subject of the AML Law and the officers or employees of such institution cannot be held liable for any damages caused by reporting or for breach of any professional secrecy laws.

If the reporting entity in good faith and in accordance with the requirements of the AML Law have refrained from a transaction or have suspended debit operations in a customer's account, reporting entity or an official or employee of such entity cannot be held liable for any damages caused by such refraining from transaction or suspension of debit operations, irrespective of the results of the utilization of the information provided.

The same exemption from liability applies to the FIU and its officials regarding the decisions they make and orders issue pursuant to the AML Law.

### 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.1092 entitles the FIU to receive information from all state and municipal databases.

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,

## Reporting 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 14 years, more than 300 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. 265 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.

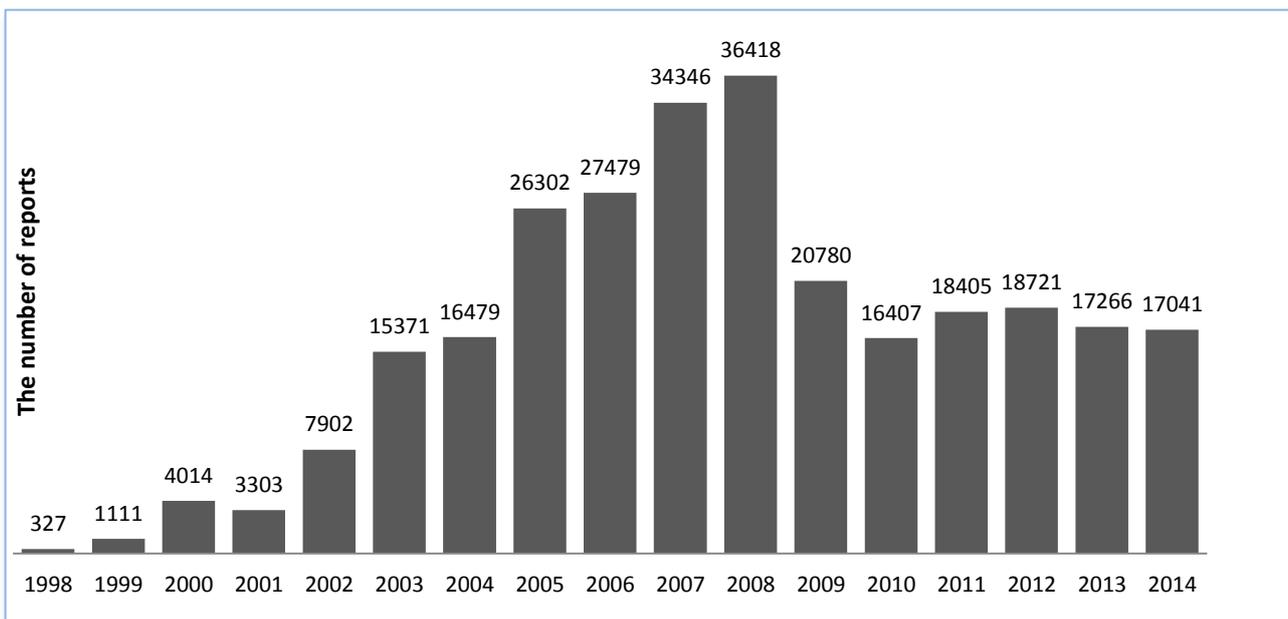
### Co-operation with the Persons Subject of the AML Law and their Supervisory Authorities

The FIU actively cooperates with various credit, financial and non-financial institutions and their supervisory authorities: banks, insurance companies, sworn notaries, state 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 authorities, for instance, the Financial and Capital Market Commission, which exercise supervision over banks and other financial institutions is regularly submitting information to the FIU not only on suspicious transactions that are discovered during on-site inspections in the banks and other financial institutions but also on suspicious transactions discovered evaluating documents and information obtained during the licensing process.

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. In order to improve the quality of reports being sent to the FIU, meeting with banks' compliance officers are organized on a regular bases.

The total number of Reports on unusual and suspicious transactions on a year-on-year basis is as follows:



Source: FIU statistics on 31.12.2014.

## Reporting System

### Co-operation with Law Enforcement Authorities

There is a close and productive relationship between the FIU and various law enforcement agencies.

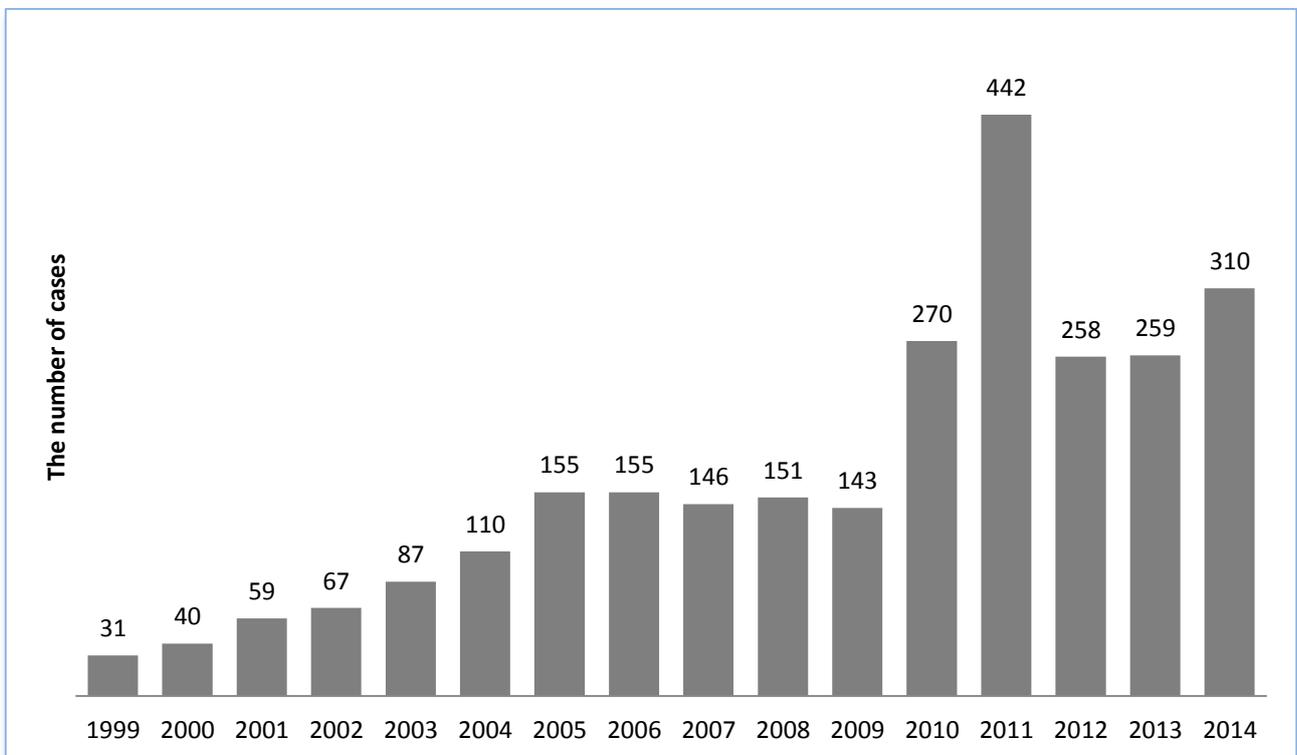
If it could be reasonably suspected that a crime has been committed, the FIU prepares a case (file) and sends it to the competent police force – either the Economic Crime Police or the Financial Police, for investigation. FIU itself does not conduct preliminary investigations and investigations.

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

- the legislative basis,
- money laundering typologies (the Egmont Group material on sanitized cases has been translated),

- the legal aspects of money laundering cases with reference to the Criminal Law,
- a textbook on the institutional basis of anti-money laundering systems in the world,
- a textbook on the criminal, criminological and forensic characteristics of laundering of proceeds derived from criminal activity,
- a textbook on the fight against the money laundering and financing of terrorism.

The police can also 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 16 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.



Source: FIU statistics on 31.12.2014.

# Reporting System

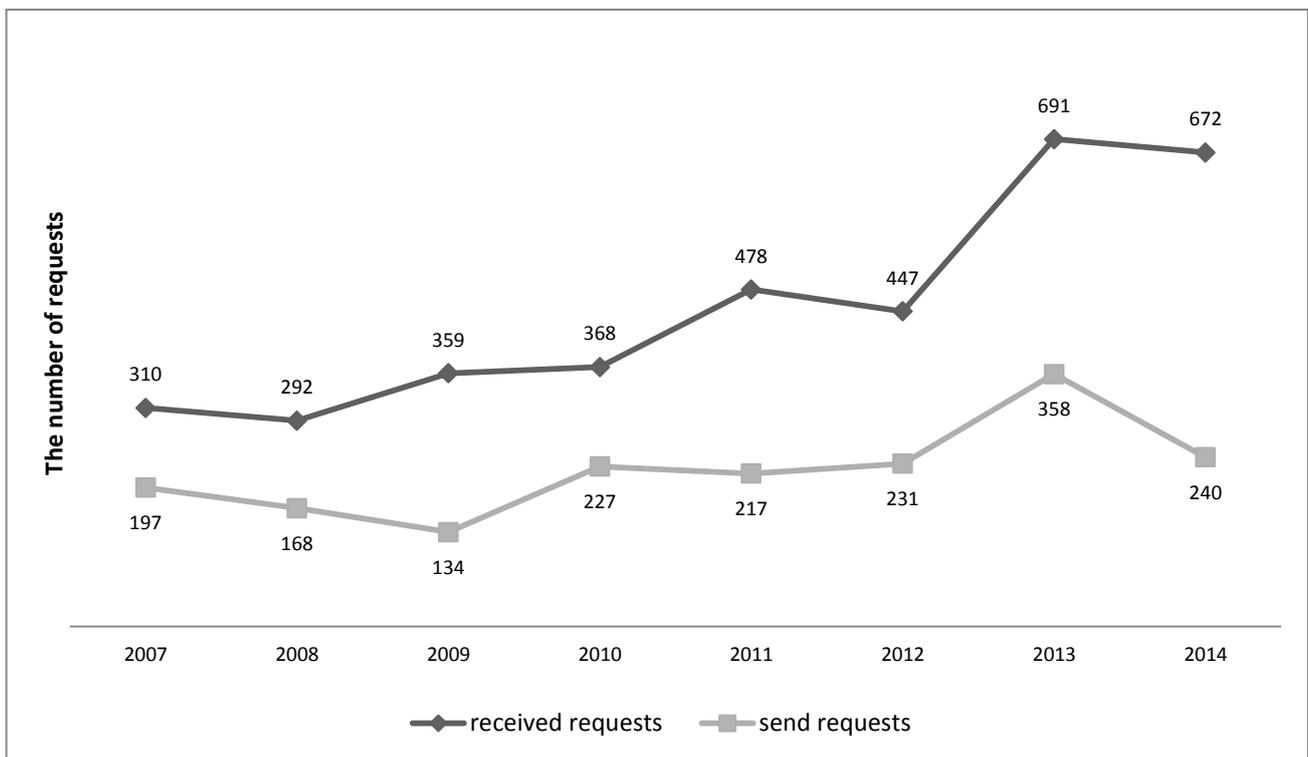
## International Co-operation

The FIU may freely, on its own initiative or on request, exchange information with authorized foreign institutions that exercise duties equivalent in essence to those of the Latvian FIU provided that:

- confidentiality of data is ensured and the data is used only for mutually agreed purposes;
- it is guaranteed that the information will 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 31.12.2014.

# 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 AML Law (in force since August 13, 2008), financial resources and other property that directly or indirectly controlled or owned by person who is included in terrorist lists or by person who on the basis of information available to bodies performing investigatory operations, pre-trial investigation institutions, the Office of the Prosecutor or the court is reasonably suspected of the execution of or participation in a terrorist-related criminal offence are acknowledged as proceeds from crime.

Amendments have been made to the Regulation No.1071 On the List of Indicators of Unusual Transactions and the Procedure according to which Reports on Unusual and Suspicious Transactions shall be made, approved by the Cabinet of Ministers on December 22, 2008. One of the main indicators - 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 terrorist list.

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 13 January 2009 the Regulation No 840 was updated and replaced by Regulation No.36. "Regulation on the Countries and International Organizations which have compiled Lists of Persons suspected of being involved in Terrorist Activity".

According to the Regulation No.36 Latvia recognizes lists of terrorist suspects of United Nations Security Council and the European Union 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. Two employees of the FIU were appointed as the persons responsible for anti-terrorist financing.

All the reporting entities and their supervisory authorities have established a separate e-mail address to which terrorist lists are sent by the FIU as well as appointed a compliance office whose responsibility is maintenance of updated terrorist lists and reporting to the FIU should there be a positive match. Internal control procedures were amended to provide prevention measures for terrorist financing.

The FIU conducts regular training sessions for persons subject to the AML Law and law enforcement authorities

## System for Preventing International Terrorist Financing

---

explaining the way the anti-terrorist financing system works in practice. The supervisory authorities conduct regular audits to ascertain the adequacy of anti-terrorism financing systems put in place by reporting entities. The FIU also translates and electronically disseminates the key FATF documents, including explanatory notes, on anti-terrorist financing.

The Latvian FIU is a member of the Egmont Group since 1999 having online access to the Egmont Secure Web (ESW). The possibilities offered by network 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.

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 Financial Sector Development Council, 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. 36.

- 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 the persons subject to the AML Law and their supervisory authorities.

- Persons subject to the AML Law match the names from the Consolidated Terrorist List with the data contained in their databases. In case of positive matches the reporting entity immediately makes a report to the FIU and refrains from executing financial transactions related to person in question.

- 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. 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 FIU then issues an order stopping any further financial transactions. The order is immediately sent to the respective person by a courier or by a fax. A report (file) is also sent to the Security police to decide whether a criminal procedure should be initiated. The country or international organization that compiled the list is informed about the actions taken by the FIU.

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

FCMC is consolidated Regulator of Banking, Securities, Insurance and Financial 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 is entitled to interfere with the activities of the FCMC, except for institutions and officials authorized so by the Law.

There are 139 employees currently working in FCMC. FCMC has a specialized division dealing with AML issues which consists of 5 experts - the Financial Integrity Division. These five persons are on AML issues full time. In addition AML issues are present in prudential supervision divisions to the extent that on-site examinations and off-site bank analysis include risks connected to AML. 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**

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 including in the area of AML. The law also sets the fine rates on a legal person up to 10 per cent of the net revenue of the previous financial year 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;
- establish binding requirements for credit institutions and financial institutions, payment institutions and electronic money institutions for the fulfilment 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 identifies them.

Law On Payment Services and Electronic Money was adopted on 25.02.2010. and was set in force as of 31.03.2011. thus implementing EU Payment Services Directive 207/64/EC in the national legislation. In accordance with the requirements of this law new categories of payment services providers – payment institutions and electronic money institutions were set forth which came under FCMC supervision in accordance with this law.

On 31.03.2011. AML Law was also amended accordingly and payment institutions and electronic money institutions started to be supervised by FCMC for AML/CFT issues as well.

### **On-site Examinations**

The FCMC has developed a manual for on-site examiners to help verification of compliance with the AML Law. Any irregularities discovered in the course of an examination are reflected in examination 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 irregularities

discovered in the course of examinations to the full extent, the FCMC has regulatory powers to suspend the providing of certain financial services or even to revoke the license.

### **Banking Sector**

The Latvian financial sector is clearly dominated by banks. There were 17 banks and 9 foreign bank branches in Latvia at the end of December 2014, which account for about 90% of all financial system assets. Three banks are owned by large Nordic banking groups (SEB, Swedbank, DNB), representing almost 37% of the total banking sector assets. Two banks are owned by large Ukrainian banks (Privatbank, Pivdenny), and altogether they account for 4.3% of the total banking system assets. There is one state controlled bank Citadele (75%), accounting for 8% of the total banking system assets). The total value of deposits held by the Latvian banking system was 26,943 million US dollars at the end of December 2014.

Non-resident deposits have always been a permanent feature of Latvia's banking system. At the end of December 2014, non-resident deposits comprised 51.7% 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 Requirements Regarding Enhanced Customer Due Diligence and Beneficial Owners**

The basic indicators that attest to the fact that a client is subject to mandatory enhanced

## Supervisory Authorities

---

due diligence 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 as well as to respondents from third countries when cross border correspondent relationships are established. According to the FCMC's regulations for Enhanced Customer Due Diligence also all non-resident clients whose business is not related to Latvia are subjected to mandatory enhanced due diligence.

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 requirements and for all clients acting on the behalf of third persons. In practice it means that all high-risk customers, including 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. In addition to that banks and other financial institutions are required on a risk based approach to obtain and verify additional information on beneficial owners of their customers.

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 group.

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.

# Supervisory Authorities

## Statistical Information

Finance and capital market participants <sup>1</sup>	Number	Assets, in millions of US dollars	Share of total assets, in %
Banks and foreign bank branches	17+9	37 412	89.3
Insurance companies and foreign insurance companies branches	7+14	985	2.3
Private pension funds	6	4	0.0
Pension plans	18	344	0.8
Investment management companies	12	42	0.1
Investment funds	33	575	1.4
State pension scheme investment plans <sup>2</sup>	20	2 471	5.9
Alternative investment fund managers	6	2	0.0
Alternative investment funds	11	60	0.1
Investment brokerage firms	5	8	0.01
Credit unions	32	28	0.1
Payment institutions	34	-	-
Electronic money institutions	12	-	-
Insurance brokerage companies	88	-	-
Riga Stock Exchange	1	-	-
Latvian Central Depository	1	-	-
<b>Total</b>	<b>326</b>	<b>41 931</b>	<b>100</b>

Source: FCMC Statistical Information on 31.12.2014.

<sup>1</sup> Financial and capital market participants subject to the supervision of the FCMC

<sup>2</sup> Investment plans designed for second-tier pension plans (with state-funded pension plan assets).

### **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 institution, is under an obligation, within its competence, to exercise responsibilities stated by the AML Law.

### **Supervision of Gambling Market Participants<sup>1</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. Operator, to whom license for gambling hall or bingo

hall is issued, should ensure during working hours of such venues continuous interior and exterior video surveillance of the gambling premises. 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**

In accordance with the Cabinet of Ministers Regulation No 1071 On the List of Indicators of Unusual Transactions and the Procedure according to which Reports on Unusual and Suspicious Transactions shall be made, effective as of January 1, 2009 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.

<sup>1</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.

## Supervisory Authorities

---

### Patterns of Unusual Transactions:

- a client wins 8 000 EUR 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 8 000 EUR or more;
- a client in a gambling club gains means of gambling (for instance, chips) for 8 000 EUR or more.

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

### 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 "Recommendations to Capital Companies that Have Received a License Issued by the Lotteries and Gambling Supervisory Inspection for Organization and Maintenance of Gambling for Developing an Internal Control System for the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing" (adopted on June 8, 2009) which are worked out on the basis of the AML Law and regulatory acts for the LGSI operation (the Gambling and Lotteries Law effective as of January 1, 2006).

These Recommendations establish the basic principles to which the capital companies that have received a license issued by the Lotteries and Gambling Supervisory Inspection of the Republic of Latvia for organization of gambling shall adhere when developing an internal control system in compliance with the requirements of the

## Supervisory Authorities

---

Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing. The goal of these Recommendations is to prevent a possibility through use of lotteries and gambling to launder the proceeds from criminal activity and to prevent terrorist financing possibilities.

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

### **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 (data on December 31, 2014)**

The LGSI supervises and controls 17 capital companies that have received a special permission (license) for organizing and providing gambling and one license operating lotteries by state owned capital company "Latvijas Loto". Gaming operators rent or own 321 gambling halls and 6 casinos.

On 2014, LGSI has received information from the Participants about 143 transactions that exceeded 7120 EUR.

On 2014, LGSI carried out 15 examinations with regard to compliance with the provisions of the Law.