



Financial Intelligence  
Unit of Latvia

# Indicators of Russia-Related Sanctions Evasion

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*In cooperation with:*



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# 1.Introduction

- 1.1. In response to Russia's unprovoked and unjustified military aggression against Ukraine and its recognition as independent of the non-state-controlled territories of Ukraine's Donetsk and Luhansk regions, the European Union (EU), the United States (US) and other public international bodies have imposed restrictive measures (sanctions) against Russia since 23 February 2022.
- 1.2. In March 2022, the Financial Intelligence Unit of Latvia (FIU Latvia) established a sanctions working group to ensure the development of a common understanding on the implementation of sanctions, proactively and regularly discuss topical issues related to the implementation, violation and evasion of sanctions, and to capture typologies and indicators of sanction evasion attempts. The activities of the sanctions working group are organised under the framework of the cooperation coordination group in accordance with Section 55(2) of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing of the Republic of Latvia (AML/CFT Law). The sanctions working group brings together experts from FIU Latvia, the Public Prosecutor's Office of the Republic of Latvia, the State Security Service, the Financial and Capital Market Commission, the State Revenue Service, and five Latvian credit institutions – “Swedbank” AS, “Luminor Bank” AS Latvian branch, “SEB banka” AS, AS “Citadele banka”, BluOr Bank AS.
- 1.3. By analysing the suspicious transaction reports available to FIU Latvia, as well as on the basis of the research and findings of other Latvian and international institutions discussed within the sanctions working group, FIU Latvia has compiled a study of indicators **that may be indicative of sanctions evasion or attempted sanctions evasion.**
- 1.4. Given Russia's unprecedented aggression against Ukraine, as well as Latvia's risk exposure, the compiled indicators in this study focus on identifying instances of violations and attempts to evade sanctions imposed against Russia since 23 February 2022. However, the aggregated indicators, when considered in conjunction with other information, facts, and circumstances, can be used to identify any violation, attempted violation, or evasion of the international sanctions regime, such as the violation or attempted evasion of the sanctions imposed against Belarus.
- 1.5. Although the aggregated indicators in this study focus on persons and transactions related to Russia, neighbour jurisdictions, or jurisdictions that do not impose sanctions against Russia, it cannot be excluded that persons (as well as accounts etc.) from other EU countries may also be involved in sanctions evasion attempts.
- 1.6. FIU Latvia emphasises that the indicators compiled in this document should not be viewed in isolation from other available information, facts and circumstances relating to a particular transaction or entity. The aggregated indicators are informative and may vary from case to case, and only part of them may be identified in a given instance.
- 1.7. FIU Latvia also notes that the list of indicators in this material is not comprehensive or exhaustive. The sanctions framework is complex, the mechanism for imposing and monitoring sanctions is dynamic (including various exceptions and other specific aspects that need to be assessed on a case-by-case basis), and the detection of a single indicator does not necessarily indicate criminal or suspicious activity. The EU sanctions framework also provides for various exceptions, and competent authorities have the right to authorise certain activities - if an activity meets one of the indicators of a violation or attempted evasion, it does not immediately indicate that the activity is prohibited.

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- 1.8. Money laundering (ML) and sanctions evasion typologies share common aspects and it should therefore be stressed that ML typologies<sup>1</sup> can also be used for sanctions evasion.
  - 1.9. Although Russian affiliates (including subsidiaries and representative offices) of EU registered companies operate under Russian law rather than the EU law and are not affected by EU measures, FIU Latvia stresses that EU companies are prohibited from using their Russian affiliates to evade the sanctions which are binding to them. EU registered legal persons may thus be liable for a violation of EU sanctions committed through affiliates located in other countries (Russia or a jurisdiction not imposing sanctions against Russia).<sup>2</sup>

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<sup>1</sup> Methodological material developed by FIU: "Typologies and indicators of money laundering". Available: [https://fid.gov.lv/uploads/files/2021/FIU\\_Typologies%20and%20indicators%20of%20ML\\_2nd%20revised%20edition.pdf](https://fid.gov.lv/uploads/files/2021/FIU_Typologies%20and%20indicators%20of%20ML_2nd%20revised%20edition.pdf)

<sup>2</sup> General Questions. Related Provision: Council Regulation 833/2014; Council Regulation 269/2014  
Frequently Asked Questions: As of 30 June 2022. Available: [https://ec.europa.eu/info/sites/default/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/faqs-sanctions-russia-general\\_en.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/faqs-sanctions-russia-general_en.pdf)

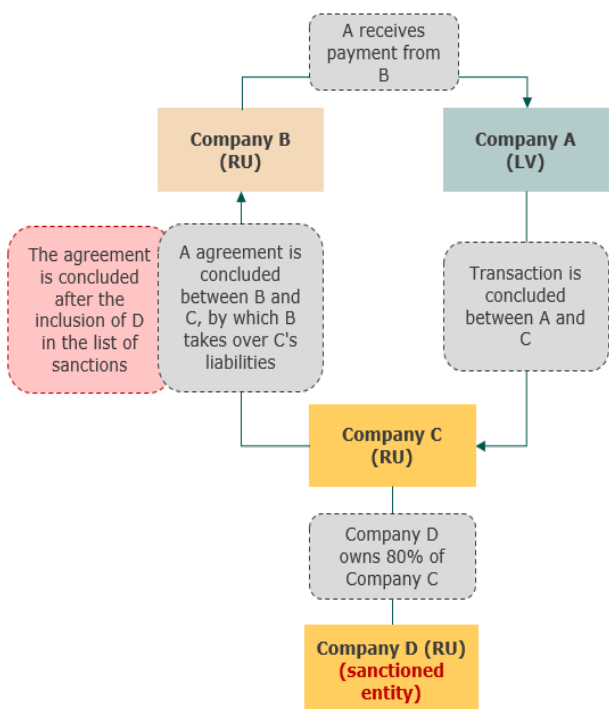
## 2. Risk Indicators

### Risk Indicators Related to the Company's Activities and Sector


- 2.1. The transaction involves a legal person (LP) that has not been engaged in economic activity for a long period of time, but initiates economic activity after the entry into force of the sanctions against Russia. This activity can include making and receiving payments from persons whose country of residence or registration is Russia, a neighbouring country of Russia or a jurisdiction that does not impose sanctions against Russia, or persons directly or indirectly related to them. In addition, the transactions are of a transit nature.
- 2.2. In Latvia and in neighbouring countries of Russia or jurisdictions that do not impose sanctions against Russia, following the entry into force of the sanctions against Russia, there has been an increase in the number of newly established LPs in the sectors affected by the sanctions. In addition, newly established LPs are experiencing significant increases in turnover. The business partners of the newly established LPs are mainly located in neighbouring countries of Russia or in jurisdictions that do not impose sanctions against Russia.
- 2.3. Non-sanctioned persons engage as intermediaries, without clear legal and economic rationale, in transactions with sanctioned persons or in transactions with persons operating in sanctioned sectors. The role of the counterparties involved in the transaction chain is unclear.

#### Case Study Involving an Intermediary in Transactions of the Sanctioned Entity

Company A, registered in Latvia, receives a payment of EUR 300,000 from Company B, registered in Russia, for the delivery of goods that have already taken place. The contract was concluded between Company A and Company C (registered in Russia). Company C is 80% owned by the EU sanctioned company - Company D (registered in Russia). The agreement between companies B and C states that B takes over C's liabilities and can settle on its behalf. The agreement was concluded after the inclusion of Company D in the list of sanctions. The actual participant in the transaction is Company C (subsidiary of the sanctioned company D). Company B is likely used as an intermediary to enable Company C to settle its liabilities. The payment received by Company A from Company B has been obtained as a result of evasion (violation) of sanctions.



- 2.4. After the imposition of sanctions against Russia, Latvian persons open accounts, or show an active interest in opening accounts, with financial institutions in one or more jurisdictions that do not impose sanctions against Russia.

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- 2.5. Persons operating in sectors affected by the sanctions - shortly after the entry into force of the sanctions against Russia - commence trade in goods of a similar nature, but under non-sanctioned commodity codes (or using commodity codes similar to those sanctioned).
  - 2.6. In an import transaction with a business partner in Russia, in neighbouring countries of Russia or in jurisdictions which do not impose sanctions against Russia, the delivery route of the goods used is unreasonably long and complex, often involving several intermediaries and multiple transshipments. Goods from a sanctioned jurisdiction are comingled within a single shipment of product with those from non-sanctioned jurisdictions or territories.
  - 2.7. Export transactions to a sanctioned jurisdiction or territory or to sanctioned entities take place via Latvia or another country by falsifying information in the documents supporting the transaction about the goods, the true recipient of the goods, the place of receipt.
  - 2.8. Backdated documents - agreements and contracts pre-dating the entry into force of the sanctions against Russia - are used to prove and justify suspicious transactions with sanctioned entities after the imposition of the sanctions against Russia, thus attempting to prove the fulfilment of previously entered obligations. Additionally, before the entry into force of the sanctions against Russia, there was no evidence of the existence of such a contract or agreement.
  - 2.9. Transactions that give rise to suspicions of sanctions evasion or violation are based on documents that show signs of forgery. In such documents, information on transactions can contain contradictory information, documents can be of poor quality or do not correspond to the substance of the transaction, etc.
  - 2.10. After the entry into force of the sanctions against Russia, a person directly or indirectly related to the sanctioned entity conducts uncharacteristic transactions with virtual assets, including involving virtual assets and service providers of questionable reputation and virtual asset mixers.<sup>3</sup>

### **Risk Indicators Related to Ownership Structure**

- 2.11. Following the imposition of the sanctions against Russia, attempts were made to retroactively change the UBO or ownership structure of the sanctioned entity, including LPs controlled by the sanctioned entity. These ownership structure changes have no clear economic or legal rationale.
- 2.12. Even following the imposition of the sanctions against Russia, providers of professional services provide services to sanctioned entities, including payments to registries or other institutions on behalf of the sanctioned entity, or consultancy services that directly or indirectly help evade the imposed sanctions. Examples of such professional services can include accounting services, legal services, or consultancy services.
- 2.13. Another person, such as relative or related natural person of the sanctioned person, is registered as the UBO or owner of the sanctioned entity after the imposition of sanctions against Russia.
- 2.14. There is publicly available information on the relation of the UBO or owner of the LP to the sanctioned entity.

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<sup>3</sup> For further information, see the FIU Latvia material "Assessing the risks of money laundering and the financing of terrorism and proliferation through virtual currencies". Available: [https://fid.gov.lv/uploads/files/2021/virtu%C4%81l%C4%81s%20val%C5%ABtas/FID\\_VV%20risku%20nov%C4%93rt%C4%93jums.pdf](https://fid.gov.lv/uploads/files/2021/virtu%C4%81l%C4%81s%20val%C5%ABtas/FID_VV%20risku%20nov%C4%93rt%C4%93jums.pdf)

- 2.15. After the entry into force of sanctions against Russia, the owners of a sanctioned entity sell their shares in the entity to other owners of the entity or to other non-sanctioned persons. In addition, the sale price of the shares does not correspond to market prices and the transaction is not typical. For example, the sale of shares of a valuable company can take place within a very short period of time without the usual due diligence procedures and checks for such a transaction. The atypical sale can also manifest where the sale price corresponds to the value of the company but the settlement of the sale of shares is indicated as taking place in the long-term future (one year or more), or no settlement period is indicated at all.
- 2.16. The LP has a legally and economically unreasonable, complex ownership structure, including sanctioned entities and persons directly or indirectly related to them. In such cases the sanctioned entity may have a small ownership interest, while still indirectly controlling the company.
- 2.17. Assets owned by sanctioned entities change ownership or attempt to change ownership shortly before or during the period that sanctions against Russia are in force. Such assets can include real estate, aircraft, yachts, or other property. In addition, there are reasonable grounds to suspect that these are backdated fictitious activities.

**Risk Indicators Related to Financial Flows and Payments**

- 2.18. Following the imposition of sanctions against Russia, there has been an increase in payments to or from Russia's neighbouring countries or jurisdictions that do not impose sanctions against Russia. These can be jurisdictions like Kazakhstan, Uzbekistan, Serbia, Turkey, African countries, Kyrgyzstan, etc.
- 2.19. Following the imposition of the sanctions against Russia, customers are encouraged to settle payments for goods and services provided by the sanctioned entity to accounts in other countries, in particular neighbouring countries of Russia or jurisdictions that do not impose sanctions against Russia, and customers are encouraged to settle payments using less traceable or monitorable payment methods such as virtual assets.
- 2.20. After the imposition of sanctions against Russia, the sanctioned entity transfers its obligations to a non-sanctioned entity.

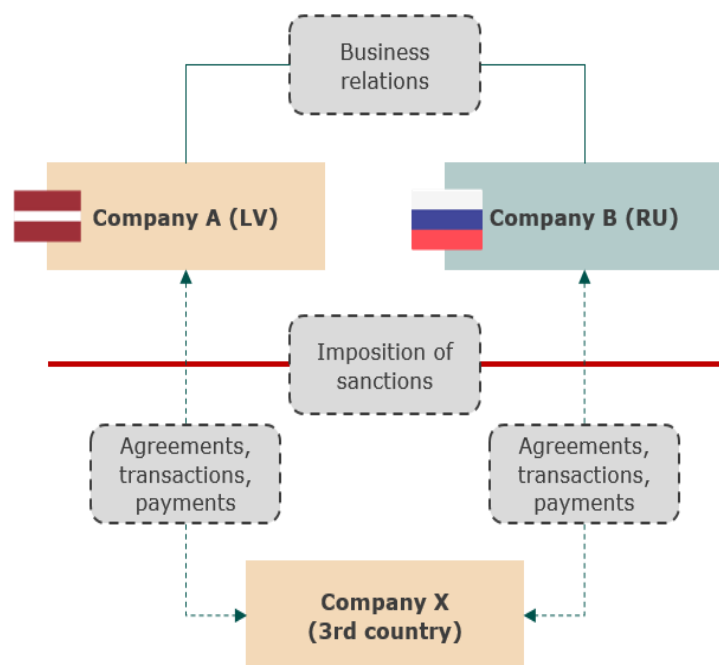
**Cast Study on the Transfer of Obligations to a Non-Sanctioned Entity**

Company A, registered in Latvia, has a business relationship with company B registered in Russia. Company A supplies goods (i.e. economic resources) to company B. EU sanctions are imposed on the owner and UBO of Company B. Following the imposition of sanctions, Company B enters into an agreement with Company C, established in a third country, to transfer its liabilities. Company C makes a payment to Company A for the supply of goods to the sanctioned Company B (after the sanctions entered into force). Company A has transferred resources to Company B. The funds received from Company C may be proceeds of sanctions violations or proceeds of crime.

- 2.21. Following the imposition of sanctions against Russia, providers of professional services (accounting services, legal services, consultancy, etc.) receive payments from new non-sanctioned partners. The nature, amount and details of payments are similar to those previously made with a sanctioned entity. Also, payments for services rendered are received from companies with a similar name to that of the sanctioned entity or entities directly or indirectly related to the sanctioned entity.
- 2.22. Following the imposition of the sanctions against Russia, financial flows to family members of sanctioned persons have increased without economic or legal rationale.
- 2.23. Following the imposition of the sanctions against Russia, mutual loans have been made within the LP group that include the sanctioned entity or an entity directly or indirectly linked to it, including shell entities.
- 2.24. After the entry into force of the sanctions against Russia, Russia-based relatives of a person employed by the sanctioned entity, receive the person's salary directly from the Russian branch of the sanctioned entity and transfer the salary to their relative's account in Latvia.
- 2.25. The salaries of the persons employed by the sanctioned entity have increased significantly since the entry into force of the sanctions against Russia: based on labour market trends as well as account statement information, the salary level is inadequately high for the position held. Moreover, the sudden salary increase is at or close to the salary cap set by the Financial and Capital Market Commission.<sup>4</sup>

#### General Risk Indicators of Sanction Evasion Attempts

- Establishing new business relationships soon after the imposition of sanctions with newly-registered companies in countries that do not have sanction regimes instated against Russia. Such business relationships can also be established with companies registered in the EU, but not located in jurisdictions directly related to the transaction.
- Opening new bank accounts in countries that do not have similar sanctions regimes soon after the imposition of sanctions.
- Abrupt change of business model: delivery of goods to recipients in territories in close territorial proximity to sanctioned countries soon after the imposition of sanctions.
- Abrupt change of business model: Receipt of payments from new business partners in third countries soon after the imposition of sanctions.



<sup>4</sup> Information on the general licence issued by the Financial and Capital Market to Latvian banks to ensure that persons not targeted by the sanctions do not suffer as a result of the sanctions against Russia and Belarus, i.e. the licence for payments related to the provision of basic needs or basic business expenses of these persons, is available at: <https://www.fktk.lv/jaunumi/citas-aktualitates/fktk-latvijas-bankam-izdevusi-jaunu-visparejo-saskanojumu-paredzeti-iznemumi-ari-juridiskajam-personam/>



## Abbreviations and terms

AML/CFT Law	Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
AS	Joint stock company
EU	European Union
FIU Latvia	Financial Intelligence Unit of Latvia
LP	Legal person
Persons	Natural or legal persons
Sanctions	Restrictive measures imposed by certain states or international organisations against identifiable entities (e.g. specific persons or states) in order to influence, modify or bring to an end conduct by the sanctioned entity that threatens international peace, security and justice. In the case of country-specific sanctions, the objectives of the sanctions may also go beyond ensuring international peace, security and justice.
Third countries	In the context of EU law, all non-EU countries.
UBO	Ultimate beneficial owner