



Financial Intelligence
Unit

MONEY LAUNDERING INDICATORS IN THE REAL ESTATE TRANSACTIONS 2024

IN COOPERATION WITH:



State Revenue Service



LANĪDA
LATVIJAS NEKUSTAMO ĪPAŠUMU
DARĪJUMU ASOCIĀCIJA

Money Laundering Indicators in the real estate transactions

The Financial Intelligence Unit, in cooperation with the State Revenue Service and the Latvian Association of Real Estate Transactions, has developed guidelines for **real estate brokers** for effective risk management in real estate transactions. (as well as for other reporting entities of AML/CFT/CPF Law who may be involved in real estate transactions). Investment in real estate is a well-known typology at the integration stage of ML. At the same time, fictitious or inappropriately priced real estate transactions can also be a typology of the ML layering or structuring stage and placement stage.^{1/2}

Reporting entities, including real estate transaction intermediaries, are obliged to provide information to the FIU regarding **a suspicious real estate transaction or activity**. The guidelines serve as a supplementary material for identifying suspicious transactions so that real estate counterparties successfully implement a risk-based approach and effectively manage ML risks. This helps promote fair competition in the real estate market and prevents the integration of illicitly obtained funds into the legitimate financial system.

It is important to point out that the set of ML indicators in real estate transactions listed in the material cannot be considered exhaustive and comprehensive. The identification of specific, individual indicator may not always lead to suspicion of criminal activity, but may serve as a useful control mechanism to impose increased surveillance or, for example, to conduct appropriate in-depth analysis in individual cases. Each suspicious transaction, even if it conforms to known ML typologies, may contain unique characteristics. Therefore, it is necessary to evaluate each case individually, taking into account the available information about the client and the transaction, as well as the available research materials.

In order to facilitate the timely detection of possible criminal offences and to facilitate the submission of reports to the non-financial sector reporting entities, the FIU has developed and since September 9, 2024, implemented a simplified procedure for submitting reports. In cooperation with representatives of the non-financial sector, a new reporting format was designed and developed, ensuring that the simplified procedure is specifically tailored to the non-financial sector, thus improving reporting efficiency.^{3/4}

¹ FIU methodological material "Typologies and indicators of money laundering" 2nd revised edition, page 5. Available:

https://fid.gov.lv/uploads/files/2021/FIU_Typologies%20and%20indicators%20of%20ML_2nd%20revised%20edition.pdf.

² FATF Report. Professional Money Laundering. Pages 17., 19., 27. Available: <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Professional-Money-Laundering.pdf.coredownload.pdf>.

³ More information on the procedure for submitting simplified reports for the non-financial sector reporting entities is available at: <https://www.fid.gov.lv/lv/aktualitates/vienkaršota-zinojumu-iesniešanas-kartiba-nefinansu-sektora-likuma-subjektiem>.

⁴ FIU Infographic: Submission of SARN to goAML. Available at: <https://www.fid.gov.lv/uploads/files/Zi%C5%86o%C5%A1ana%20goAML%20.png>.


Money Laundering Indicators in the Real Estate Transactions: 5/6/7

1. The customer provides inaccurate, incomplete, or contradictory information about the origin of their funds.
2. The level of welfare and declared income of the customer (buyer) are not commensurate with the value of the property (to be assessed in conjunction with the granting of credit).
3. For the purchase of real estate, complex loan schemes are used. There are no documents confirming the issuance of a loan or a loan issued in cash.
4. Partial or full settlements in foreign currency where there is no valid reason (e.g. personal or professional ties with the country in whose currency the transaction takes place). The client does not disclose the source of funds for a transaction with foreign currency.
5. Involvement of shell arrangements, seemingly fictitious legal / natural persons registered in high-risk countries in a real estate transaction. Provision of incomplete and / or unverifiable information about the identity of the participant in a real estate transaction.
6. The transaction in which the property is acquired for business purposes has no economic advantage and no clear business purpose. Purchase of real estate that will potentially result in loss or no profit given the encumbrance of real estate (restricted area of economic activity, operational protection zones, specially protected area, etc.).
7. Purchase or sale of real estate, when the legal service provider simultaneously acts as a representative and a person authorised to dispose of assets in the accounts of both parties.
8. Sudden or unexplained changes of ownership, especially if they occur shortly before the transaction is closed. The client requests to speed up the execution of the transaction, especially if the transaction takes place above or below the value of the property.
9. A significant difference between the purchase price and the actual market value of the property.
10. The transaction involves investment or property management companies that are suspected of not actually carrying out an economic activity (their actual business is not identifiable).
11. In the transaction, the client is a PEP, a family member of the PEP or a person close to the PEP; complex ownership structures are used to hide the actual beneficial owner. The participant / beneficial owner of the real estate transaction is included in the list of persons subject to sanctions.
12. Proposal of any involved party to pay using virtual currency. Unexplained or abrupt changes in the procedure for financing the transaction. Use of promissory notes,

⁵ FIU methodological material "Typologies and indicators of money laundering" 2nd revised edition. Available: https://fid.gov.lv/uploads/files/2021/FIU_Typologies%20and%20indicators%20of%20ML_2nd%20revised%20edition.pdf.

⁶ FATF. Guidance for a risk-based approach. Real Estate Sector. Available: <https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/RBA-Real-Estate-Sector.pdf.coredownload.pdf>.

⁷ FinCEN. Advisory to Financial Institutions and Real Estate Firms and Professionals. Available: https://www.fincen.gov/sites/default/files/advisory/2017-08-22/Risk%20in%20Real%20Estate%20Advisory_FINAL%20508%20Tuesday%20%28002%29.pdf.

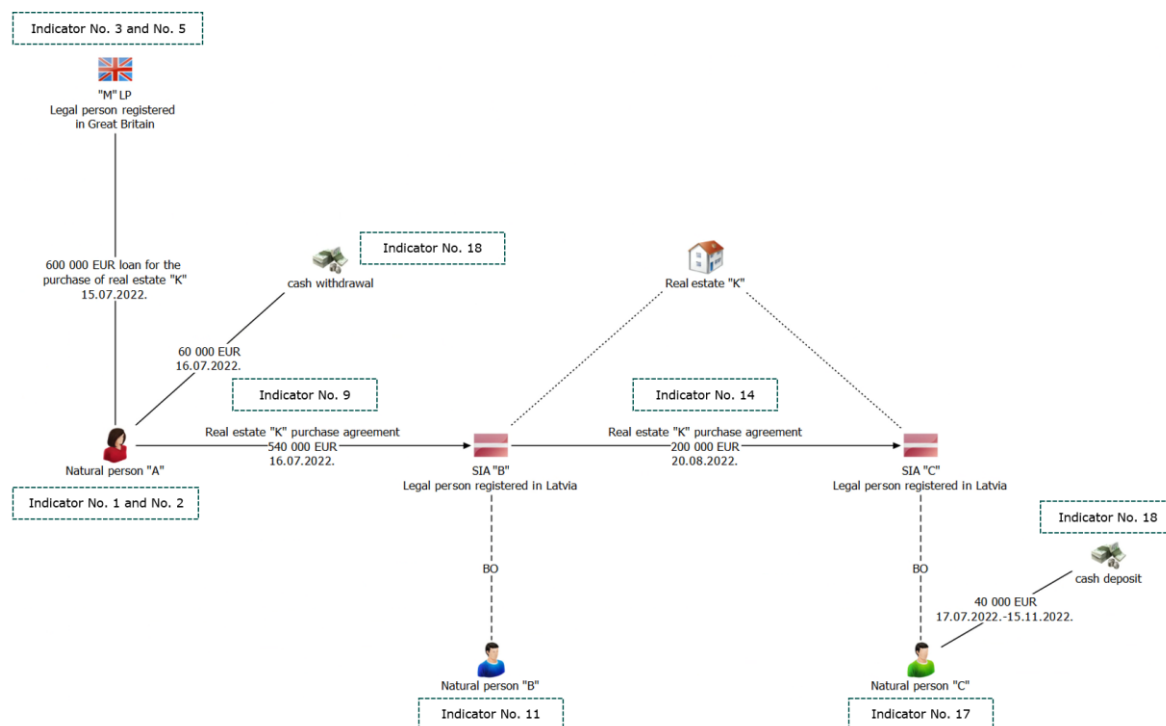


bills of exchange, letters of credit or other negotiable assets in a transaction. The above does not correspond to the person's profile.

- 13.** Real estate is resold after renovation without clear identification of the source of funds for the original purchase. There are signs of potential property valuation manipulation.
- 14.** Transactions with the same real estate take place several times in a short period of time with unexplained changes in the value of the property.
- 15.** The customer's transaction costs or invoices are paid by a third party that is not related to the transaction. Unrelated financial service providers are attracted to pay bills.
- 16.** The customer requires that funds from sales or leases be transferred to bank accounts in high-risk countries or third parties that are not related to the transaction.
- 17.** Negative information is publicly available about the client and the parties involved in the transaction – their possible connection with or laundering of proceeds of crime or terrorism or its financing or other financial crimes.
- 18.** Before purchasing real estate, a person's account shows an atypically large amount of cash deposits or withdrawals. The contribution may indicate the integration of undeclared income or proceeds of crime into the financial system in order to settle real estate. The disbursement may indicate that the funds are potentially being used to partially pay for the real estate in cash, avoiding the payment of binding taxes.
- 19.** The customer fails to submit a real estate purchase agreement upon request from the reporting entity.
- 20.** The customer submits a real estate purchase agreement that does not include information about the accounts of the parties involved in the transaction.
- 21.** The account(s) specified in the real estate purchase agreement is held at a financial institution licensed outside the EEA, which does not align with the client's profile.
- 22.** The real estate purchase agreement specifies that settlements are to be made using all or part of any other settlement method, other than non-cash transfer (e.g. virtual currency, cash).

Figure No. 1 presents some of the most typical indicators of ML in the real estate transactions in a concentrated and easy-to-understand manner, providing a summary of what is essential to facilitate the reporting of suspicious transactions to the FIU by the reporting entities.

Figure No. 1



Several typology materials⁸ related to specific predicate criminal offences that can be useful in daily work are available on the FIU webpage, including:

- "[Money laundering risk assessment in real estate and construction sectors](#)";
- Methodological material "[Indicators of sectoral and targeted financial sanction evasion](#)", 2nd updated edition;
- Methodological material "[Guidelines on the prevention of terrorism and proliferation financing](#)", updated version;
- "[Indicators of corruption and case analysis](#)";
- Methodological material "[Typologies and indicators of money laundering](#)", 2nd revised edition.

⁸ Guidelines, typologies, and studies developed by the FIU are available at: <https://fid.gov.lv/en/roles-and-responsibilities/strategic-analysis-and-guidelines>.

List of acronyms

EEA	European Economic Area
FIU	Financial Intelligence Unit
ML	Money laundering
ML/TF/PF	Money Laundering and Terrorism and Proliferation Financing
AML/CFT/CPF Law	Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
NRA 2023	National ML/TF/PF risk assessment report for 2020-2022
PF	Proliferation financing
BO	Beneficial owner
PEP	Politically Exposed Person
TF	Terrorism financing