



Financial Intelligence
Unit

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REPORTING SUSPICIOUS TRANSACTIONS AND REFRAINING FROM EXECUTION OF SUSPICIOUS TRANSACTIONS

GUIDELINES

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Executive Summary

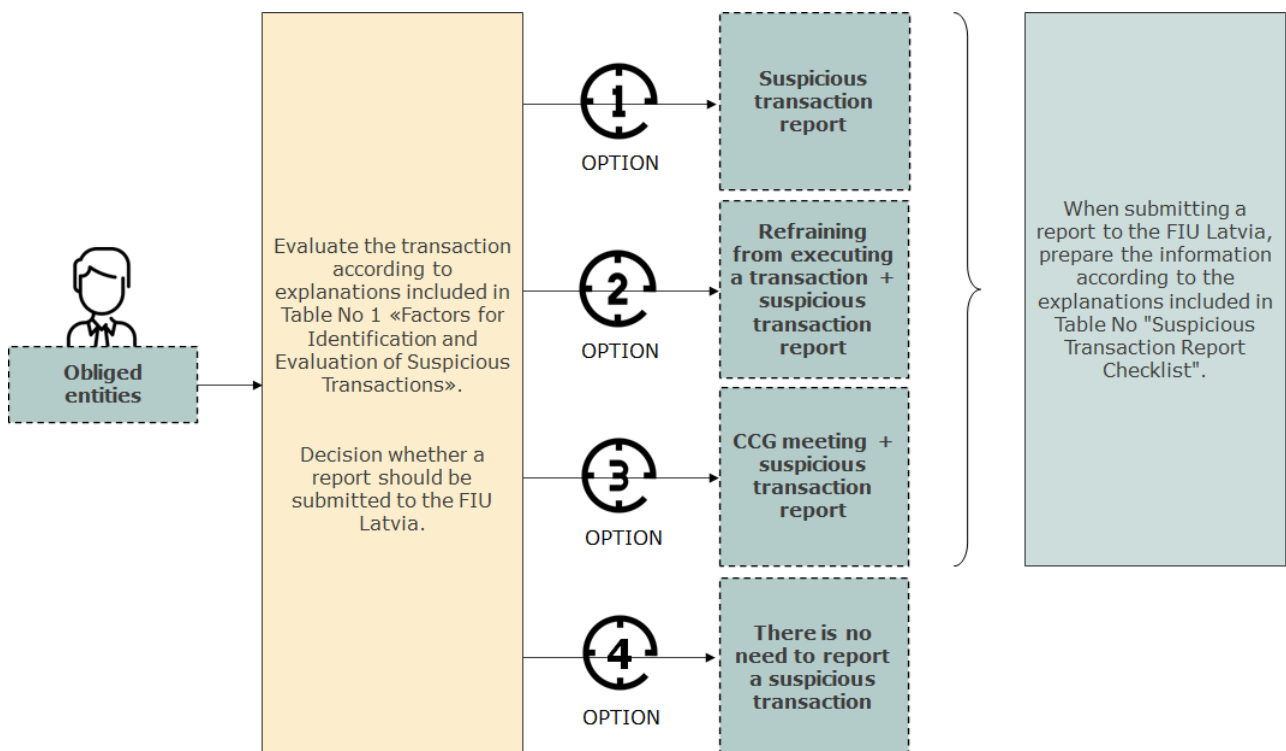
Every suspicious transaction report that has been submitted to the FIU Latvia in a timely manner and appropriate quality by the obliged entities under the AML Law is valuable. Suspicious transaction reports often serve as the first signal to take actions to prevent and detect ML/TF/PF or an attempt to carry out such actions or other related criminal offences, as well as initiate criminal proceedings and prosecute such cases, thus contributing to the security of the Latvian financial system.

FIU Latvia published these guidelines simultaneously with the amendments in the AML Law that entered into force on 1 October 2021 (in regards to the addition of Chapter IV.2 to the AML Law). These guidelines explain in detail: (1) when a report on a suspicious transaction must be submitted; (2) when obliged entity should refrain from executing a transaction in accordance with Section 32 of the AML Law; (3) when before submitting the report cooperation coordination group meeting provided for in the AML Law should be initiated. Guidelines also provide examples of both good and lower quality suspicious transaction reports received by the FIU Latvia.

At the beginning of 2023, 2nd updated version of these guidelines was developed, addressing the challenges in reporting suspicious transactions related to fraud, as well as clearing any confusions in regards to reporting on violation and circumvention of international and national sanctions. The guidelines were developed in compliance with the opinion and recommendations of the competent authorities, i.e., the State Security Service, the Ministry of Foreign Affairs, the Bank of Latvia¹ and the Finance Latvia Association.

The reporting approach described in chapter "[Reporting a Suspicious Transaction Related to Fraud](#)" of these guidelines will become relevant on 1 April 2023, providing for a transitional period for the implementation of the new reporting approach agreed by the competent authorities.² Other recommendations of these guidelines shall be considered relevant after their publication on the website of the FIU Latvia.

The visualisation presents the content of these guidelines in a concise and easy-to-read manner, providing a summary to facilitate the reporting of suspicious transactions to the FIU Latvia by the obliged entities under the AML Law:



¹ As of 1 January 2023, The Financial and Capital Market Commission is integrated into the Bank of Latvia and, in accordance with Paragraph 4 of the Transitional Provisions of the Law on the Bank of Latvia, the Bank of Latvia is the successor of the Financial and Capital Market Commission's property, financial resources, rights and liabilities.

² The Financial Intelligence Unit and the Bank of Latvia.

Introduction

The role of the FIU Latvia in preventing and combating ML/TF/PF is outlined in international recommendations and also incorporated in the national legal framework, with particular emphasis on its functions and role in information flow and analysis.

FATF Recommendation 29 states that a country's financial intelligence unit serves as the central agency for the receipt of disclosures filed by obliged entities. This information should include suspicious transaction reports and it should include other information as required by national legislation (other information on ML/TF/PF; information on predicate offences related to ML; threshold declarations). The Recommendation also states that the financial intelligence unit should be able to obtain additional information from obliged institutions and to timely access financial, administrative, and law enforcement information to enable the financial intelligence unit to perform its functions in a quality manner.

In line with the FATF standard, the AML Law establishes that the FIU Latvia is the managing authority whose purpose is to prevent the possibility to use the financial system of the Republic of Latvia for ML/TF/PF. FIU Latvia is the authority that exercises control over suspicious transactions and other information received, and acquires, receives, registers, processes, compiles, stores, analyses, and provides such information to investigating institutions, the Office of the Prosecutor, or a court which may be used for the prevention, detection, pre-trial criminal proceedings, or trial of ML/TF/PF or an attempt to carry out such actions, or another associated criminal offence.

Obliged entities under the AML Law are obliged to report any suspicious transaction to the FIU Latvia and, in cases set out in the AML Law, to refrain from carrying out the transaction. Procedures for detecting and reporting on suspicious transactions must be foreseen by obliged entities under the AML Law in their internal control systems.

Given the role of the FIU Latvia in preventing and combating ML/TF/PF, every report on a suspicious transaction submitted to the FIU Latvia in a timely manner and appropriate quality is valuable and is analysed in accordance with the procedure and deadlines set out in the regulatory framework, which facilitates the detection of financial crime, thereby strengthening the security of the Latvian financial system.

Considering that each suspicious transaction, even if it corresponds to a known typology of ML/TF/PF may contain unique indications, the obliged entities under the AML Law must assess each suspicious transaction on a case-by-case basis, taking into account the available information about the customer and transaction, as well as the due diligence materials at the disposal of the obliged entity.

With regard to the above, these guidelines have been developed with an aim to facilitate a common understanding of submitting the reports on suspicious transactions, as well as to explain the reporting obligation and differences in report submission under the AML Law, including by providing practical examples. It is important to emphasise that these guidelines do not apply to the submission of a threshold declaration. These guidelines explain:

- 1) when a report on a suspicious transaction must be submitted;
- 2) when obliged entity should refrain from executing a transaction in accordance with Section 32 of the AML Law;
- 3) when before submitting the report cooperation coordination group meeting provided for in the AML Law should be initiated.

It is important to note that these guidelines have been updated and supplemented by three additional chapters at the beginning of 2023:

- ["Reporting on Violation or Circumvention of International and National Sanctions"](#);
- ["Reporting on Violation or Circumvention of Sanctions Imposed by EU or NATO Member State"](#);
- ["Reporting a Suspicious Transaction Related to Fraud"](#).

Chapter "[Submission of a Suspicious Transaction Report](#)" has also been supplemented by the inclusion of Point No 7.1.



The Essence of a Suspicious Transaction Report

1. According to the AML Law, a suspicious transaction is a transaction or action that leads to the suspicion that the funds involved are directly or indirectly derived from a criminal offence or related to the TF and PF or an attempt to such activities.
2. A high-quality and timely report on a suspicious transaction submitted by an obliged entity under the AML Law not only enables the FIU Latvia to timely initiate or pursue financial intelligence of ML/TF/PF activities, attempted ML/TF/PF activities, or other related criminal offences, but also prevents the possibility of using the financial system of the Republic of Latvia for ML/TF/PF.
3. FIU Latvia uses the information contained in the suspicious transaction report (information required to be included in the report; information obtained as a result of due diligence and analysis carried out by the obliged entity under the AML Law) for the purposes set out in the AML Law, including:
 - 3.1. as a basis for financial intelligence, which includes verifying whether a criminal offence has been committed, to decide whether to send the information to investigating authorities, the Prosecutor's Office, or a court;
 - 3.2. for the provision of information to competent authorities;
 - 3.3. to respond to requests from competent Latvian authorities or similar foreign services;
 - 3.4. for a strategic analysis.

Identifying and Assessing a Suspicious Transaction

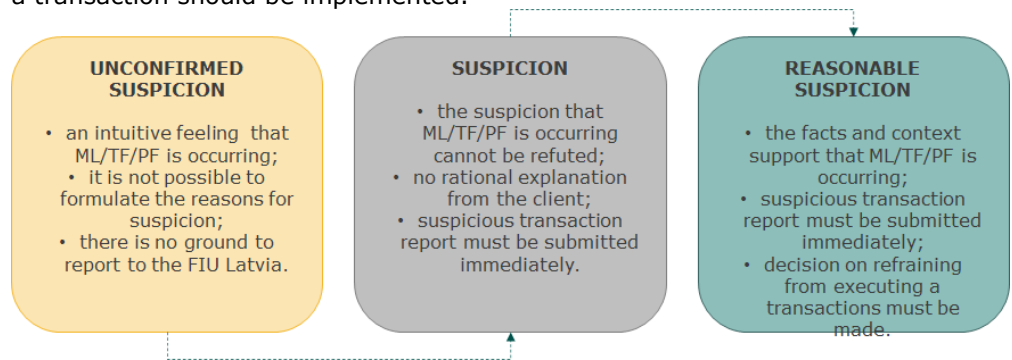
4. Before submitting a report on a suspicious transaction, the obliged entity under the AML Law must:
 - 4.1. identify the suspicious transaction (a fact) (e.g., by establishing risk indicators and/or typologies of ML/TF/PF);
 - 4.2. examine and assess the facts and context of the suspicious transaction (and other related offences) (origin, further movement of assets, other similar transactions of the customer);
 - 4.3. take a decision on submitting the report to the FIU Latvia.

Table No 1 "Factors for Identification and Evaluation of Suspicious Transactions"

Fact	A fact is an event, act, or element that exists or is known to exist or to have occurred. This may be, for example, information about the transaction (incl. date, time, place, amount or type) or information about the customer of the specific obliged entity under the AML Law (incl. credit institution account details, financial history, occupation type, information on financial flows and transactions). Note that "a fact" does not include a person's opinion or assumption.
Factual context	<p>Context is the circumstances and conditions surrounding a fact. For example, a rationale for the transaction derives from the context. The context can consist of different elements, such as:</p> <ol style="list-style-type: none"> 1) general understanding of the obliged entity under the AML Law of the occupation and type of economic activity of the customer; 2) knowledge of the obliged entity under the AML Law of customer-specific financial flows, their volume and geography; 3) information obtained during the customer due diligence process, incl. information about the BO, PEP status, customer's wealth and the origin of assets etc. 4) information about the customer's historical transactions; 5) publicly available information; 6) other contextual information that has come to the attention of the obliged entity under the AML Law. <p>Certain transactions may not appear suspicious to the obliged entity under the AML Law when monitoring transactions, however, when the facts of the transaction are supplemented with contextual information, they may raise suspicions of ML/TF/PF or attempted such actions. The opposite may also be true, where an analysis of a customer's current and past transactions combined with the context of a particular transaction, that was initially suspicious, leads to the conclusion that the transactions are logical and economically sound.</p>
Typologies and indicators of ML/TF/PF	Determination of typologies and indicators of ML/TF/PF provides a comprehensive examination of methods, approaches, schemes, and instruments of ML/TF/PF to understand their environment, both internationally and nationally. Understanding typologies is an effective tool in the fight against financial crime. They can help to understand how ML is carried out to hide, disguise, or move criminal assets. At the same time, the ability of the competent authorities to identify ML, as well as related criminal offences is facilitated. Identifying typologies and indicators in specific transactions or transactions as a whole is grounds for suspected ML.
Identification of suspicious transactions	<p>In order to identify suspicious transactions in a quality manner, the obliged entity under the AML Law must ensure an internal control system which corresponds to relevant risks. Knowledgeable and trained staff are also essential for managing the risks of ML/TF/PF. To avoid unreasoned, irrational, and factually unfounded suspicions, it is desirable that the process for identifying suspicious transactions:</p> <ol style="list-style-type: none"> 1) ensure that a full understanding of the transaction and the basis for the suspicion is obtained; 2) does not involve a sole decision (taking into account the inherent ML/TF/PF risks of the relevant obliged entity under the AML Law, as well as the nature and extent of the business activities carried out).
Levels of suspicion	<p>FIU Latvia identifies at least three possible levels of suspicion:</p> <ol style="list-style-type: none"> 1) "Unconfirmed suspicion" – equivalent to a prima facie assumption that a transaction is suspicious but there are no immediately identifiable facts, context, or specific typologies and indicators of ML/TF/PF to support the suspicion or lead to the conclusion that a criminal offence or attempted offence may have been committed. Unconfirmed suspicions are not grounds for reporting a suspicious transaction to the FIU Latvia but may initiate an assessment of the respective customer's transactions in order to confirm the suspicions by obtaining additional information. The reports submitted at this level of suspicion should be considered as protection reports. 2) "Suspicion" – the threshold for reporting a suspicious transaction to the FIU Latvia. At this level of suspicion, taking into account the facts and context of the transaction

and the identified typologies and indicators of ML/TF/PF, the obliged entity under the AML Law suspects that the assets involved in the transaction or activity are directly or indirectly the proceeds of an offence or related to TF and PF or an attempt to commit such offences. The obliged entity under the AML Law cannot refute this suspicion and does not see or receive a rational explanation for the transaction or action from the customer. At the same time, the obliged entity under the AML Law has carried out all reasonably possible customer due diligence and transaction monitoring activities that could be carried out in accordance with the laws and regulations.

- 3) "Reasonable suspicion" – a level of suspicion with sufficient facts to not only suspect, but to have reason to believe that an act or attempted act of ML/TF/PF has occurred or is occurring. In such a case, the obliged entity under the AML Law is obliged to report the suspicious transaction to the FIU Latvia together with all the facts and a detailed explanation of the context and to decide whether refraining from executing a transaction should be implemented.



Content of a Suspicious Transaction Report

5. To ensure that the report on a suspicious transaction is submitted comprehensively and in the best possible quality, it is recommended to use the check-list provided for in Table No 2.

Table No 2 "Suspicious Transaction Report Check-List"


Mandatory information to be included in the suspicious transaction report.		
1.	<p>The information received by the obliged entity under the AML Law shall be considered a report on a suspicious transaction if the information submitted contains at least the information required by Section 31.⁵ of the AML Law:</p> <ol style="list-style-type: none"> 1) the customer identification data and copies of due diligence documents; 2) the description of the planned, reported, advised, commenced, deferred, executed, or approved transaction, method of action, as well as the identification data of the person involved in the transaction and the amount of the transaction, the time and place for the execution or reporting of the transaction, as well as copies of the documents attesting to the transaction (if there are such documents at the disposal of the obliged entity under the AML Law); 3) justification why the obliged entity under the AML Law is of the opinion that the transaction is suspicious. 	<input type="checkbox"/>
2.	In the standardized entry form of FIU Latvia's Data Receipt and Analysis System (https://goaml.fid.gov.lv), the fields are filled in appropriately, incl. selection of possible criminal offense group, typologies and others, avoiding the option "other" as much as possible".	<input type="checkbox"/>
3.	The information related to the suspicious transaction is provided, transaction data are entered in the appropriate fields.	<input type="checkbox"/>
An analytical explanation and annexes to supplement the mandatory information are provided.		
4.	<p>The report is accompanied by an analytical explanation to complement the mandatory information. It must include:</p> <ol style="list-style-type: none"> 1) the information on the facts and circumstances that have been established which have given rise to a suspicion that the transaction may be related to a criminal offence, including ML/TF/PF: <ul style="list-style-type: none"> - the specific details or indicators of the suspicious transaction; - an assessment of the typicality of the transaction in relation to the industry and other transactions of the customers; - inconsistencies and deficiencies established, public information, etc.); - indications of facts and data which, in the context of other information, strengthen suspicions about the legitimacy of the transaction and may be relevant to further investigations (e.g., nicknames, IP addresses, email addresses, addresses of virtual currency transactions, etc.) 2) conclusions on the possible offence, including ML/TF/PF; 3) other relevant information that has come to the attention of the obliged entity under the AML Law as a result of the analysis carried out. 	<input type="checkbox"/>
5.	<p>Annexes relevant to the information contained in the report on the suspicious transaction, including:</p> <ol style="list-style-type: none"> 1) documents approving the transactions; 2) statements of accounts; 3) other annexes confirming the facts and findings contained in the description part (including information obtained from public sources, restricted databases); 4) other relevant annexes supporting the information contained in the report on the suspicious transaction. 	<input type="checkbox"/>

Submission of a Suspicious Transaction Report

6. This chapter describes the submission of a suspicious transaction report in accordance with the AML Law (reporting in accordance with the procedures established by the Sanctions Law is described in the chapter "Reporting on Violation or Circumvention of International and National Sanctions"). Reporting obligation is laid down in Section 31.⁴(1)(2) of the AML Law:

The obliged entity under the AML Law has an obligation to immediately report to the FIU Latvia on every suspicious transaction. The reporting obligation shall also apply to the funds causing suspicions that they have been directly or indirectly obtained as a result of a criminal offence or are related to TF and PF, or an attempt of such criminal offence, but are not yet involved in a transaction or its attempt, and also to the cases when there were sufficient grounds for establishing a suspicious transaction, however, the reporting obligation has not been carried out due to insufficient attention or negligence.

7. Reporting obligation according to Section 31.⁴(1)(2) of the AML Law refers to the following cases:
 - 7.1. The obliged entity under the AML law has determined that the transaction is suspicious. According to Section 1(1)(17) of the AML Law a suspicious transaction is a transaction or action creating suspicions that the funds involved therein are directly or indirectly obtained as a result of criminal offence or are related with TF and PF, or an attempt to carry out such actions. Table No 1 "[Factors for Identification and Evaluation of Suspicious Transactions](#)" provides recommendations for determining the suspiciousness of a transaction.
 - 7.2. Assets suspected of being **derived directly** or **indirectly from** a criminal offence or **related to** TF and PF or an attempt to do so, but not **yet involved in a transaction or its attempt**:
 - 7.2.1. assets indirectly derived from a criminal offence are the fruits of the proceeds of the criminal offence. For example, the proceeds of the criminal offence are used to buy a property, which is then rented and payments are received. It is important to note that, the primary basis for the report submitted is the information that indicates the origin of the assets used to acquire the property and their possible connection with committing a criminal offence, including the ML. Information regarding the rental of the property is of secondary importance, i.e., it cannot be the basis for submitting the report.
 - 7.2.2. Suspicion of assets directly derived from a criminal offence is always linked to the specific assets used in the transaction.
 - 7.2.3. The AML Law stipulates that the obliged entities under the AML Law must report both an ongoing and attempted transaction. In this context, it is particularly important to emphasise that it is more effective to report a transaction that has not yet taken place, when the obliged entities under the AML Law already suspects that the customer's assets are criminal. In addition to submitting such a report, the obliged entities under the AML Law shall decide on:
 - 7.2.3.1. refraining from executing a transaction. Refraining from executing a transaction is further analysed in the chapter "[Refraining from Executing a Transaction](#)".
 - 7.2.3.2. refusal to execute a transaction. The obliged entities under the AML Law may not decide to refrain from executing a transaction but may refuse to execute a transaction. The refusal to execute a transaction should be implemented in the cases when it is possible to prevent a potential criminal offence (e.g., fraud) from taking place.
 - 7.3. There were sufficient grounds to identify a suspicious transaction, however the reporting obligation was not fulfilled due to lack of insufficient attention or negligence. It should be emphasised that a suspicious transaction report should also be submitted for a suspicious transaction that occurred in the past and was not identified at the time of the transaction. For example, when the indications of a suspicious transaction were not observed; when the report was not submitted to the FIU Latvia due to other circumstances; when the suspicious nature of a transaction becomes known later, e.g., during the course of a routine customer due diligence process.
8. According to the Cabinet Regulation No 550 "[Regulations on the Procedures of Submission and Content of Reports on Suspicious Transactions and Threshold Declarations](#)", the obliged entity under the AML Law, when submitting a suspicious transaction report, must provide information on the possible criminal offence or offences that are being committed through the said transaction or which resulted in the possible proceeds of crime, as well as at least one typology that justifies the suspicious nature of the transaction.

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- 8.1. With regard to the possible criminal offence, this can be either a suspicion of a possibly ongoing or past predicate offence (e.g., fraud, embezzlement, bribery, tax evasion) and a suspicion of a predicate offence in combination with an ML or stand-alone ML. This requirement extends the preventive scope of the AML Law, as the reporting obligation is not limited to ML, but also to predicate offences related to ML, i.e., the criminal offences that generate assets (not yet laundered) and the assets that can be used to commit a criminal offence.
 - 8.2. With regard to the typology supporting the suspicious nature of the transaction, the obliged entity under the AML Law uses the typologies, indicating at least one typology supporting the suspicious nature of the transaction, specified in the Data Receipt and Analysis System (<https://goaml.fid.gov.lv>) of FIU Latvia to identify and report the transaction. In addition to the typologies indicated in the system, the obliged entity under the AML Law may refer to typologies and indicators of ML and predicate offences indicated in other sources, as well as to indicate other information confirming committing of a criminal offence. Examples of publicly available information summarising the typologies of ML and the indications of suspicious transactions:
 - 8.2.1. The methodological material "[Typologies and Indications of Money Laundering \(2nd updated version\)](#)" developed by the FIU Latvia, which summarises the current typologies and indications of ML schemes implemented in Latvia (or by using the Latvian financial system). The material includes the typologies and indications of ML identified by the FIU Latvia and investigation authorities, based on the information and conclusions gained by similar foreign financial intelligence units and other responsible authorities. The typologies contained in the Data Receipt and Analysis System (<https://goaml.fid.gov.lv>) of FIU Latvia have been developed according to the suspicion threshold at which the obliged entity under the AML Law must report a suspicious transaction to the FIU Latvia. The typologies included in the methodological material "Typologies and Indications of Money Laundering (2nd updated version)" meet the threshold of reasonable suspicion and, upon identification of any of the typologies (and their corresponding indications) mentioned in the material, the suspicious transaction must immediately be reported to the FIU Latvia.
 - 8.2.2. Guidelines and materials developed by international institutions and foreign experts summarising indicators on ML/TF/PF, e.g., the FATF report "Laundering the Proceeds of VAT Carousel Fraud, the FATF report "Professional Money Laundering", etc.


Refraining from Executing a Transaction

9. Refraining from executing a transaction and freezing of assets are stipulated in Chapter V of the AML Law (Sections 32-36).

Section 32(1) of the AML Law:

The obliged entity under the AML Law shall take the decision to refrain from executing a transaction if the transaction is related with or there are **reasonable suspicions** that it is related with ML/TF/PF, or there are **reasonable suspicions** that the funds are directly or indirectly obtained as a result of a criminal offence or are related with TF and PF, or an attempt of such criminal offence.

10. When assessing an ongoing (planned, proposed, advised, initiated, etc.) transaction where there is a reasonable suspicion that the assets involved are directly or indirectly derived from or related to TF and PF or an attempt to do so, the obliged entity under the AML Law must not only assess the need to report the transaction to the FIU Latvia, but also the need to prevent its implementation by refraining from executing the transaction.
11. Refraining from this type of transaction contributes to the achievement of the objectives of any AML/CFT/CFP system not only to actually identify criminal offences and ML, but to prevent ML by freezing, seizing, and confiscating the proceeds of crime.
12. The refraining from a transaction by the obliged entity under the AML Law may be the first step towards the confiscation of the proceeds of crime by a court order, potentially fulfilling the objective of the AML/CFT/CFP system, as the freezing order is often issued by the FIU Latvia on the basis of a report received from the obliged entity under the AML Law on the refraining from the transaction.
13. In cases where the obliged entities under the AML Law does not refrain from executing a transaction despite of the obligation to do so, there is a possibility that the potential proceeds of crime may untraceably flow outside the competence of the obliged entities under the AML Law and public authorities and cannot be recovered (e.g., funds flowing to an account of a shell company in a credit institution in a high-risk jurisdiction). Thus, where there are reasonable grounds to suspect that the proceeds are of criminal origin or that the transaction is related to ML/TF/PF, and there is a risk that the funds will not be traceable and recoverable after executing the transaction, the obliged entities under the AML Law is obliged to refrain from executing the transaction by reporting it to the FIU Latvia.
14. Refraining from the transaction restricts a person's right to property and, in accordance with Section 32(3) of the AML Law, the obliged entities under the AML Law does not take any action with the assets involved in the transaction, including does not return them to the sender (payer). In view of the above, suspicions of the obliged entities under the AML Law of a possible criminal offence or criminal origin of assets must be based on a thorough analysis of the transaction or set of transactions, as well as a customer due diligence. When refraining from executing the transaction, the obliged entities under the AML Law must be able, by taking into account its knowledge, experience, and available information, to substantiate the suspicion that the criminal offence is being committed or continued through the transaction or that the transaction involves the use of proceeds of crime (rather than assets of undetermined origin) and that it is not possible to obtain sufficient information about lawful origin of the assets, including due to the lack of cooperation of the customer.
15. The obliged entities under the AML Law must notify FIU Latvia on refraining from the transaction immediately, but no later than the next business day. Pursuant to Section 32.²(2) of the AML Law, the FIU Latvia shall, not later than within five working days, but, if additional information needs to be requested, within eight working days, after receipt of the report from the obliged entities under the AML Law on refraining from executing a transaction, assess whether the obliged entities under the AML Law has taken a decision on the refraining in accordance with the requirements of the AML Law and whether the restriction on the rights for the particular person is commensurate. The FIU Latvia will then issue an order to end the refraining from executing the transaction or to temporarily freeze the assets.
16. The decision of the obliged entities under the AML Law to refrain from executing transactions is applicable to the cases when the obliged entities under the AML Law can in fact retain the customer's assets, i.e., not all obliged entities under the AML Law can take this action, as the nature of the services provided does not foresee require "retaining" the customer's assets.
17. The process of refraining from executing a transaction results in the freezing of potentially criminal assets or an order issued by FIU Latvia to end the refraining from executing the transaction. Consequently, in order for the freezing of assets to be carried out, the obliged entities under the AML Law must be able to ensure that no action is taken with the assets. In view of the above, it should be



noted that the obliged entities of the financial sector may refrain from executing the transaction, while for the obliged entities of the non-financial sector the refraining from the transaction is implemented in very rare exceptional cases.

18. In view of the above, it is important to note that the obliged entities under the AML Law that cannot use the mechanism provided for in Section 32 of the AML Law (even if it raises suspicions that the assets involved are directly or indirectly derived from a criminal offence or related to ML/TF/PF or an attempt to commit such offences) should assess what is the most appropriate solution in the particular situation: to refuse executing the transaction or to perform the transaction and immediately report it to the FIU Latvia. Thus, the responsible authority will be informed about the location and flow of the proceeds of crime (if the transaction is refused, it is possible that the customer will use other methods, including less monitored methods, and seek other service providers to implement ML activities), which can then be used as valuable intelligence for further investigations.
19. Although in certain cases the refraining from executing a transaction by the obliged entities under the AML Law is a particularly important and preventive action, Section 36(1) of the AML Law clarifies an exception where refraining from executing a transaction may have an undesirable result, namely where refraining from executing a transaction, that is reasonably suspected of being related to ML/TF/PF, may serve as information that helps the persons involved in ML/TF/PF to evade liability. For example, a payment institution has identified a network of persons that make cash transfers of similar amounts to the same persons abroad with a certain frequency. The payment institution refrains from executing a single transaction after identifying a potential network of money mules, thereby communicating to the offenders that their structuring of transactions has been identified. This creates a situation where further financial intelligence activities cannot be performed because the offenders have become aware that their criminal activities are suspected. In cases where refraining from executing the transaction may affect the conduct of further financial intelligence activities, the obliged entity under the AML Law has the right to execute the transaction and report it to the FIU Latvia after it has been executed. In applying this exception foreseen in the AML Law, it is important that the obliged entity under the AML Law contacts, if possible, the FIU Latvia and informs it about the situation.

Convening the Cooperation Coordination Group

20. According to Section 55(2) of the AML Law, the FIU Latvia coordinates the cooperation between the bodies performing operational activities, investigating authorities, the Office of the Prosecutor, the State Revenue Service (hereinafter - the involved authorities), as well as the obliged entities under the AML Law by convening the cooperation coordination group meeting upon FIU Latvia's initiative or when initiated by at least one of the institutions involved. The purpose of the cooperation is, among others, to facilitate effective implementation of the tasks assigned to the obliged entities under the AML Law by laws and regulations, including the reporting of suspicious transactions.
21. The obliged entities under the AML Law are entitled to exchange, on their own initiative within the cooperation coordination group, information relating to ML/TF/PF or an attempt of such activities, or other related criminal offence or suspicious transaction. Information provided by the obliged entities under the AML Law within the cooperation may be considered as being provided to the FIU Latvia for the purposes of the AML Law. The cooperation coordination group may also examine specific cases where inspections or investigations are being carried out and exchange information according to laws and regulations governing the relevant inspection or investigation.
22. In view of the above, participation of the obliged entities under the AML Law in the cooperation coordination group may facilitate decision making on the next steps – reporting a suspicious transaction, refraining from executing a transaction, refusing to execute a transaction and terminating a business relationship with a customer or executing a transaction. The obliged entities under the AML Law may obtain the opinion of the FIU Latvia, the supervisory and control authority, as well as investigating authorities on the further action, as well as information that may simplify or facilitate taking of the relevant decision. The use of the cooperation mechanism can facilitate making the most appropriate decision when the obliged entities under the AML Law must urgently make a decision on a particular transaction. It should be noted that the exchange of information within the cooperation coordination group is not subject to the credit institution's obligation not to disclose non-disclosable information.
23. It is important to note that the mechanism of the Cooperation Coordination Group is used not only to simplify and facilitate the decision-making of the subjects of the Prevention Law on the actions to be taken in specific situations and to receive recommendations from the competent authorities but often also representatives of the competent authorities provide relevant tactical information to the subjects of the Prevention Law. This information may include information about specific natural and legal persons or other identifying information relating to a case under investigation or in the sight of competent authorities. The subjects of the Prevention Law, in response to suspicions or indicators identified, can search their internal systems and verify the information provided by the competent authorities and provide feedback on suspicious indications from their perspective.

Example:

The FIU Latvia initiates a meeting of the cooperation coordination group at the request of a credit institution, inviting two investigating authorities that could potentially have jurisdiction to investigate the criminal offences in question. The credit institution provides a description of the reported suspicious transaction at the meeting, specifying the persons involved, the suspected offences, and the flow of assets provided that the credit institution will approve the transaction.

The involved institutions and the credit institution agree that:

- 1) in this case, an immediate suspicious transaction report must be submitted to the FIU Latvia (without refraining thereto);
- 2) upon receipt of additional information on the details of the transaction, the asset flow, as well as any other information on the said transaction, the credit institution will provide it to the FIU Latvia;
- 3) FIU Latvia will analyse the information received and any additional information it has and will provide the information simultaneously to both investigating authorities.

Examples and Analysis of Suspicious Transaction Reports

Quality reports on suspicious transactions:

1.	<p>During the customer due diligence, the credit institution suspected that the information provided about the customer's UBO is false and that the actual UBO is another person, namely the founder and current chairman of the board of a legal entity who is a PEP. Suspicious transit-like transactions have been detected in a customer's account. There are also risks of corruption and ML. There is publicly available information of a negative nature about corrupt activities of the customer and its presumed BO. At the same time, neither the customer nor its UBO is able to provide documents proving the legal origin of the assets in their accounts.</p>
	<p>The submitted suspicious transaction report is of high quality because of the following:</p> <ol style="list-style-type: none">1. There are facts listed that indicate suspicions that transactions on a customer's account are linked to a specific criminal offence – corruption (illegal transactions are carried out in the interests of another person (PEP)), including descriptions of a suspicious money flow and analysis of fictitious loans.2. There is information necessary for the analysis – account statements, customer explanations, documents supporting transactions (contracts, invoices, etc.), related parties, publicly available information of a negative nature, etc. It is important that the information listed is included in the report on a suspicious transaction and not just attached as its annex.3. The information contained in the report is comprehensive, includes a summary of the results of qualitative customer due diligence processes, and provides a basis for further analytical work by the FIU Latvia. It is possible that the report will result in provision of information to investigating authorities.
2.	<p>A credit institution has detected suspicious transactions in a customer's account, possibly related to tax evasion and ML. An analysis of the asset flow in the customer's account revealed incoming transfers from political parties, as well as outgoing transfers to legal entities registered abroad with indicators of shell arrangements. An analysis of publicly available information shows that the customer's shareholder is linked to a person whose name is frequently mentioned in connection with corruption, tax schemes, and ML schemes.</p>
	<p>The submitted suspicious transaction report is of high quality because of the following:</p> <ol style="list-style-type: none">1. The report lists the facts indicating suspicions that transactions in the customer's account are linked to specific criminal offences – tax evasion and corruption, including a suspicious asset flow is described and cooperation partners of the customer are analysed.2. All the information needed for the analysis is included: statements of accounts, customer explanations and documents accompanying the explanations, including documents supporting transactions (contracts, invoices, etc.), publicly available information of a negative nature and other information.3. The information contained in the report is comprehensive, includes a summary of results of qualitative customer due diligence processes, and provides a basis for further analytical work by the FIU Latvia (including requesting additional information from foreign financial intelligence units) and possibly will result in provision of information to investigating authorities.
3.	<p>A sworn auditor has identified unclear transactions carried out by a customer regarding an advance payment for goods and involving several foreign companies. The advance payment for the goods is transferred to a company with limited economic activity. Later, a contract with another supplier for a similar amount and type of goods is concluded. Subsequently, a tripartite agreement is concluded to transfer the right of recourse arising from the first supply contract to the company with which the second supply contract is concluded. The investigation finds significant delays in delivery, shipment of the goods not in full amount, and atypically high advance payment which has not been fully recovered. By requesting an explanation, the customer has not been able to reason and sufficiently justify the economic sense and structure of the transactions.</p>
	<p>The submitted suspicious transaction report is of high quality because of the following:</p> <ol style="list-style-type: none">1. The report lists the facts indicating suspicions that the customer performs fraudulent activities through a "chain" of companies, including the interconnectedness of the companies involved in the chain has been established, the contracts concluded between the parties have been examined, unclear transactions and the use of advance payments have been analysed, and explanations from the customer have been requested.2. All the information needed for the analysis is included: the contracts concluded, customer explanations and documents accompanying the explanations, documents supporting transactions (invoices, bills of lading etc.), as well as other information.3. The information contained in the report is comprehensive, includes a summary of results of qualitative customer due diligence processes, and provides a basis for further analytical work

by the FIU Latvia (including requesting additional information from foreign financial intelligence units) and possibly will result in provision of information to investigating authorities.

Report on a suspicious transaction with lower quality:

1. The credit institution has reported a suspicious transaction because, as a result of customer due diligence, it became aware of publicly available information of a negative nature about the customer's business partners. The report states that the creditor's transactions and activity are in line with the company's business, based on the description of the transactions and the information available on the customer's transactions. The only grounds for suspicion are negative information on mass media (e.g., direct or indirect links to publicly known schemes) about the customer's business partners.

The submitted suspicious transaction report is of lower quality because of the following:

1. There are no indications of suspicious transactions.
2. The report is based on publicly available negative information about persons that are related to the customer.
3. The customer's transactions are not suspicious and are in line with the nature of its business.
4. The purpose and necessity of submitting the suspicious transaction report are not clear.

2. SIA D, a company registered in Latvia, received loans from a Singaporean company and lent funds to companies A and B registered in Ukraine and to company C registered in Austria. It has been established that the companies are mutually related and have the same person as the BO.

The submitted suspicious transaction report is of lower quality because of the following:

1. The information provided in the report does not substantiate the selected group of the criminal offence "Suspicion of providing professional assistance in money laundering".
2. The report has insufficient information to substantiate suspicions, and no information is provided on due diligence of the customer and transactions.
3. No information is provided on the explanations provided by the customer.
4. The documents that would support the suspicious nature of the transaction have not been attached.

Examples and Analysis of Reports on Refraining from Executing a Transaction

Quality reports on refraining from executing a transaction:

1. The credit institution has refrained from executing a transaction because it found a match between the customer's data and the data of a person included in FACTIVA SIP / Financial Crime, as well as negative public information, i.e., the person was accused of bribing public authorities to defend the interests of the company he or she represented in public procurements and was also subject to criminal proceedings for tax evasion. Moreover, the customer has not been able to prove a legitimate origin of the assets used in the transaction, the customer has not been able to submit supporting documentation. The credit institution suspects that the assets and securities placed in the accounts of the customer and his or her family members may have been obtained as a result of a predicate offence and are criminally obtained.

The submitted report on refraining from executing the transaction is of high quality because of the following:

1. A match has been found between the personal data of a customer and the personal data of a person included in the databases.
2. The report includes information necessary for the analysis – account statements, copies of customer registration cards, identification documents of the customer and related persons, customer due diligence files, negative public information, etc.
3. The report includes information on a suspicious transaction and the analysis performed provides a qualitative basis for preparing the material to investigation authorities. The FIU Latvia verified the facts listed in the report and available databases, as well as sent an information request to analogous foreign unit regarding the customer of the obliged entity under the AML Law. The FIU Latvia supplemented the information included in the report on the suspicious transaction with relevant information from its analysis.

2. The credit institution has refrained from executing the transaction based on suspicions that the transactions on the customer's account are related to tax evasion and ML. The credit institution has reasonable grounds to suspect that the customer, in addition to its economic activity, is executing and declaring transactions that have not actually taken place with shell arrangements registered abroad and in Latvia, transferring assets to them for transactions that have not actually taken place (deliveries of goods and services), knowing that these business partners are not providing services and goods. Moreover, after requesting an explanation, the customer has not been able to explain the economic sense of the transactions.

The submitted report on refraining from executing the transaction is of high quality because of the following:


1. The report on the suspicious transaction lists the facts indicating a reasonable suspicion that transactions in a customer's account are linked to a specific criminal offence, including a suspicious flow of assets has been described, inconsistencies in documents and explanations received have been indicated, publicly available information has been referenced, research of each person involved in the scheme and a transaction analysis have been carried out, and a justification for suspicions of fictitious transactions has been provided.
2. The report includes all information necessary for the analysis – account statements, copies of customer registration cards, identification documents of the customer and related persons, customer due diligence files, negative public information, etc.
3. The report includes information on a suspicious transaction and the analysis performed provides a qualitative basis for preparing the material to investigation authorities. The FIU Latvia verified the facts listed in the report and available databases, as well as sent an information request to the obliged entity under the AML Law that was not the submitter of the report. FIU Latvia supplemented the information included in the suspicious transaction report with relevant information from its analysis.

Report on refraining from executing a transaction with lower quality:

1. The credit institution has refrained from executing the transaction, indicating the connection of the customer's transactions with the laundromat activity as the only justification. The customer has received assets from or transferred them to legal entities that are involved in publicly known laundromat schemes. The credit institution suspects that the assets used in the transaction are of illegal origin and criminally obtained.

The submitted report on refraining from executing the transaction is of lower quality because of the following:

1. The only fact supporting suspicion is the direct and/or indirect involvement of the customer's partners in the activities of laundromats, when these transactions have taken place several



years ago and are not related to the specific transaction from which the obliged entity under the AML Law is refraining thereto and the assets involved therein.

2. Customer explanations have not been requested and analysis of transactions has not been carried out.
3. Supporting documents for account openings and suspicious transactions have not been attached.
4. The credit institution has not performed a full examination of the situation and transactions before refraining from executing the transaction and submitting the report, therefore the information contained in the report cannot be used by the FIU Latvia as a basis for confirming the suspicion of ML/TF/PF and preparing the report for the investigating authorities.

Reporting on Violation or Circumvention of International and National Sanctions

24. The invasion by Russian forces in Ukraine has triggered an extensive response from a number of countries around the world, resulting in the most rapidly introduced European Union sanctions that Latvia's sanctions enforcement system must also be able to react to. Although the dynamic period in the field of sanctions, as well as the ability to react immediately allows to conclude that Latvia's system is effective, uncertainties in the application of the regulatory framework have been observed in practice that need to be clarified.

25. In view of the above, the FIU Latvia has supplemented these guidelines by adding recommendations and practical examples for:

- reporting a violation of the international or national sanctions or an attempt to violate them, and the funds frozen due to such actions, to the State Security Service;
- reporting suspicions of the circumvention of international or national sanctions or circumvention attempt in the enforcement of financial restrictions and in other cases to the FIU Latvia.

26. Given that the regulations for reporting violations or circumvention of international and national sanctions are fairly complex and might sometimes be confusing in practice, it is important to mention that there are two levels of suspicion in reporting violations or circumvention of international or national sanctions:

- **Suspicion:** facts and information give rise to suspicions about international or national sanctions being (having been) circumvented or attempted to be circumvented. These suspicions cannot be refuted, there is no reasonable rationale visible, and the customer does not provide any reasonable explanation about the transaction or activity. At the same time, all reasonably possible customer due diligence and transaction monitoring activities, which can be carried out according to regulatory framework, have been performed.

Example: The customer has a long-standing relationship with Company A, which is owned by Company B. The executive director of Company B is listed in Annex I to Regulation 269/2014. In accordance with a contract signed before the executive director was included in the sanctions list, the customer ships goods to Company A. The customer receives the payment for the goods from Company C.

Explanation: The details of the transaction (Company B is controlled by a sanctioned individual; the contract may be fictitious (backdated); the payment for the goods is received via a third party) suggest that there may be attempts to circumvent international sanctions, but at the same time, this is not entirely certain, as there is a theoretical possibility that the transaction is legitimate and no crime is being committed, and thus, there are **suspicious**.

- **Reasonable suspicion:** there are enough facts and information known that raises not only suspicion but reasonable certainty that a violation or attempted violation of international or national sanctions is taking (or has taken) place, which leads to freezing of funds or to refusing to execute a transaction.

Example: Funds are transferred to a customer by a company owned by a natural individual listed in Annex I to Regulation 269/2014.

Explanation: The details of the transaction (the personal data of the owner of the funds confirms that the individual is a subject to sanctions) clearly indicate that international sanctions have been violated, and thus, there are **reasonable suspicious**.

Reporting a violation or attempted violation of international or national sanctions and the resulting freezing of funds to the State Security Service

27. The reporting obligation is laid down in Section 17(1) of the Sanctions Law:

The persons that are under the supervision of the competent authorities shall be obliged to:

immediately, but no later than on the next working day, report to the State Security Service on the violation of the international or national sanctions or an attempt to violate them, and the funds frozen due to such actions, and to inform the respective competent authority thereof.³

28. Violations of international⁴ or national sanctions is a criminal offence punishable under Section 84 of the Criminal Law:

- 1) For the violation of sanctions imposed by the UN, EU, and other international organisations or sanctions imposed by the Republic of Latvia, the applicable punishment is the deprivation of liberty for a period of up to four years or temporary deprivation of liberty, or probationary supervision, or community service, or fine.
- 2) For the commission of the same acts, if substantial harm has been caused thereby, the applicable punishment is the deprivation of liberty for a period of up to five years or temporary deprivation of liberty, or probationary supervision, or community service, or fine.
- 3) For the criminal offence provided for in Section 84 (2), if it has been committed by a group of persons according to a prior agreement or if it has been committed by a public official, the applicable punishment is the deprivation of liberty for a period of up to eight years.

29. One of the types of international or national sanctions that can be introduced or set in Latvia are financial restrictions. Section 5(1) of the Sanctions Law states that if financial restrictions have been imposed on a sanctions target, all persons must take the following action immediately and without prior notice, within the limits of their competence:

- freeze all funds and financial instruments partially or fully owned, held or controlled, directly or indirectly by the sanctions target, including any funds and financial instruments transferred to third parties;
- deny the sanctions target access to funds and financial instruments;
- refuse to provide to the sanctions target (including via a proxy) any financial services specified in international or national sanctions.

30. An example is Regulation 269/2014, which includes sanctions that can be defined as financial restrictions. Article 2(1) of this regulation requires the freezing of all funds and assets belonging to, owned, held, or controlled by any natural individual, or any natural individual/legal entity, association, or body affiliated with them (as listed in Annex I).⁵

31. This means that it is the subjects of private law that play a particularly important role in practically enforcing financial restrictions. For example, financial services are mainly provided by credit and financial institutions, which must comply with requirements to freeze funds and business assets and not to make them available to sanctioned entities. Other subjects of private law also play an important role, which may impose restrictions on the transfer of business assets, including the provision of various services that result in an economic benefit to a sanctions target or the sale of goods to a sanctions target.

32. Section 367 of Financial and Capital Market Commission Recommendations 169⁶ provides recommendations for conducting transactions by the obliged entities under the AML Law supervised by

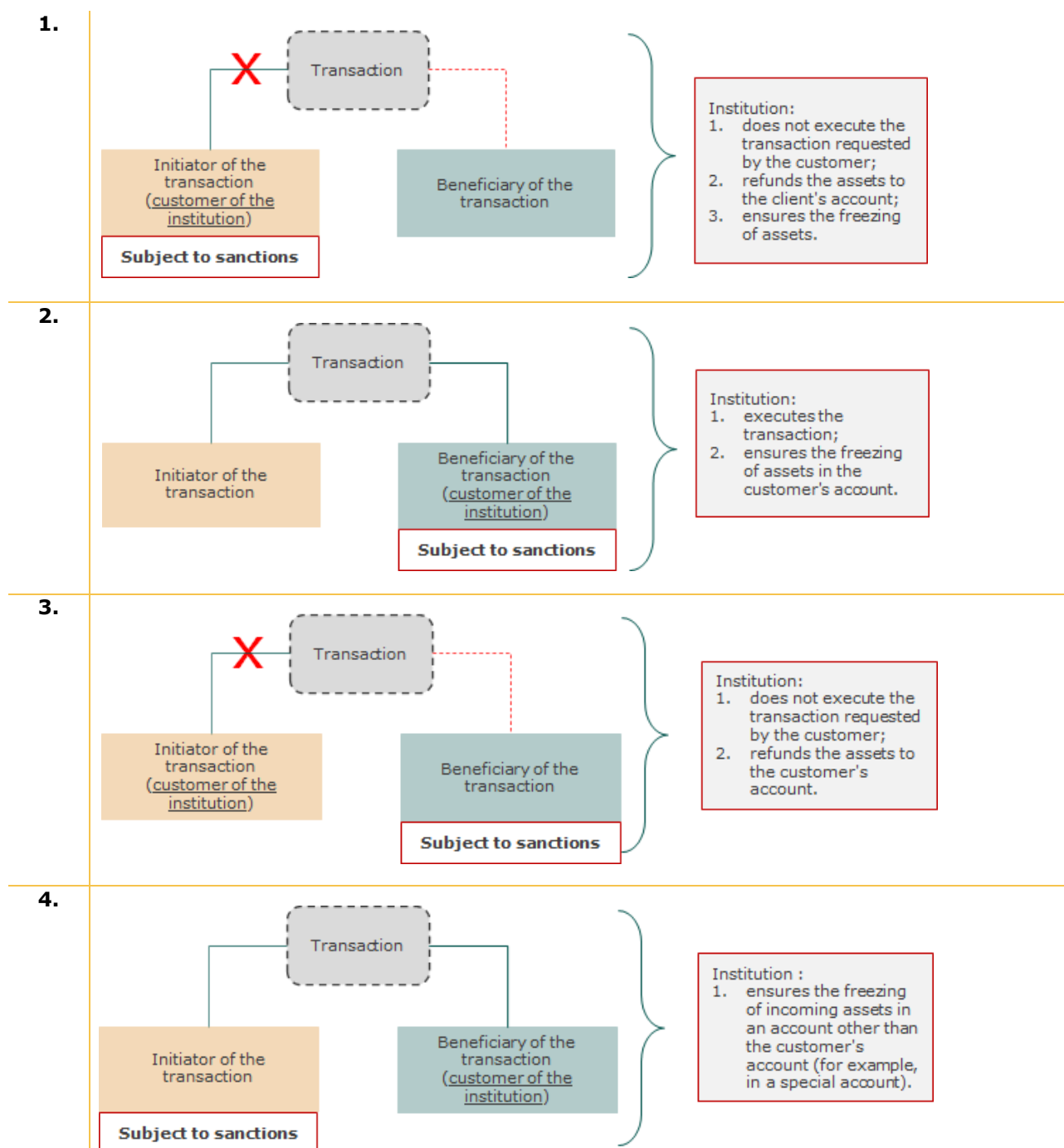
³ It is important to emphasize that the obligation to report also applies to cases where there was sufficient ground to establish a violation of international or national sanctions or an attempt to do so and to freeze funds, but due to the circumstances, this obligation was not fulfilled.

⁴ Except for the UN and EU sanctions, there are no sanctions imposed by other international organizations that would be applicable in Latvia. Therefore, when using the term "international sanctions" in the regulatory framework of Latvia, they mean sanctions established by the UN and the EU.

⁵ It is important to point out that the regulation of EU sanctions is defined in EU legislation, therefore, in order to ensure compliance, it is essential to be familiar with the requirements contained in EU legislation.

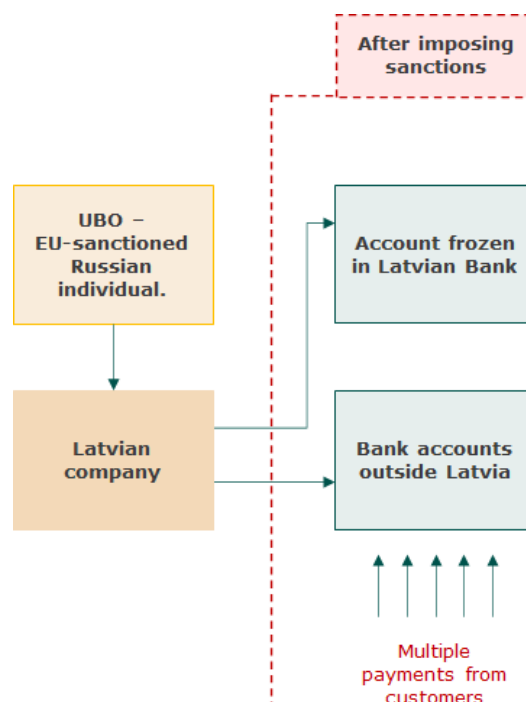
⁶ 21 December 2021 Financial and Capital Market Commission Recommendations No 169 "Recommendations for the establishment of an internal control system for the prevention of money laundering and the prevention of financing of terrorism and proliferation and sanctions risk management and customer research". Available (in Latvian): <https://likumi.lv/ta/id/328819-ieteikumi-noziedzīgi-iegutu-līdzekļu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-un-sankciju-riska-parvaldīšanas-iekšējās-kontroles-sistēmas-izveidei-un-klientu-izpētei>

the Bank of Latvia if it discovers a match with a subject of sanctions. It is important to note that this visualisation does not include situations in which payments are made based on an authorisation by a competent authority or payments that comply with the regulation and may be effected without authorisation by a competent authority.



Example 1: Violation of financial restrictions

- The UBO of a Latvian company is a Russian national included in the EU sanctions list.
- The Latvian company sells retail goods to consumers.
- All accounts of the Latvian company in a Latvian bank are immediately frozen in accordance with Regulation 269/2014.
- The Latvian company encourages its customers to pay for the goods in other ways, including payments to the Latvian company's accounts at other financial institutions outside Latvia.
- The customers of the Latvian company send their payments to the accounts of the Latvian company in other financial institutions outside Latvia, making the funds available to the subject of sanctions.

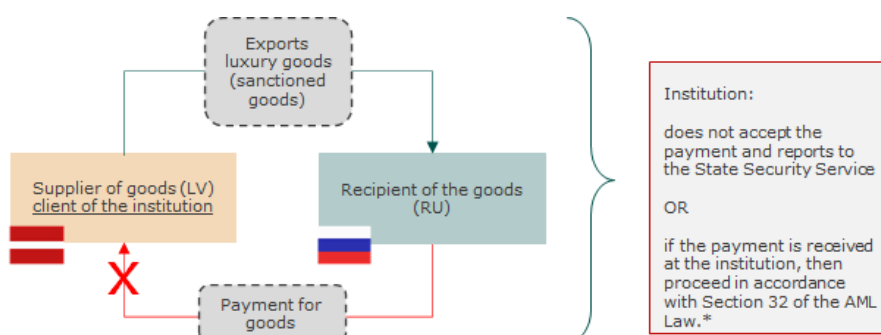


33. If the parties involved in the transaction are found to be in collusion with the party subject to sanctions, and/or if the details of the transaction and the supporting documents reveal a violation of sanctions, it is required to report this to the State Security Service in accordance with Section 17(1) of the Sanctions Law.

34. Another type of international or national sanctions is explained in Section 8 of the Sanctions Law, i.e., if in relation to a subject of sanctions an arms embargo or a prohibition of import, export, transit, or brokering services of other goods has been imposed, the subject governed by private or public law is prohibited from selling, supplying, transferring, or exporting goods of strategic significance of specific kind to the subject of sanctions, or otherwise alienating them or other goods specified in law, or allowing access to them. These types of sanctions are also often referred to as sectoral sanctions, as they can be imposed on specific sectors of the economy in the sanctioned country. It should also be noted that the scope of sectoral sanctions currently imposed by the EU is broader than what is defined in Section 8 of the Sanctions Law, e.g., restrictions on the provision of legal and accounting services.

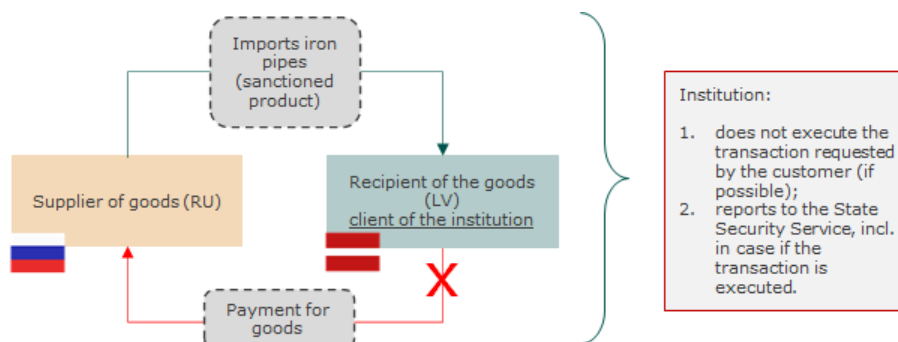
35. For example, Regulation 833/2014 prohibits to directly or indirectly import iron and steel products listed in Annex XVII of Regulation 833/2014 if they originate in or are exported from Russia. One of the tools for identifying violations of sectoral sanctions is reports submitted by private entities that execute payments for companies that export and import goods. Whenever the details of a transaction and its supporting documents give rise to reasonable suspicion (the levels of suspicion are explained in [Point No 26](#) of these guidelines) of violations of sectoral sanctions, this must be reported to the State Security Service in accordance with Section 17(1) of the Sanctions Law.

Example 2: Export of sanctioned goods



*See section "[Refraining from a transaction](#)" and [Point No 47](#) of these guidelines.

Example 3: Import of sanctioned goods



36. In these cases, when the institution responsible for reporting has sufficient information to confirm that a transaction has been initiated, planned, proposed, consulted, started, postponed, effected, or approved, and this is not allowed under the applicable sanctions legislation, and the transaction is not permitted and is carried out in violation of international or national sanctions, the duty to report it to the State Security Service arises under Section 17(1) of the Sanctions Law, considering recommendations listed in Point No 38 of these guidelines provided by the State Security Service.
37. The duty to report also applies to other types of violations or attempted violations of international or national sanctions listed in Section 4 of the Sanctions Law (civil law restrictions; restrictions on entry; restrictions on the provision of tourist services).
38. The States Security Service has provided a list and defined a scope of information that should be included in a report on a violation or attempted violaion of international and national sanctions (to the extent that the information is known):

1. Transaction/payment details:

- date;
- amount and currency;
- payer and payment recipient (name, surname, personal identity number; company name, registration number, country of registration);
- account numbers and the credit institution of the accounts;
- payment details;
- brief description of the nature of the transaction/payment.

2. Sanctions violations found:

- information, facts, and documents indicating a violation of sanctions or its signs;
- specific regulation and its sections that have been violated or that have led to the discovery of an attempted violation;
- conclusions regarding the report made by the authority in charge or the reporting party.

3. Actions taken:

- actions performed with the payment: refused and returned to its initiator; freezing of funds; transaction has already taken place (i.e., in cases where a sanctions violation is detected after the payment is completed);
- the laws and regulations, on the basis of which the reporting institution or person acted;
- the authorities that the discovered violation or attempted violation of international and national sanctions has been reported to.

4. Annexes:

- enclose the supporting documents for the transaction/payment;
- enclose other documents that confirm the information, circumstances, and/or conclusions stated in the report.

39. It is important to note that if the reporting institution submits its report on a violation or attempted violation of international and national sanctions to the State Security Service, the FIU Latvia does not need to be informed.
40. It should also be noted that whenever the transaction is subject to certain exemptions from international or national sanctions, or to a general approval by a competent authority (e.g., the Bank of Latvia), or to individual authorisations issued in accordance with the sanctions legislation, reporting it to the State Security Service is not required.

Reporting suspected circumventions or attempted circumventions of international and national sanctions in the enforcement of financial restrictions to the FIU Latvia

41. The duty to report is laid down in Section 17(2) of the Sanctions Law:

Persons under the supervision of competent authorities must:

if there is a suspicion of circumvention or attempted circumvention of international and national sanctions in compliance with financial restrictions, report this to the FIU Latvia, in accordance with the procedures set in the AML Law.

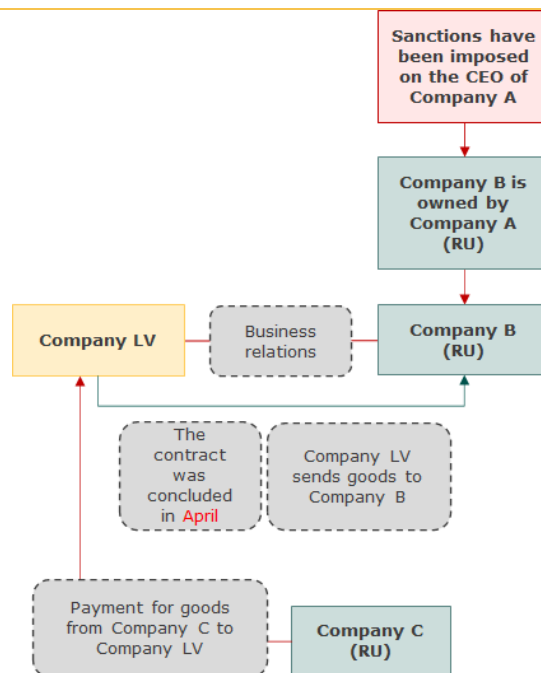
42. As shown in Point No 29-33 of these guidelines, international or national sanctions that take the form of financial restrictions lead to the freezing of funds and business assets, preventing access to them and preventing other funds and business assets from becoming available. In practice, this means that no civil-law transactions (other than those approved by the competent authorities or allowed under the exceptions in the sanctions rules and do not require a separate authorisation by the competent authority) can take place involving persons subject to financial restrictions.

43. Although Latvian legislation does not define "circumvention of sanctions", the circumvention of sanctions is an activity of criminal nature and consequently has the same consequences as the violation of sanctions, as defined in Section 84 of the Criminal Law. The competent authorities explain what is considered circumvention of sanctions, i.e., it is a transaction or an activity that results in a violation of sanctions, whereby it is attempted to conceal the violation or to disguise it with apparently legal civil-law transactions, e.g. by using intermediaries or other jurisdictions, but the details of the transaction and its supporting documentation raise suspicions (the levels of suspicion are explained in [Point No 26](#) of these guidelines) of the transaction having been intended for violating international or national sanctions. If such a transaction is identified, the institutions responsible for reporting must report it to the FIU Latvia in accordance with the Section 17(2) of the Sanctions Law.

44. It should be noted that in order to facilitate a common understanding of the enforcement of sanctions, FIU Latvia has developed material "Indicators of Russia-Related Sanctions Evasion"⁷ compiling indicators indicating possible or attempted circumvention of sanctions. This material can help institutions responsible for reporting identify such transactions.

Example 4: Circumvention of financial restrictions

- A Latvian company does business with Russian company B.
- Russian company B is owned by Russian company A whose CEO has full control over it.
- The EU imposed sanctions against the CEO of Company A in March 2022.
- Under a contract signed in April 2022, the Latvian company sends goods to Company B (regardless of whether the goods are sanctioned).
- The payment for the delivery of the goods is made by an unsanctioned Russian company C. The Latvian company receives EUR 75,000 for the delivery of the goods, credited to its account with a Latvian credit institution.



⁷ Material "Indicators of Russia-Related Sanctions Evasion". Available: https://fid.gov.lv/uploads/files/2022/sankcijas/ENG_sankcijas_ES_Clean_28072022.pdf

45. When reporting a circumvention or attempted circumvention of international and national sanctions to the FIU Latvia, please take into account the recommendations of these guidelines, indicating the duties set out in laws and regulations, providing practical advice, and analysing examples of reports. Note that when reporting a circumvention or attempted circumvention of international and national sanctions via the Data Receipt and Analysis System (<https://goaml.fid.gov.lv>) of FIU Latvia, it is necessary to mark the report ATPF (TF, PF, circumvention of sanctions).

Reporting to the FIU Latvia in other cases

46. In practice, there may be situations, in which the institutions responsible for reporting are not fully convinced (reasonable suspicion) that a transaction takes place for the purpose of violating or attempting to violate international and national sanctions (see Point No 27-40 of these guidelines for the corresponding reporting procedures), but there is still suspicion. In such cases, the FIU Latvia must be notified in accordance with Section 31.⁴(2) of the AML Law. Note that the levels of suspicion are explained in [Point No 26](#) of these guidelines.

Example 5: Circumvention of sectoral sanctions

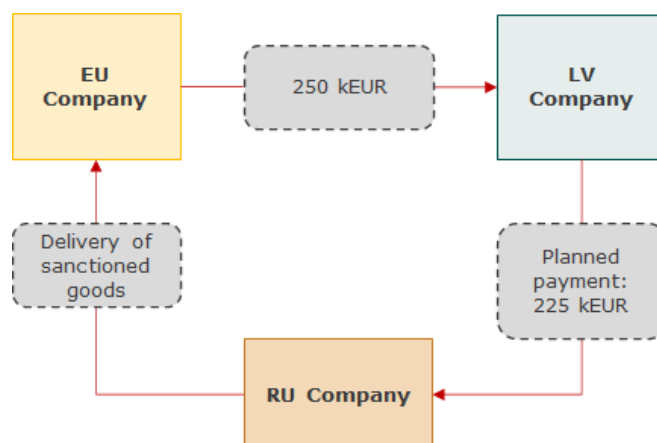
A Latvian company (with an account in a Latvian credit institution) receives a payment of EUR 250,000 from an EU company (with an account in an EU credit institution).

The EU company has received goods listed in Annex XVII to Regulation 833/2014 from an unsanctioned Russian company.

The Latvian company tries to transfer EUR 225,000 to the unsanctioned Russian company.

The credit institution has the following information:

- The Latvian company may be acting as an intermediary to settle the EU company's obligations with the unsanctioned Russian company.
- The Latvian company provides false information to the Latvian credit institution where it has its account.
- The delivery of goods from Russia to the EU company is explained by possible "pre-existing contractual obligations".⁸




47. Meanwhile, whenever a party subject to the AML Law has reasonable suspicions (the levels of suspicion are explained in [Point No 26](#) of these guidelines) that the funds involved in a transaction are directly or indirectly the proceeds of a criminal offence, the party subject to the AML may decide to refrain from the transaction and to report it to the FIU Latvia in accordance with Section 32 of the AML Law and recommendations set out in these guidelines.

Other matters

48. In addition to the duty to report specified in Section 17 of the Sanctions Law, persons under the supervision of the Bank of Latvia are also bound by Section 14.4 of the Financial and Capital Market

⁸ Material "Indicators of Russia-Related Sanctions Evasion". Available: https://fid.gov.lv/uploads/files/2022/sankcijas/ENG_sankcijas_ES_Clean_28072022.pdf



Commission Regulations 126, which sets the obligation to immediately, but no later than the next business day, report to the Bank of Latvia any detected violation of sanctions, including the circumvention or attempted circumvention of sanctions, as well as any reports made to the competent state authorities (State Security Service or FIU Latvia).⁹

49. The duty to report violation or circumvention (and attempted violation or circumvention) of international and national sanctions applies to persons under the supervision of the competent authorities listed in Section 13 of the Sanctions Law, as well as to the obliged entities under the AML Law defined in Section 3 of the AML Law. The persons referred to in Section 3.¹ of the AM Law also have a duty to report.

⁹ 11 August 2020 Financial and Capital Market Commission Recommendations No 126 "Sanctions risk management regulatory provisions". Available (in Latvian): <https://likumi.lv/ta/id/316774-sankciju-riska-parvaldisanas-normativie-noteikumi>



Reporting on Violation or Circumvention of Sanctions Imposed by EU or NATO Member State

50. Sanctions imposed by an EU or NATO member state are sanctions imposed unilaterally by a certain EU or NATO member state in accordance with its laws and regulations. Based on Section 1 of the Sanctions Law, sanctions imposed by EU or NATO member states, including OFAC, are not directly applied or implemented in Latvia. Thus, the duty to report to the State Security Service or the FIU Latvia specified in Section 17 of the Sanctions Law does not apply to sanctions imposed by EU or NATO member states, including OFAC.
51. The fact that a person is sanctioned by OFAC is not in itself a reason to report the person to the FIU Latvia, but it may be an indicator of elevated risk that needs to be assessed in the context of other information about the transaction in question. FIU Latvia publishes on its website typologies and indicators to assist obliged entities under the AML Law in assessing the transactions of their clients, highlighting the elements to look out for.
52. At the same time, it must be emphasised that if an obliged entity under the AML Law determines that a transaction is being performed by a person whose identification data are included in the OFAC list and marked TF or PF, it is necessary to refrain from the transaction and to submit a suspicious transaction report to the FIU Latvia, in accordance with Section 31.⁴ of the AML Law.
53. It is important to point out that persons under the supervision of the Bank of Latvia, in accordance with the procedure specified in Point No 48 of these guidelines, are obliged to report to the Bank of Latvia cases (or attempts) of violation or circumvention of sanctions imposed by an EU or NATO member state with a significant impact on the institution or the interests of the financial and capital market.

Reporting a Suspicious Transaction Related to Fraud

54. Taking into account that the availability of remote services and use of digital tools in the world and also in Latvia is increasing, the activity of fraudsters in the digital environment is also increasing. An infographic published by the Financial Latvia Association states that the amount of defrauded funds from customers of Latvia's four largest credit institutions was over 11 mEUR in 2021 and over 12 mEUR in 2022.¹⁰
55. Campaign-like fraud attacks are periodically detected in Latvia, which are simultaneously directed against a significant number of individuals. Given that credit institutions are obliged entities under the AML Law and as per Section 31.⁴ of the AML Law are required to immediately report any suspicious transactions to the FIU Latvia, including any funds suspected of having been directly or indirectly obtained from criminal activities, both the FIU Latvia and the obliged entities under the AML Law direct significant administrative resources to the reporting of numerous cases of fraud and the further processing of reports.
56. Reports of digital fraud and related ML in the FIU Latvia are mainly received from reporting institutions whose clients have become victims of fraud or money mules. In cases where the reporting institutions customer has become a victim of telephone fraud or investment fraud, due to the specific nature of these frauds, in a number of cases, the possibilities of obtaining information regarding the perpetrators of the criminal offense are limited. This means that FIU Latvia receives reports, which individually have a low perspective of further progress.
57. In order to introduce a risk-based approach to the reporting of suspicious fraudulent transactions and to facilitate effective functioning of the AML/CFT/CFP system, FIU Latvia in discussions with the private sector has developed these recommendations regarding reporting of suspicious fraudulent transactions where the total amount of fraudulent funds is below the threshold of a large scale set in the Criminal Law.¹¹ If the total amount of defrauded funds reaches a large scale as defined by the Criminal Law, a suspicious transaction report must be submitted to the FIU Latvia in accordance with the procedure set in the AML Law, as well as by following these guidelines.
58. The new reporting procedure has a transitional period from the publication of these guidelines on the website of the FIU Latvia until they enter into force on **1 April 2023**. These guidelines are intended to simplify the work of, among others, the FIU Latvia and the obliged entities under the AML Law. If the number of cases of fraud identified by the reporting institution is not numerous or there are other considerations in regards to the new reporting procedure that complicates the work of the reporting institution, reports on fraud cases may continue to be submitted separately even after 1 April 2023.


In order to comply with regulatory requirements and strengthen a risk-based approach, the reporting of suspicious transactions involving fraud will be streamlined through two main areas:

- 1) **grouping of information into a single report.** Within the limits of its ability, an obliged entity under the AML Law carries out an in-depth analysis to identify networks of so-called "money mules" operating within an organised group, as well as to identify victims of fraud whose funds have been defrauded by a single criminal or an organized group;
- 2) whenever the amount of information about the perpetrator included in the report is non-existent or low, the details about the transactions are accumulated and **reported to the FIU Latvia on a regular basis** (once a month).

59. At the same time, the cases listed below are considered priority cases, where a suspicious transaction report must be filed in accordance with the "standard" procedure set in the AML Law:

¹⁰ Fraud statistics. Available (in Latvian): <https://www.financelatvia.eu/news/dati-krapsanas-gadijumi-cetras-lielakajas-bankas-2/>

¹¹ In accordance with Section 20 of the law "On the Procedures for the Coming into Force and Application of the Criminal Law", liability for an offence, provided for in the Criminal Law, which has been committed on a large scale, shall apply if the total value of the property which was the object of the offence was not less than the total of fifty minimum monthly wages specified in the Republic of Latvia at that time. Available: <https://likumi.lv/ta/en/en/id/50539-on-the-procedures-for-the-coming-into-force-and-application-of-the-criminal-law>

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- 59.1. the credit institution suspects that its customer is a money mule.¹² At the same time, if possible, it is necessary to conduct an in-depth analysis in order to identify the so-called "money mule" networks and if such a network is identified, a single report must be submitted.
 - 59.2. the credit institution suspects that a few of its customers have been victims of fraud perpetrated by a single criminal or an organised crime group. In this case (e.g., if a number of customers have fallen victim to the same fraudulent website), a single report about several suspicious transactions must be submitted.
 - 59.3. a customer (or several customers within the same scheme) of the credit institution has been a victim of fraud and the credit institution has additional information that may be useful in identifying the scammers (e.g., a photo of the potential scammer; personal identification details linked to a fraudulent website).
 - 59.4. the credit institution refrains from effecting a transaction in accordance with Section 32 of the AML Law.
60. There are two ways to report accumulated fraudulent transactions on a monthly basis:
- 60.1. Submitting one suspicious transaction report (STR). The transactions for the month must be uploaded to the Data Receipt and Analysis System (<https://goaml.fid.gov.lv>) of FIU Latvia. In the field "Description of the transaction" or, summarised, in an annex to the report, the credit institution must provide information about the type of fraud, about whether the client has filed a report with the State Police, as well as the associated websites, phone numbers, and other useful information.
 - 60.2. If an automatic submission of transactions from the credit institution's system to the Data Receipt and Analysis System (<https://goaml.fid.gov.lv>) of FIU Latvia is not possible, the report may be submitted as a suspicious activity report (SAR). When preparing this report, the field "Persons" must include the possible perpetrators of the crime, e.g., money mules, possible scammers. Information about the transactions for the month must be enclosed as an annex in *Microsoft Excel* format. Information about victims of fraud need not be enclosed to the suspicious activity report. The annex must include at least the following information:
 - 60.2.1. details of the transaction, including date, amount, currency, transaction type.
 - 60.2.2. information about the parties within the transaction. For legal persons - their name, surname, personal identity number/date of birth, nationality, account, SWIFT number. For legal entities - their name, registration number, country of registration, account, SWIFT number.
 - 60.2.3. useful information about the fraud incident (if available): type of fraud, whether the customer has filed a report with the State Police, any associated websites, phone numbers, and other useful information.

¹² In practice, situations have been identified where criminals fraudulently obtained access information to the reporting institutions customers account and committed both fraud and ML. Accordingly, the client is both a victim of fraud and a so-called "blind money mule". If the reporting institution has conducted an in-depth analysis and has gained confidence that the client is the so-called "blind money mule", this case can be reported in together with other cases of fraud victims periodically, i.e., once a month.

List of Abbreviations Used

AML	Anti-money laundering
AML Law	Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
BO	Beneficial owner
CFP	Countering the financing of proliferation
CFT	Countering the financing of terrorism
Competent institutions	Investigation authorities, Prosecutor's Office, court, subjects of operational activity, supervisory and control institutions and other institutions if, in the opinion of the Financial Intelligence Unit, this information can be used by the respective institutions for the performance of tasks assigned to them by laws and regulations.
Regulation 269/2014	Council Regulation (EU) No 269/2014 of 17 March 2014 concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine
Regulation 833/2014	Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine
FATF	Financial Action Task Force
FIU Latvia	Financial Intelligence Unit of Latvia
ML	Money laundering
PEP	Politically exposed person
PF	Proliferation financing
Sanctions Law	Law on International Sanctions and National Sanctions of the Republic of Latvia
TF	Terrorism financing
UBO	Ultimate Beneficial Owner