

Financial Intelligence
Unit of Latvia

Financial Integrity Newsletter

FIU Latvia finalizes National Risk Assessment 2023

Interview with Paulis Iļjenkovs,
Deputy Head of FIU of Latvia:

“**Latvia's national
vulnerability has
notably diminished.**”

Infographic: NRA 2023 at a glance

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Key emerging AML/CFT challenges for Latvia

EU-funded financial service think-tank
launched in Latvia

New corruption reporting platform and app by
KNAB



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Foreword

This has been a particularly busy season for FIU Latvia, with some lines of processes coming to a close, and others ramping up.

We have just finished the work on the National Risk Assessment (NRA) 2023 – the backbone of the AML system. NRAs serve as a guide not only to policymakers and authorities about the necessary next steps and priorities (work has already begun on the new 2024-2026 AML/CFT plan), but also to the private sector who can then use the assessment to adjust their own internal control systems.

Meanwhile, work has started on preparation for the 6th MONEYVAL evaluation round – an extensive process with major significance for Latvia's international reputation. As the head of delegation (manager of this process), I am very aware of how important our ability to demonstrate our system's effectiveness will be. As the recently appointed Head of the FIU of Latvia, I am optimistic. We're looking at this evaluation round as an opportunity to restore Latvia's good reputation – we will capitalize on what is working well, and highlight the many good stories we have to tell. And for that reason, I'm happy to take this on.

Work continues in the prevention of sanction evasion. In the first 8 months of this year, we have already received more STRs than in 2022 altogether, signaling a rapid and successful adaptation to the sanctions regime. Preparations are underway for the FIU to take on the additional responsibility of becoming the competent authority in sanctions implementation in Latvia. I believe that the centralization is a sound approach, as it will significantly ease the administrative burden for our entrepreneurs and public sector colleagues alike.

Finally, the results are in regarding innovations in the FIU's core operations, and the early indicators are excellent! The newly established tactical analysis group has demonstrated how important it is to continually test new approaches in data analysis and processing. And it doesn't stop there – as of September, we are running machine learning modules and soon we'll have the results from the Black-Box initiative that was implemented this fall, which makes information exchange between FIU Latvia and law enforcement institutions faster and much more effective.

Embracing innovation, improving our effectiveness and strengthening further our cooperation models with all partners in the public and private sector will be a key focus of mine to continue to improve the resilience of Latvia's financial system and our international standing.



Toms Platacis

Head of the Financial Intelligence Unit of Latvia

Terms, abbreviations and definitions

AML – Anti-Money-Laundering

AML/CFT/CFP – Prevention of money laundering and terrorism and proliferation financing

BCEFS – Baltic Center of Excellence in Financial Services

EC – European Commission

EU – European Union

FATF – Financial Action Task Force

FIU – Financial Intelligence Unit

IBAN – International bank account number

KNAB – Korupcijas novēršanas un apkarošanas birojs
Corruption Prevention and Combating Bureau of Latvia

ML/TF – Money laundering and terrorist financing

Moneyval – Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism

NRA – National Risk Assessment

SRS – State Revenue Service



FIU Latvia finalizes **National Risk Assessment 2023**

In September 2023, the FIU of Latvia finalized the National Risk Assessment for Money Laundering and Terrorism and Proliferation Financing (NRA 2023), covering the 2020-2022 period.

The NRA 2023, a collaborative effort involving all relevant authorities, supervisory and control institutions, and the private sector, meticulously identifies and evaluates the risks associated with money laundering (ML) and terrorist financing (TF) in Latvia.

- **NRA 2023 at a glance**



NRA 2023 at a glance



The overall indicator of AML measures effectiveness rose by

+9.0%

Uncontrolled risks eliminated

as a direct result of financial sector reforms

+32%

Number of reports received by FIU

Conclusion:

Increased understanding of AML/CFT measures by AML/CFT authorities

The assessment of the national vulnerability effectiveness criterion is measured on a scale from 0.0 to 1.0 across 20+ indicators.

The largest increases:

0.7 ↗ 1.0 The quality of information collection and processing by the FIU

0.6 ↗ 0.9 Prosecution capacity and resources for financial crime

0.6 ↗ 0.9 Capacity and resources of the judiciary

Highest indicators:

1.0 (0.0) Quality of AML policies

1.0 (+0.3) Quality of FIU information collection and processing

1.0 (+0.1) Effectiveness of internal cooperation

1.0 (+0.1) Availability and reliability of information on beneficial owners

Lowest indicators:

0.6 (0.0) Level of the informal economy

0.7 (+0.1) Independence and impartiality of financial crime investigators

0.7 (+0.1) Level of financial integrity and transparency

0.7 (+0.1) Effectiveness of tax enforcement



The risks associated with predicate offenses from foreign countries, as identified in the 2020 NRA, have been **significantly reduced**



The economic and financial sectors have become more **independent from Russia and Belarus**



Society's awareness of risks associated with AML/CTF has **increased by 14.2%**



All FATF 40 recommendations have been implemented

In 2020, Latvia became the first Moneyval member country to achieve this result.

Risk level assessment

↗	Medium high/high	Violation and circumvention of sectoral sanctions
→	Medium	Violation and circumvention of targeted financial sanctions
↘	Medium low	Proliferation financing
↓	Low	Terrorist financing

Next steps

Based on risk-mitigating measures identified in the NRA 2023, developing an action plan for AML/CFT guidelines and preventive measures for the 2024-2026 period

NRA training for the private and public sectors

Revision of NRA development guidelines in cooperation with the AML/CFT authorities

The latest NRA highlights Latvia's success in the reduction of ML/TF risks

Latvia's NRA 2023 shows that the country's efforts in AML/CFT have led to a purposeful and effective policy implementation, resulting in a significant reduction in risks and vulnerabilities during the reporting period.

Notable achievements include:

- In 2020, Latvia became the first Moneyval member to successfully **comply with all 40 FATF recommendations**.
- **Non-resident deposits decreased** from 53% in 2015 to 17% in 2021.
- Money flows from Russia and Belarus, primarily in the form of deposits, accounted for only 1.6% of total banking assets in March 2022, down from 3.7% in 2015.

The commitment to AML/CFT has remained a high priority for the government, the FIU, and law enforcement agencies throughout the reporting period and beyond, which is evident in:

- the continuation of AML/CFT system reforms,
- the establishment of a unified AML/CFT policy,
- improvements in legal regulations,
- the allocation of resources to strengthen the capacity of investigative institutions, prosecutors, and courts, all of which fostered inter-agency cooperation.



The NRA 2023 identifies key emerging AML/CFT challenges for Latvia to tackle in coming years

The NRA 2023 sheds light on key emerging challenges in the realm of AML/CFT, **identifying three new risks for the Latvian financial system, which demand appropriate mitigating measures:**

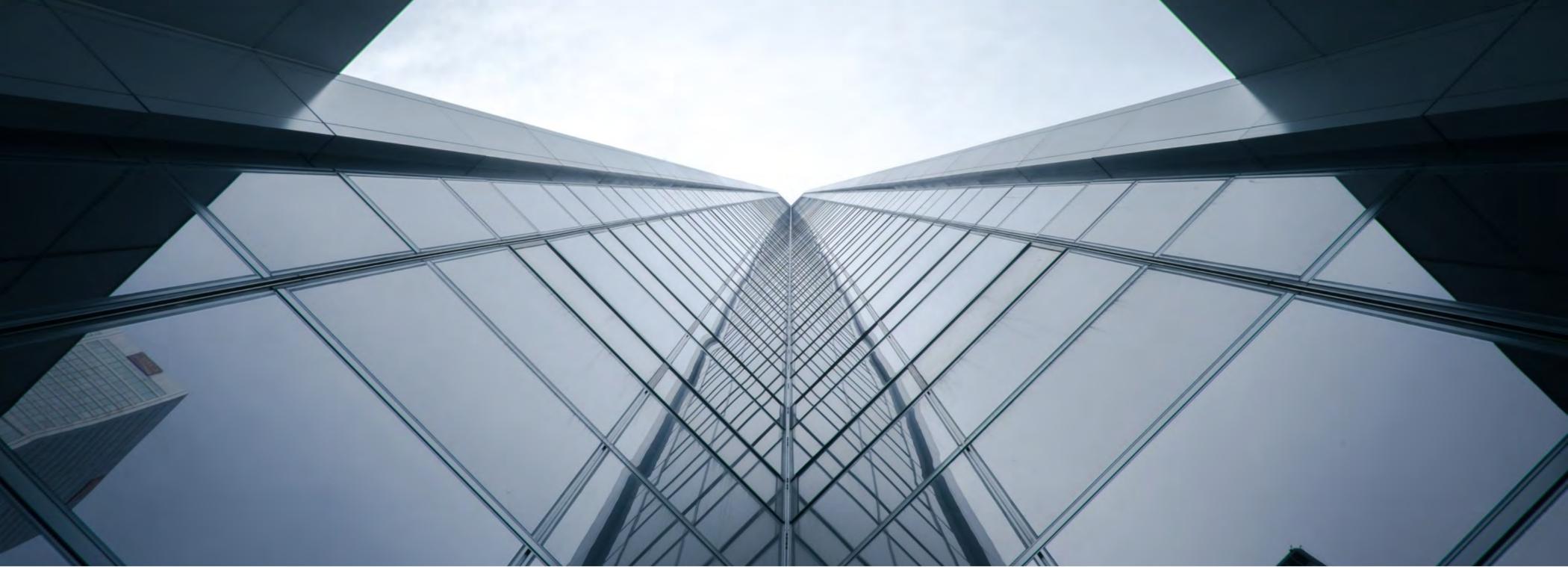
- The rapid increase in the number of physical and legal persons in Latvia who have opened accounts with foreign financial institutions, including those registered in Lithuania.
- The Russia-Ukraine war and related EU sanctions have significantly increased the burden on Latvian institutions.
- A growth in ML/TF risks associated with the use of virtual assets, which have risen in popularity.

The risks of sanctions evasion and circumvention were particularly relevant during the reporting period, mainly in connection with EU sanctions imposed on Russia and Belarus. Responding to the unprecedented pace and scale of sanctions, new forms of cooperation were introduced, including an informal institutional coordination platform – the sanctions council.

Other AML/CFT challenges, which are also in FIU's crosshairs, include:

- Managing adequate oversight of virtual IBANs and open banking services.
- Adequately preparing for the potential risks of the introduction of a digital euro.
- Remaining resilient amidst hybrid warfare from neighboring Russia and Belarus.
- Responding to emerging ML/TF threats that leverage AI to increase effectiveness or create deep fakes.

The next steps include the development of AML/CFT guidelines and prevention action plan for 2024-2026, NRA training for private and public sectors, as well as the review of NRA development guidelines.



Latest National Risk Assessment: **FIU raises awareness of financial crime**

Every three years, in collaboration with other institutions, the Financial Intelligence Unit of Latvia (FIU) develops a national risk assessment on money laundering, terrorism financing, and proliferation financing (NRA). The forthcoming report for the period 2020-2022 is expected soon.

Interview

We invited **Paulis Iļjenkovs, Deputy Head of FIU of Latvia**, to discuss the significance of the NRA, the risks outlined in the report, and the upcoming Moneyval assessment, in which the NRA will play a pivotal role.



This interview has been shortened and edited for readability.

Why and how is the National Risk Assessment conducted?

In the field of AML/CFT, we follow a risk-based approach. This means we focus our limited resources and attention on the most significant risks.

To implement this approach, we begin with a risk assessment. At the national level, this evaluation depends on geographical location, trade characteristics, the size of the financial sector, its participants, and other factors.

The assessment employs a specific methodology developed by the World Bank. We evaluate the money laundering threat, the vulnerability of financial and non-financial sectors, and the capacity of the FIU and law enforcement authorities to address relevant crimes. By assessing these threats in relation to vulnerabilities, we define Latvia's money laundering risk profile.

What are the main risks we see today, and how do they differ from previous assessment periods?

Six years ago, Latvia's primary money laundering risks stemmed from inadequately managed non-resident money flows, including those from high-risk countries susceptible to corruption and other financial crimes. Latvia operated as a regional financial hub for these funds, but the understanding and management of the risks were insufficient at that time. Today, compared to 2015, the risk associated with non-resident money flows has significantly diminished.

The second risk profile is associated with the shadow economy. Money laundering from the shadow economy remains one of Latvia's most significant threats, consistent with previous reporting periods.

In this reporting period, the risk of digital fraud has increased due to the growing use of digital tools, especially during the COVID-19 pandemic.

The third risk profile involves money laundering due to crimes committed abroad, which enters or flows through Latvia's financial system. This includes the "money mule" risk, where illicit funds from other countries are laundered through Latvia's financial system.

Latvia was among the first countries to conduct a comprehensive assessment of risks related to sanctions evasion tied to Russia and Belarus in our NRA. This is relevant due to Latvia's geographic location and trade ties.

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We focus our limited resources

and attention on the most significant risks.

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Today, compared to 2015, the risk associated with non-resident money flows **has significantly diminished.**

What actions are necessary to address these risks?

One objective of the risk assessment is to shape future national AML policies. Therefore, we define mitigating measures in the risk assessment, which are agreed upon by the other institutions involved in the NRA.

Over 30 institutions collaborate on the NRA, providing data and participating in working groups from both the public and private sectors. Together, we define risk mitigation measures, such as public education campaigns about fraud risks or resource allocation to specific institutions for addressing new threats.

And how is the general public informed about these risks?

Annually, we conduct a social survey among the country's population to gauge awareness of financial crime risks and the FIU's activities. However, individuals not subject to AML laws or working in investigative roles need not possess in-depth knowledge of these risks.

Nevertheless, the public should be aware of the harm inflicted by financial crime. It's crucial to understand that, for example, corruption crimes or every euro not paid in taxes actually deprive the country of the resources needed to carry out its functions.

People need to be educated and prepared to guard against digital fraudsters. That is why education campaigns are essential, and we will continue to implement them.

What are the key findings and conclusions from this assessment?

During this reporting period, risk awareness within the AML system has significantly increased. Coordination between the private and public sectors has improved. Latvia's national vulnerability as a money laundering hub has notably diminished in the past three years.

The levels of terrorism and proliferation financing risks remain stable and relatively lower than money laundering risks. Risks associated with cross-border money movements from high-risk jurisdictions and servicing non-resident accounts have significantly decreased.

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Corruption crimes or every euro not paid in taxes actually **deprive the country of the resources needed to carry out its functions.**

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Latvia's national vulnerability as a money laundering hub **has notably diminished.**

Processes related to court cases have improved, including the establishment of the Economic Affairs Court, which handles these cases more effectively. All enforcement authorities, including the FIU, have enhanced their capacity, with additional resources allocated to perform necessary functions. At the same time, we need to remain alert to the challenges posed by current and future risks, particularly in the digital environment.

For instance, this year, the FIU acquired specialized software to track virtual asset transactions linked to potential criminal activities.

The new Moneyval assessment is approaching, with Latvia as the first country to volunteer for evaluation. Why this initiative, and what role will the NRA play in the assessment?

The current Moneyval assessment for Latvia dates back to 2018 when Latvia received a negative evaluation. This document influences other international institutions and private sector entities considering business in Latvia's financial sector.

However, the 2018 Moneyval rating no longer reflects reality. Since then, Latvia has implemented significant financial sector reforms, frozen and confiscated criminally acquired funds, and demonstrated effectiveness in preventing and combating financial crime. Volunteering for the evaluation aligns with our interest in receiving a positive assessment that accurately reflects the current situation.

To understand Latvia's profile, context, and risks, the Moneyval assessment will consider the NRA as one of the primary documents. It will help determine whether the State's decisions and policies in this domain align with the risks we've identified.

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All AML/CFT enforcement authorities have enhanced their capacity,

with additional resources allocated to perform necessary functions.

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The 2018 Moneyval rating no longer reflects reality.

Conference

Future of AML: Building Resilience in the Evolving Financial Crime Environment

November 6-7, 2023 Riga, Latvia



2 DAYS

25+ SPEAKERS

4 TRACKS

Mastering sanctions

Strategies for effective implementation and compliance

Securing the future

Crypto assets, regulation, and AML solutions

Effective asset recovery

in compliance with European and international standards

Harnessing digital transformation

for financial crime prevention

Speakers



Elżbieta Frankow-Jaśkiewicz
Chairperson, Moneyval



Tom Keatinge
Director,
Centre of Financial Crime
& Security Studies



Hennie Verbeek-Kusters
Head of Financial
Intelligence Unit,
The Netherlands



Laila Medina
Advocate-General
EU Court of Justice



Organized by **FIU Latvia**

Financial service think-tank and capacity builder launched in Latvia, supported by EU funding

Riga Business School at Riga Technical University has launched an ambitious initiative

to bridge the gap in financial services education and research by establishing a new Baltic Center of Excellence in Financial Services (BCEFS). The Center will serve as a regional independent think-tank and capacity builder, aiming to shape the future of financial services in the Baltics and beyond.

Over the next three years, BCEFS will receive €1.5 million from the European Commission's Recovery and Resilience Facility to strengthen knowledge and research capacity in fintech, anti-money laundering, financial regulation, and sectoral analysis.

As part of the project, the Center will deliver an ambitious program of work, including:

- Developing six academic study modules on fintech and financial regulation and training faculty from universities across Latvia to integrate these modules into existing undergraduate and graduate programs.
- Publishing policy-focused applied research, including an annual flagship report on the state of the financial sector, as well as academic research.

The primary mission of BCEFS is to become a trusted member of the Baltic financial services ecosystem, contributing to the development of an innovative, sustainable, and well-functioning financial services market that drives economic growth.



Project No. 5.2.1.1.i.0/1/23/I/CFLA/001

License requirement for all outsourced accounting services comes into effect

As of July 2023, only accountants licensed by the State Revenue Service (SRS) may provide outsourced accounting services in Latvia.

July saw a two-year transition period come to a close, with a total of 2,214 licenses issued, of which 81% were granted to companies and 19% to individuals who provide outsourced accounting services as economic operators.

This licensing system, implemented in collaboration with the Latvian Association of Accountants, has

been specifically developed to ensure quality and security for consumers, reduce risks associated with the shadow economy, and further advance Latvia's ML/CFT efforts.

It is important to note that licensing is an ongoing process, and all outsourced accountants who wish to continue their professional activities or are planning to enter this field are encouraged to apply for a license with the SRS. Meanwhile, those seeking accounting services can verify whether their provider of choice is licensed in SRS' public registry.

IMF reveals AML/CFT analysis and recommendations for the Nordic-Baltic region

The International Monetary Fund has published an AML/CFT analysis and recommendations for the Nordic-Baltic region as part of the flagship Nordic-Baltic Technical Assistance Project. The project was kicked off in late 2020 after the Governors of the Nordic-Baltic Central Banks reached out to the IMF to request technical assistance to continue improving the effectiveness of the AML/CFT system at national and regional levels.

To understand ML/TF threats and vulnerabilities and their potential impact on financial stability, as well as develop country and regional recommendations, the project involved an analysis of:

1. Potentially high-risk financial flows to and from the region.
2. The AML/CFT domestic and regional supervisory landscape related to banks and virtual assets.
3. The potential implications of financial integrity shocks on financial stability.

The report's findings point to positive trends in regional AML/CFT efforts. Namely, there has been **clear investment in ML/TF risk models**, and **active AML/CFT supervision has advanced** in the region.

The report also notes that further implementation of measures to improve national AML/CFT systems is a priority for the region and that concerted action and innovative solutions are essential to identify emerging financial integrity risks. The project recommends that the responsible authorities continuously monitor cross-border flows, sharing regional data on macro trends and identifying the countries that could expose the Nordic-Baltic region to money laundering risks.

Explore the [full report here](#). 

New corruption reporting platform and app launched by KNAB

Survey data shows that 78% of Latvians believe corruption is widespread in the country, and **42% are ready to report cases of corruption if anonymity is ensured**, with younger audiences particularly keen to do so.

To put this willingness to use, the Corruption Prevention and Combating Bureau of Latvia (KNAB) has developed a new reporting platform, alongside a modern and easy-to-use mobile app, "Report to KNAB!" (in Latvian – "Ziņo KNAB!").

The platform provides a reporting channel that is convenient and safe for communication with the anti-corruption agency, thus minimizing obstacles for the general public to go from spotting corruption to reporting it. It also **allows submitting reports anonymously**.

To raise awareness of the app, its launch was accompanied by an information campaign – "CORRUPTION SUFFOCATES! Report by using the KNAB app".

The multi-faceted campaign was targeted at the general public, reaching people through ads on television, radio, the Internet, and in the urban environment, alongside local initiatives such as distributing takeaway coffee mugs with a QR code taking its users to the campaign website.

The platform, app, and campaign have been developed as part of the "Support for the establishment of a whistle-blowing system in Latvia" project, where KNAB receives European Economic Area grants from Iceland, Lichtenstein, and Norway.