



Finanšu izlūkošanas
dienests

Indicators of Sectoral and Targeted Financial Sanction Evasion

METHODOLOGICAL MATERIAL

2nd updated edition

In cooperation with:



Latvijas Republikas prokuratūra



Valsts ieņēmumu dienests



2024



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1. Introduction

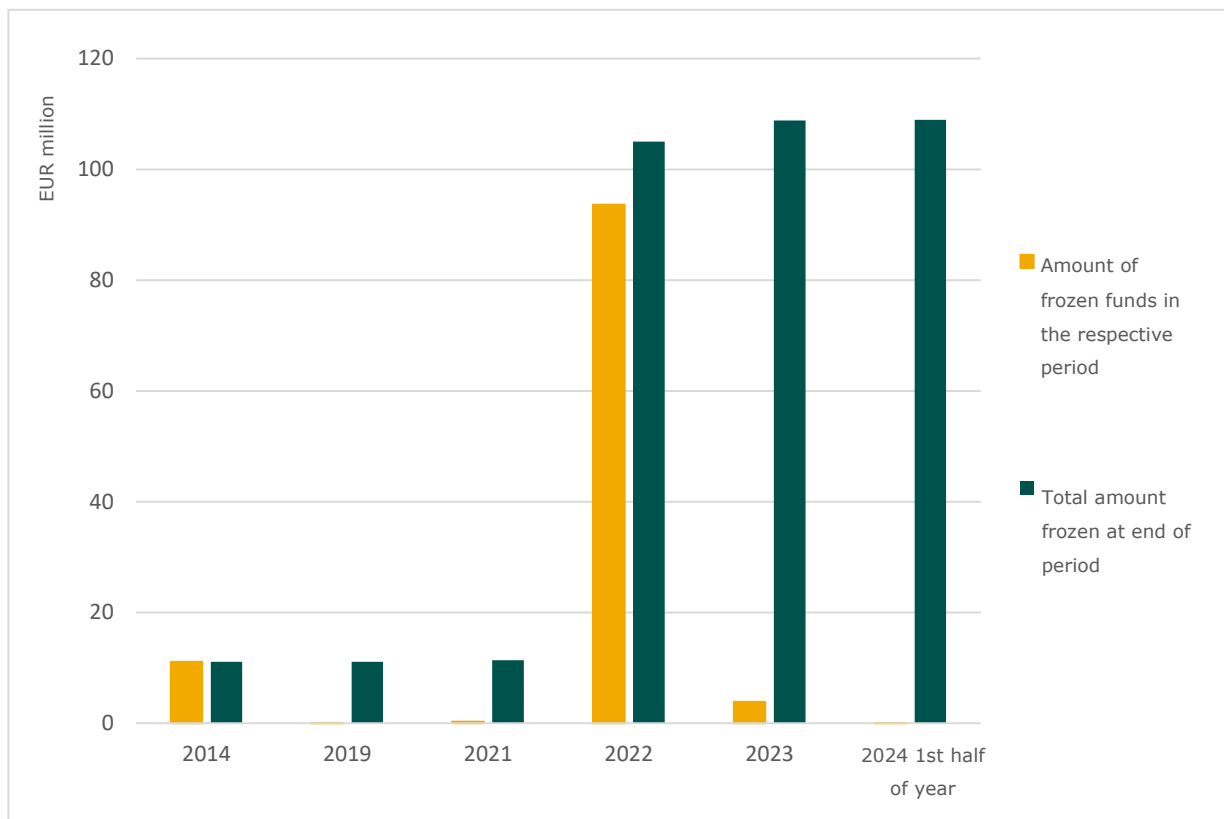
- 1.1. Latvia is committed to the effective implementation of all international and national sanctions, including all UNSC resolutions, EU and national sanctions, recognising the essential role of sanctions in ensuring international peace and national security.
- 1.2. Sanctions are restrictions or prohibitions imposed under public international law, EU or national law. They are set by international organisations or individual countries. The EU uses sanctions as part of an integrated and comprehensive policy approach, which also includes political dialogue, complementary efforts, and other instruments at the disposal of the EU. Although the restrictive measures imposed are called "sanctions", they are not punitive. EU sanctions are imposed to implement UNSC resolutions or to pursue the objectives of the EU's Common Foreign and Security Policy, namely:
 - 1.2.1. contribute to international peace and security;
 - 1.2.2. prevent conflicts;
 - 1.2.3. support democracy, the rule of law, and human rights; and
 - 1.2.4. protect the principles of international law.¹
- 1.3. Sanctions can be divided into two basic types: targeted financial sanctions and sectoral sanctions. Targeted financial sanctions include the obligation to freeze all funds and economic resources belonging to, owned, held, or controlled by any natural or legal person, entity, or body listed in the relevant sanctions legislation, or any natural or legal person, entity, or body associated with them. Similarly, targeted financial sanctions prohibits making funds or economic resources available, directly or indirectly, to or for the benefit of natural or legal persons, entities, or bodies listed in the relevant sanctions legislation, or natural or legal persons, entities, or bodies associated with them. Sectoral sanctions generally involve sanctions imposed against specific goods or services, such as bans on the supply of services or on the import or export of goods, or other types of prohibitions. Further information on sanctions and types of sanctions is available on the FIU website: <https://sankcijas.fid.gov.lv/>.
- 1.4. In response to Russia's unprovoked and unjustified military aggression against Ukraine, the EU, the United States, and other international public law bodies have imposed and strengthened unprecedented restrictive measures (sanctions) against Russia.
- 1.5. According to information provided by the FIU, Latvian financial institutions have ensured effective compliance with the obligation to freeze funds by implementing targeted financial sanctions. As of the end of 2014, the total amount of frozen funds in Latvian financial institutions was approximately EUR 11 million. As of 30 June 2024, the amount of frozen funds had increased to approximately EUR 108 million (see Figure 1). In general, most of the funds in Latvian financial institutions were frozen in 2022 due to the substantial sanctions imposed on Russia from 23 February 2022.²

¹ European Commission, "Overview of sanctions and related resources", available at: https://finance.ec.europa.eu/eu-and-world/sanctions-restrictive-measures/overview-sanctions-and-related-resources_en

² The first EU sanctions package against Russia was imposed on 23 February 2022 in response to the decree signed by the Russian president on 21 February 2022 recognising the independence and sovereignty of the self-proclaimed "Donetsk People's Republic" and "Luhansk People's Republic" and ordering the deployment of Russian armed forces in eastern Ukraine.


Figure 1

Amount of funds frozen in Latvian financial institutions
(period June 2014- June 2024)



- 1.6. According to the 2023 NRA (2020-2022),³ although the EU has more than 40 different sanctions regimes in force, imposed against various territories or for specific purposes (e.g., to combat terrorism), given the current geopolitical situation, Latvia's geographic location, and historical economic ties, the most significant threat of sanctions violations and evasion in Latvia comes from EU sanctions imposed against Latvia's neighbours – Russia and Belarus.
- 1.7. Considering the high risks of sanctions violations in Latvia and the need for a centralised sanctions implementation system, on 8 December 2023, the parliament of Latvia adopted amendments to the Law on International Sanctions and National Sanctions of the Republic of Latvia. With the amendments the Financial Intelligence Unit of Latvia (FIU) was designated as the competent authority for sanctions implementation in Latvia as of 1 April 2024. One of the new functions of the FIU is to carry out outreach activities and training to raise public awareness and ensure effective implementation of sanctions.
- 1.8. EU Member States have had different practices in respect to holding liable persons for breaches of sanctions. Many EU countries have not yet criminalized violations of sanctions. The Directive (EU) 2024/1226 of the European Parliament and of the Council of 24 April 2024 on the definition of criminal offences and penalties for the violation of

³ National ML/TF/PF Risk Assessment Report for years 2020-2022, available at: <https://fid.gov.lv/uploads/files/2023/NACION%C4%80LAIS%20NILLTPF%20RISKU%20NOV%C4%92RT%C4%92%C5%A0ANAS%20ZI%C5%85OJUMS%20PAR%202020.%E2%80%932022.%20GADU.pdf>



Union restrictive measures, and amending Directive (EU) 2018/1673,⁴ which enters into force on 19 May 2024, provides for specific actions in respect to violation of sanction that will constitute a criminal offences. Both natural and legal persons will be held criminally liable for these offences. This Directive aims to ensure more effective enforcement of sanctions and strengthen the ability to prosecute such violations across the EU.

- 1.9. Under Section 84 of the Criminal Law of the Republic of Latvia, violations of sanctions imposed by international organisations and the Republic of Latvia are punishable by criminal law. From May 2022 to February 2024, 310 criminal proceedings for breach of sanctions were initiated and/or received for investigation by the Tax and Customs Police Department of the SRS.⁵ Additionally, the Latvian State Security Service (the SSS) initiated 7⁶ criminal proceedings for alleged breaches of sanctions in 2022 and 17 in 2023.⁷
- 1.10. In March 2022, the FIU established a Sanctions Working Group to ensure a common understanding of the enforcement of international and national sanctions, to regularly and proactively discuss topical issues related to sanctions implementation, violation and evasion attempts, and to identify typologies and indicators of evasion attempts. The activities of the Sanctions Working Group are organised within the framework of the Cooperation Coordination Group (public-private partnership) in accordance with Section 55(2) of the AML/CTPF Law. The Sanctions Working Group includes experts from the FIU, the Public Prosecutor's Office of the Republic of Latvia, the State Security Service, Latvijas Banka,⁸ the SRS National Customs Board, the SRS Tax and Customs Police Department, and seven Latvian credit institutions: Swedbank AS, Luminor Bank AS Latvian Branch, SEB banka AS, Citadele banka AS, BluOr Bank AS, Rietumu Banka AS, and Signet Bank AS.
- 1.11. By analysing the suspicious transaction reports (STRs) in the possession of the FIU, as well as based on the research and findings of the Sanctions Working Group and other Latvian and international institutions, the FIU has compiled indicators that may be indicative of evasion or attempted evasion of sectoral and targeted financial sanctions.
- 1.12. This methodological material is an updated version of the 2022 guidance material "Indicators of Russia-Related Sanctions Evasion." Although the EU has imposed extensive and unprecedented sanctions against Russia since the start of Russia's war of aggression against Ukraine on 24 February 2022, with a total of 14 rounds of sanctions adopted up until now, individuals continue to find new ways to violate or evade these sanctions. Therefore, this updated material includes information on newly identified typologies of sanctions evasion, as well as trends in the flow of goods.
- 1.13. Given Russia's unprecedented aggression against Ukraine and Latvia's risk exposure, the indicators focus on identifying violations and attempts to evade EU sanctions imposed against Russia since 23 February 2022. However, these indicators, when considered alongside other information, facts, and circumstances, can also be used to


⁴ DIRECTIVE (EU) 2024/1226 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL (24 April 2024) on the definition of criminal offences and penalties for the violation of Union restrictive measures and amending Directive (EU) 2018/1673. Available at: <https://eur-lex.europa.eu/eli/dir/2024/1226/oj>

⁵ According to the State Revenue Service data.

⁶ Public report on the activities of the State Security Service in 2022. Available at: <https://vdd.gov.lv/uploads/materials/32/lv/vdd-2022-gada-parskats.pdf>

⁷ Public report on the activities of the State Security Service in 2023. Available at: <https://vdd.gov.lv/uploads/materials/34/lv/vdd-publikaisparksats-2023-web.pdf>

⁸ As of 1 January 2023, the Financial and Capital Market Commission (FCMC) is integrated into Latvijas Banka and, in accordance with Paragraph 4 of the Transitional Provisions of the Law on Latvijas Banka, the Latvijas Banka is the successor to the FCMC's property, financial resources, rights and obligations.



identify violation or evasion attempts of any sanctions regime imposing sectoral or targeted financial sanctions. This includes, but is not limited to, sanctions imposed in the context of combating TF and PF, sanctions regimes prohibiting the sale, transfer, supply, or export of dual-use goods and technology⁹, and sanctions imposed against Belarus.

1.14. Please note that the indicators compiled are informative and may vary from case to case; only a subset of them may be relevant in a given situation. The list of indicators in this material is not exhaustive.

1.15. The sanctions framework is complex, and the enforcement and risk management mechanism is dynamic, including various exceptions and other specific aspects that need to be assessed on a case-by-case basis. Therefore, identifying a single indicator does not necessarily indicate a criminal activity or suspicious transaction. The EU sanctions framework provides for exceptions,¹⁰ based on which national competent authorities may authorise certain transactions or activities. In this context, if an action meets one of the indicators of a violation or attempted evasion of sanctions, it does not necessarily mean that the transaction or action is prohibited. Information obtained during the customer and transaction due diligence process, including but not limited to documents supporting the transaction or activity, plays an important role assessing the transaction or activity.

1.16. Under the EU laws¹¹, sanctions imposed by the EU must be applied and enforced: (a) within the territory of the Union, including its airspace, and on board any aircraft or vessel under the jurisdiction of a Member State; (b) to any person inside or outside the territory of the Union who is a national of a Member State; (c) to any legal person, entity, or body incorporated or constituted under the law of a Member State; and (d) to any legal person, entity, or body in respect of any business conducted in whole or in part within the Union.


1.17. Subsidiaries of EU-based LPs established outside the EU, including in Russia, operate under the law of the third country concerned and are therefore not directly bound by EU sanctions imposed on such non-EU-based LPs. However, it should be emphasized that EU-registered LPs are prohibited from using related LPs located in Russia to evade sanctions imposed against Russia. An EU-registered LP may be held liable for breaches of EU sanctions committed through related LPs located in other countries, including Russia or another jurisdictions that do not impose sanctions against Russia.¹² The EU's 14th round of sanctions imposes a new obligation on natural and legal persons, entities, and bodies to make all reasonable efforts to ensure that any legal person, entity, or body they own or control does not engage in activities that violate the

⁹ For further information on sanctions evasion in transactions with dual-use goods, see also the "Joint financial intelligence advisory: illegal procurement of dual-use goods by Russian end-users", material jointly developed by the Netherlands and Canada. Available at: <https://fintrac-canafe.canada.ca/notices-avis/avs/2024-02-20-eng>

¹⁰ Exceptions to EU sanctions usually take the form of derogations or exemptions. Derogations mean that a restricted (prohibited) activity can only be carried out after the competent authority has granted a permit. The exemptions mean that the restriction does not apply if the purpose of the activity coincides with the scope of the exemption, so that the exempted persons can carry out the activity immediately. See the Council of the European Union's guidelines on "EU Best Practices for the effective implementation of restrictive measures". Available at: <https://data.consilium.europa.eu/doc/document/ST-11623-2024-INIT/en/pdf>

¹¹ Council Regulation (EU) No 269/2014 Article 17, Council Regulation (EU) No 833/2014 Article 13, Council Regulation (EC) No 765/2006 Article 10

¹² "Consolidated FAQs on the implementation of Council Regulation No 833/2014 and Council Regulation No 269/2014." Issued on 22.06.2022, last updated 02.04.2024, available: https://finance.ec.europa.eu/document/download/66e8fd7d-8057-4b9b-96c2-5e54bf573cd1_en?filename=faqs-sanctions-russia-consolidated_en.pdf



sanctions imposed against Russia.¹³ It should be noted that although branches and representative offices are organisationally independent parts of a company, they are not separate legal persons and will be subject to the same obligations as the parent company.

- 1.18. While the aggregated indicators primarily focus on persons and transactions linked to Russia, Russia's neighbours, or jurisdictions that do not impose sanctions on Russia, it should be noted that individuals (as well as accounts) from EU countries may also be involved in attempts to evade sanctions.
- 1.19. Given that the legal framework for sanctions imposed for TF and PF is equivalent to the EU sanctions imposed on Russia, the features identified in relation to the violation and/or evasion of Russian sanctions can also be used to identify violations and/or evasions of TF and PF sanctions. For further information on TF and PF prevention, please refer to the updated TF and PF prevention guidelines.¹⁴
- 1.20. The typologies of money laundering¹⁵ and sanctions evasion share common aspects. Therefore, it should be noted that the typologies of proceeds of crime can also be used to identify sanctions evasion.

2. Analysis of import and export data and of STRs received by the FIU

- 2.1. According to the analysis carried out by Latvijas Banka, Latvia's exports of goods and services to Russia have not decreased significantly over the last two years (for example, in 2021 they accounted for 5.8% of Latvia's total exports, while in 2022 and 2023 this figure was 4.8%). In contrast, imports of goods and services from Russia have decreased from 8.9% of Latvia's total imports in 2021 to 2.9% in 2023. The significant decrease in imports is mainly due to restrictions on the import of energy products from Russia, some of which are subject to import bans.
- 2.2. However, it should be noted that, according to the findings of the SRS National Customs Board, in export and transit transactions with Russia custom declarations initiated in Latvia are not dominant. Instead, export and transit transactions with Russia are dominated by customs declarations that have been initiated in other EU countries, where goods manufactured in the EU or elsewhere are transferred outside of the EU through the territory of Latvia.
- 2.3. The largest categories of goods that are not subject to export bans and are still exported to Russia from Latvia include beverages, textiles, and chemicals. However, the majority of exports to Russia consist of luxury goods (see Figure 2). Sanctions prohibit export of luxury goods if the value per unit exceeds a defined amount.¹⁶ The significant amount of exported luxury goods to Russia indicates of risk that the value of luxury goods per unit is artificially decreased in order to export the goods to Russia.

¹³ In accordance with Article 8a of Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02014R0833-20240625>

¹⁴ FIU, VDD, Guidelines on Countering the Financing of Terrorism and Proliferation (2024). Available here: https://fid.gov.lv/uploads/files/2024/Terorisma%20un%20prolifer%C4%81cijas%20finans%C4%93%C5%A1anas%20nov%C4%93r%C5%A1anas%20vadl%C4%ABnijas_2024_FID_VDD.pdf

¹⁵ Methodological material developed by FID "Money Laundering Typologies and Indications", available at: https://fid.gov.lv/uploads/files/2021/FID_Tipologiju%20materials_II_red.pdf

¹⁶ Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine Article 3h. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02014R0833-20240625>

This data indicates that sanctions on luxury goods exports are relatively easy to evade and difficult to enforce, thus not fully achieving their intended purpose.

Figure 2

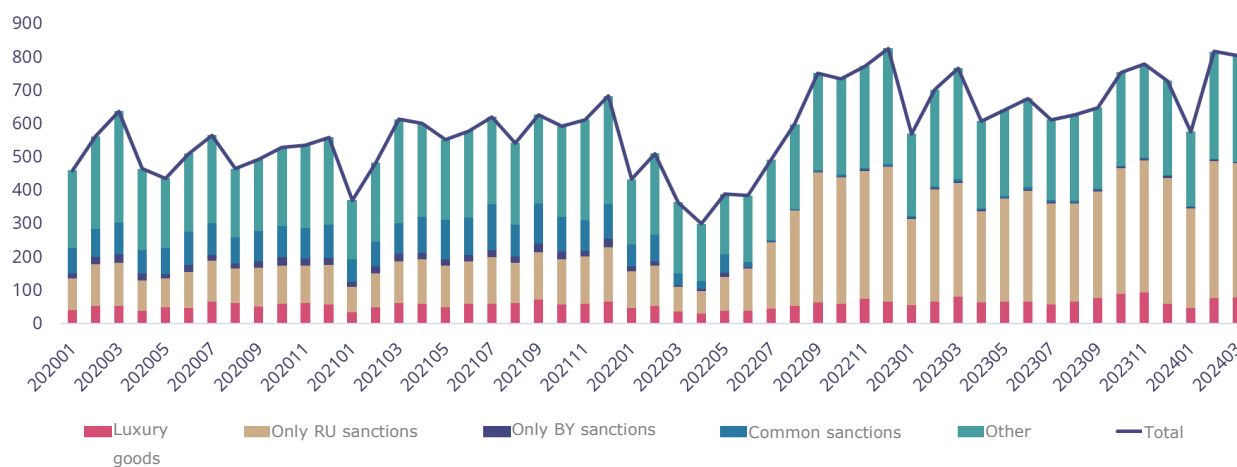


Source: Central Statistics Bureau, author: Latvijas Banka

- 2.4. Latvian exports to Belarus, similar to those to Russia, have not significantly declined over the past two years.
- 2.5. When analysing the EU's total exports to Belarus, there has been a significant increase in exports of goods that are prohibited to be exported to Russia under Council Regulation (EU) No 833/2014. Since Russia and Belarus are not subject to the same sanctions' regimes, this significantly reduces the effectiveness of the sanctions, as reflected in the data collected by Latvijas Banka (see Figure 3). From 2022, the bulk of the EU's total exports to Russia consist of goods that are banned, mainly vehicles.
- 2.6. In light of Belarus's involvement in Russia's unprovoked and unjustified war against Ukraine, on 29 June 2024, the Council of the European Union adopted additional sanctions targeting the Belarusian economy. These restrictive measures aim to prevent the evasion of sanctions imposed against Russia, given the high degree of economic integration between Russia and Belarus.

Figure 3

Total exports of goods from the EU to Belarus (million euro)



Source: Central Statistics Bureau, author: Latvijas Banka

2.7. Analysis of data on exports and imports to and from third countries indicates a significant increase in Latvia's exports and imports of various goods to and from Kazakhstan, Armenia, Azerbaijan, Uzbekistan, Kyrgyzstan, and Georgia in 2022 and 2023. While exports of non-sanctioned goods have also increased moderately after 2022, the majority of the increase is in categories of goods, the export of which to Russia is banned (see Figure 4).

Figure 4

Exports of goods from Latvia to individual countries that do not impose sanctions against Russia¹⁷ (million euro)



Source: Central Statistics Bureau, author: Latvijas Banka

2.8. Imports of goods from countries that do not impose sanctions on Russia have significantly increased since April 2022. This includes imports from Kazakhstan, Armenia, Azerbaijan, Georgia, Uzbekistan, and Kyrgyzstan, with a notable rise in recent months of goods that are prohibited to be exported to Russia (see Figure 5).

¹⁷ Individual countries that do not impose sanctions on Russia – Kazakhstan, Armenia, Azerbaijan, Uzbekistan, Kyrgyzstan, Georgia

Figure 5
Imports of goods into Latvia from individual countries that do not impose sanctions against Russia¹⁸ (million euro)



Source: Central Statistics Bureau, author: Latvijas Banka

2.9. At the same time, there has been a growing trend since 2022 where the majority of goods exported from Latvia to China and Hong Kong are those that are prohibited to be exported to Russia under EU sanctions (see Figure 6). The European Commission highlighted that China continues to supply Russia with high-priority¹⁹ and dual-use goods essential for Russia's war of aggression against Ukraine.²⁰

Figure 6
Latvian exports to China and Hong Kong (million euro)



Source: Central Statistics Bureau, author: Latvijas Banka

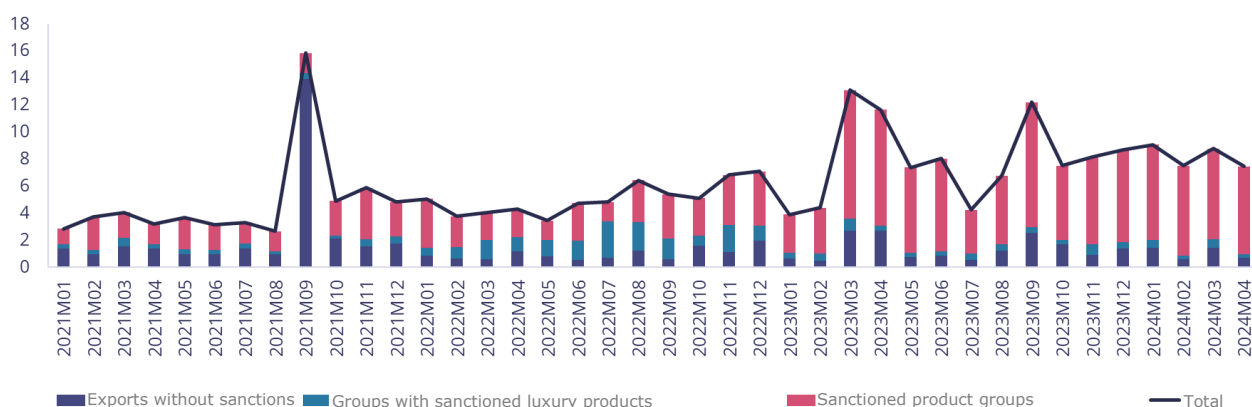
2.10. A similar trend is observed in exports from Latvia to the United Arab Emirates, where exports of sanctioned goods have continued to grow since 2022 (see Figure 7).

¹⁸ The individual countries that do not impose sanctions on Russia - Kazakhstan, Armenia, Azerbaijan, Uzbekistan, Kyrgyzstan and Georgia.

¹⁹ European Commission services have identified a number of prohibited dual-use goods and advanced technology items used in Russian military systems found on the battlefield in Ukraine or essential for their development, production or use. High priority items include electronic components such as integrated circuits and transceiver modules, as well as items essential for the manufacture and testing of printed circuit board electronic components and for the production of high precision complex metal components derived from the battlefield. List of high priority items available at: https://finance.ec.europa.eu/system/files/2023-09/list-common-high-priority-items_en.pdf

²⁰ Reuters, EU sees signs China supplying dual-use components to Russia, Dombrovskis says, available at: <https://www.reuters.com/world/eu-sees-signs-china-supplying-dual-use-components-russia-dombrovskis-says-2024-04-18/>


Figure 7
Exports of goods from Latvia to the United Arab Emirates (million euro)



Source: Central Statistics Bureau, author: Latvijas Banka

- 2.11. Although the increase in exports and imports to third countries can be partly attributed to market reorientation, the export and import data, reports received by the FIU, follow-up inspections by the SRS National Customs Board, and findings from competent authorities in other countries (including the USA, Canada, the Netherlands, Estonia, and Lithuania) confirm that EU sanctions against Russia are being evaded through third countries that do not impose sanctions on Russia. As a result, a significant amount of goods exported to third countries (including those in transit through Russia) ultimately end up in Russia, while some of the goods imported from third countries actually are with Russian origin.
- 2.12. Considering the above mentioned, individuals involved in transactions with sanctioned goods - whether as manufacturers, distributors, transporters, exporters, importers, financiers, etc. – and dealing with Russia, Belarus, and other neighbouring countries of Russia, as well as countries known for facilitating sanctions evasion, such as Central Asian countries, the United Arab Emirates, China, and Hong Kong, are at increased risk of being involved in sanctions violations or evasion. To manage these risks, each party involved in such transactions should implement appropriate control measures, including, but not limited to, verifying business partners, confirming the final recipient of the goods, and checking the origin of the goods upon import.
- 2.13. To prevent sanctions evasion, the EU sanctions framework introduces new mandatory requirements for EU persons, including, but not limited to:
- 2.13.1. a ban on the transit of certain goods through the territory of Russia and Belarus;
 - 2.13.2. a ban on the re-export of goods to Russia and Belarus, which includes an obligation to include a contractual prohibition on recipients/importers from third countries to further re-export or transfer the goods to Russia and Belarus or for use in those countries;
 - 2.13.3. an obligation for certain legal persons and financial institutions to report to the competent authorities any payments outside the EU exceeding EUR 100,000;²¹
 - 2.13.4. requirements for EU natural and legal persons to contractually prohibit their counterparties in third countries from using or allowing the use of information protected by intellectual property rights or trade secrets that is transferred in connection with high-priority goods to be sold, supplied, or exported to or used in Russia;

²¹ For more information see <https://sankcijas.fid.gov.lv/iesniedzama-informacija>

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- 2.13.5. an obligation for natural and legal persons, entities, and bodies to make all reasonable efforts to ensure that any legal person, entity, or body they own or control registered outside the EU does not engage in activities that violate the sanctions imposed against Russia;
- 2.13.6. EU natural and legal persons selling sensitive goods and technologies as listed in Regulation (EU) No 833/2014,²² to third countries must implement risk-appropriate control mechanisms capable of identifying and mitigating potential re-exports of these goods to Russia,²³ along with other requirements.
- 2.14. According to Latvijas Banka's monitoring data on payment flows to and from third countries²⁴, although the volume of Latvian exports of goods to Russia and Belarus has not changed significantly, the flows of incoming and outgoing cross-border payments to and from Russia and Belarus have decreased significantly compared to 2021, 2022, and 2023. This indicates that while goods may still transit through Latvia, a significant portion of these transactions are settled without using Latvian financial institutions. At the same time, Latvijas Banka reports a moderate increase in incoming payment flows from Turkey, the United Arab Emirates, and Kazakhstan, as well as a moderate increase in outgoing payment flows to Kazakhstan, Armenia, Azerbaijan, Turkey, and the United Arab Emirates. However, this increase in payment flows from and to these third countries does not compensate for the decrease in payment flows from and to Russia and Belarus.
- 2.15. The number of reports received by the FIU concerning sanctions evasion has significantly increased compared to 2021 (see Figure 8). Analysis of reports received by the FIU in 2022 and 2023 shows that incoming cross-border payments related to suspected sanctions evasion mostly originated from Lithuania, Turkey, and the Czech Republic. Outgoing cross-border payments from Latvia were directed to Lithuania, Belarus, and Germany. In the first five months of 2024, most cross-border payments related to sanctions evasion came from Poland, Lithuania, Armenia, Turkey, and Kazakhstan, while outgoing payments from Latvia were primarily sent to Estonia, Germany, and Turkey. This indicates that the countries involved in the flow of goods and payments often differ.

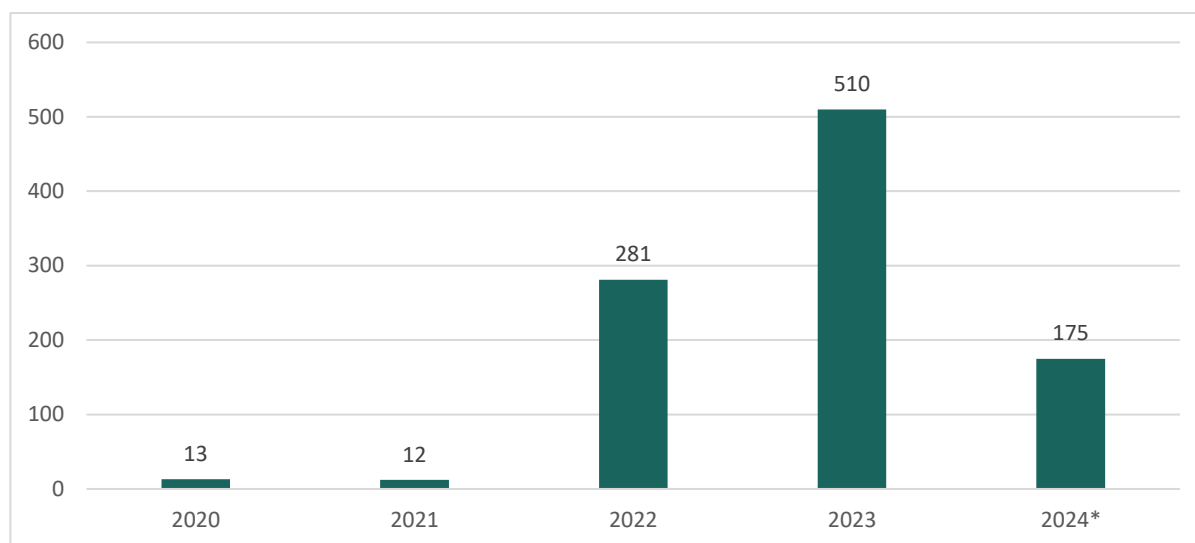
²² Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02014R0833-20240625>

²³ More information is available at: <https://sankcijas.fid.gov.lv/aktualitates/pienemta-14-sankciju-pakotne>

²⁴ According to data from Latvijas Banka.

Figure 8

STRs on suspected sanction evasion received by the FIU in 2020-2024

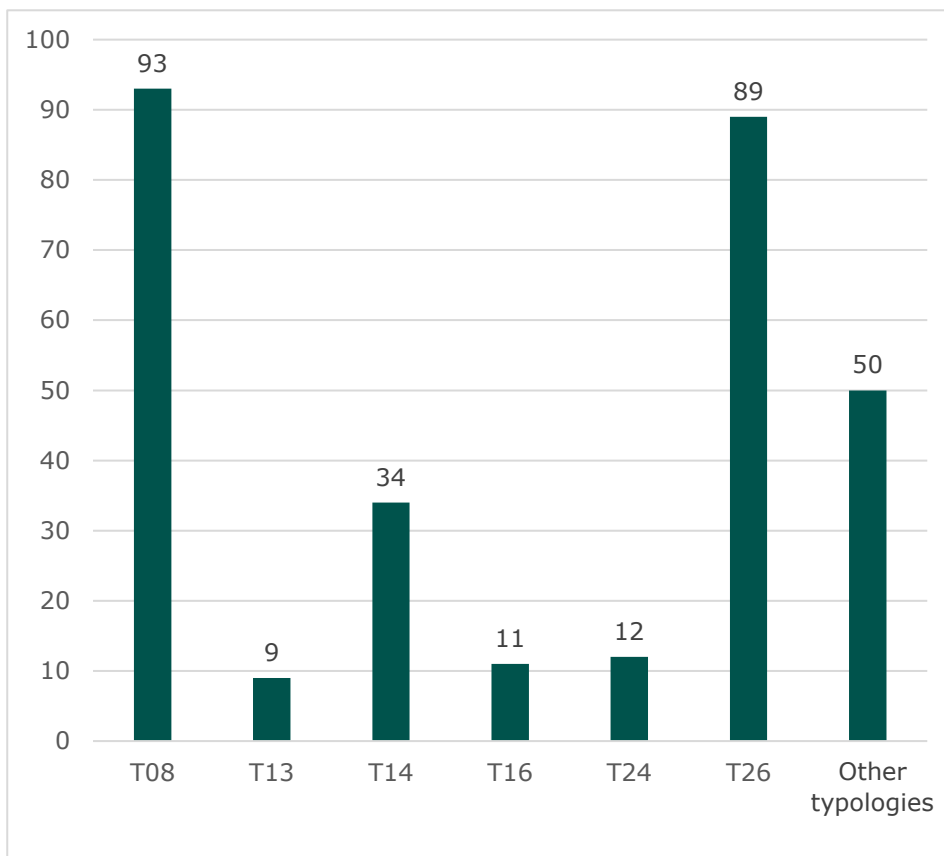


*Number of STRs received by the FIU by 31 May 2024.

- 2.16. The size of the payments reported in the FIU's sanctions evasion STRs ranges from a few hundred to several million euros. The reasons for these payments vary and are inconsistent, including justifications such as loans, repayments, bill payments, salary payments, and transfers for personal expenses. Therefore, it is crucial to establish the true nature and purpose of each transaction, review its terms and conditions, and obtain detailed information about all parties involved, including the final recipient of the goods or services.
- 2.17. The majority (approximately 70%) of STRs received by the FIU concerning the evasion or attempted evasion of international sanctions are related to sectoral sanctions violations. This trend is attributed to Latvia's geographical location, as it shares borders with both Russia and Belarus, making it a transit country for trade involving these nations and Central Asian countries by traders from various countries.
- 2.18. In addition, it should be noted that in 2023, the most common typology for reports related to sanctions evasion or violation involved complex, atypical supply routes and/or transaction flows close to sanctioned areas. Another prevalent characteristic was the lack of clarity regarding the origin of funds and the economic rationale for the transaction, often due to clients providing unverifiable explanations or no explanations at all. Additionally, transactions involving shell companies were common. Frequently, reports were categorized under the "other typology" when sanctions evasion was suspected, but the suspicious transaction did not fit any of the predefined typologies.
- 2.19. In contrast, reports of possible evasion received in the first half of 2024 indicate that the most common typology was - the route of delivery of the goods and/or the flow of transactions is complex, atypical, or close to jurisdictions subject to sanctions regimes (T8). Another frequent typology is Origin of funds and/or the economic rationale of the transactions is not clear as customer does not provide an explanation or provides a hard-to-verify explanation (T14). As in 2023, the "other typology" (T26) is also frequently reported in the first half of 2024 (see Figure 9).

Figure 9.

Number of reports received, broken down by typology
(period 01.01.2024. -30.06.2024.)



T08 – The route of delivery of the goods and/or the flow of transactions is complex, atypical, or close to jurisdictions subject to sanctions regimes

T13 – Documents submitted by customer show signs of forgery/handwritten corrections

T14 – Origin of funds and/or the economic rationale of the transactions is not clear as customer does not provide an explanation or provides a hard-to-verify explanation

T16 – Customer conducts transactions with shell arrangements

T24 – There is publicly available adverse information relating to the customer, its counterparty or authorised person which, in the context of transactions performed, raises suspicions of ML

T26 – Other typology

3. Indicators

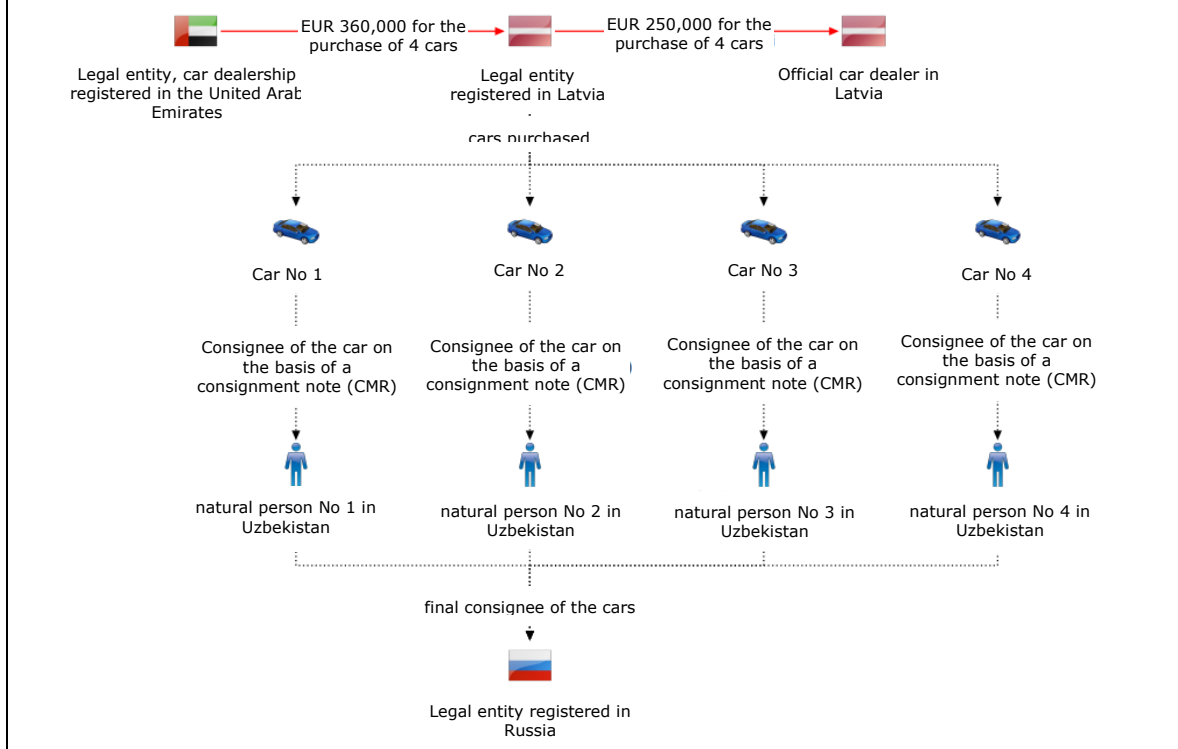
Risk indicators related to the activities and sectors of businesses

- 3.1. The transaction involves a LP that has not been engaged in economic activity for a long time but begins active operations after the sanctions against Russia come into effect. This includes making and receiving payments from individuals or entities whose country of residence or registration is Russia, a neighbouring country of Russia, or a jurisdiction that does not impose sanctions against Russia, or from persons directly or indirectly related to them. Additionally, these transactions have the nature of transit transactions.
- 3.2. The final recipient of goods prohibited for export to Russia is an LP providing transport or warehousing services and established in a third country bordering Russia.
- 3.3. The LP engages in transactions with neighbouring countries of Russia, supplying sanctioned goods, despite declaring economic activity in another sector.

Case analysis

A legal entity, referred to as a Legal Person A, established in Latvia and active in mixed farming and animal husbandry, was involved in the sale of luxury vehicles. Legal person A purchased the vehicles from a car dealership registered in Latvia. These vehicles were then sold to another car dealership registered in the United Arab Emirates. According to the transport documents, the vehicles were delivered to various

individuals in Uzbekistan; however, all the vehicles actually ended up at a dealership in Russia.



- 3.4. A non-EU national NP from a third country purchases goods in Latvia that are prohibited for export to Russia. These goods are then transported through Russia in transit, where the final recipient is located.
- 3.5. LPs and NPs purchase goods in Latvia, such as vehicles that are prohibited to be exported to Russia, and export them to Belarus. Within a short period, these vehicles are registered in Russia.
- 3.6. In various jurisdictions, including Russia's neighbours or jurisdictions that do not impose sanctions against Russia, there has been an increase in the number of newly established LPs following the entry into force of sanctions against Russia in sectors affected by sanctions. Additionally, these newly established LPs are experiencing a sharp increase in turnover. The partners of these newly established LPs are primarily located in neighbouring countries or jurisdictions that do not impose sanctions against Russia.
- 3.7. Individuals who are not sanctioned engage, without clear legal or economic justification, as intermediaries in the business activities of sanctioned persons or in the activities of persons operating in sectors affected by sanctions. The roles of the counterparties involved in the transaction chain are not clear.

Case analysis

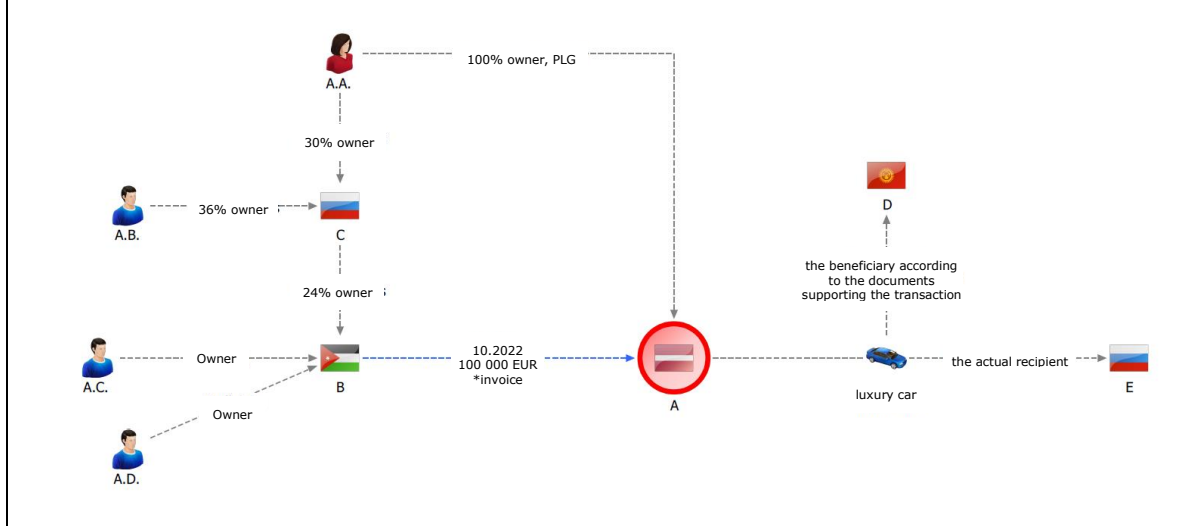
Legal person A, established in Latvia, received a payment from legal person B, established in Jordan, for the purchase of a luxury car. The recipient of the luxury car was D, an individual registered in Kyrgyzstan.

The car was registered in Russia shortly after leaving Latvia.

One of the owners of the Jordanian registered legal person B, identified as a person A.A., is also the 100% owner of the BO legal person A, thus linking to both the seller (A) and the buyer (B) of the luxury car.

In this case, the ban on the supply of luxury goods (cars) to Russia, as stipulated in Council Regulation (EU) No 833/2014, was infringed.

A conviction has entered into force in the criminal case. Person A.A. was fined an amount equivalent to one hundred minimum monthly salaries in the Republic of Latvia, or EUR 62,000, while person A was fined one hundred and eighty minimum monthly salaries, or EUR 111,600.



- 3.8. Latvian persons open accounts (or show an active interest in opening accounts) with financial institutions in one or more jurisdictions that do not impose sanctions against Russia after the entry into force of sanctions against Russia.
- 3.9. Persons operating in sectors affected by the sectoral sanctions imposed begin trading shortly after the relevant sanctions against Russia come into force, dealing in goods of a similar nature but using product codes that are not sanctioned (or using product codes similar to those sanctioned).
- 3.10. Persons operating in sectors impacted by the sectoral sanctions, shortly after the sanctions against Russia are imposed, significantly alter aspects of their economic activities. For example, they may start cooperating with new partners (particularly if these partners are newly established companies or LPs in countries that do not impose sanctions against Russia), engage in large-scale transactions immediately, change the usual transportation routes for goods, or start receiving or making payments to countries with which they had no previous financial transactions.
- 3.11. In an import or export transaction with a business partner in Russia, Russia's neighbours, or jurisdictions that do not impose sanctions against Russia, the delivery route of the goods used is unreasonably long and complicated. For example, there may be multiple intermediaries and transshipments, including unnecessary transit through Russia. Goods may also be transhipped in Russia using various modes of transport, such as both rail and ship, when rail alone would suffice. Additionally, goods from sanctioned countries or territories are combined with goods from non-sanctioned countries or territories in a single shipment or product

3.12. Commodity codes are altered in import and export declarations. For instance, several sanctioned goods (parts) might be declared under a single non-sanctioned commodity code, especially if the individual has previously imported or exported these goods separately as parts. Conversely, a single sanctioned good (piece of equipment) may be declared as different goods (parts), each falling outside the sanctions, particularly if the individual has previously imported or exported the item as a single unit.

Case analysis

Legal person A, established in Latvia, used an intermediary (legal person B) based in the United Arab Emirates to purchase goods and their parts manufactured in the Russian Federation from legal person C, established in the Russian Federation.

In the transaction declarations for 2022, the customs codes for these parts have been included in Council Regulation (EU) No 833/2014 since October 2022.

It can be concluded that the documents intentionally altered or used alternative customs codes for the goods to avoid import restrictions. In reality, the goods imported had customs codes listed in Annex XXI to Council Regulation (EU) No 833/2014, subject to the restrictions outlined in Article 3i.

The diagram illustrates the flow of goods and payments between three legal entities: Legal entity C (seller of goods, Russian Federation), Legal entity A (buyer of the goods, Latvia), and Legal entity B (intermediary, United Arab Emirates). A dashed box encloses the flow from C to A, with a note: 'Goods declared as parts in 2022' and 'Goods declared as a whole from 2023'. A solid arrow labeled 'Payments' points from A to B. A warning icon and text note: 'The customs codes for parts goods have been included in Council Regulation No 833/2014 since October 2022'.

3.13. Transactions that raise suspicions of sanctions evasion or violation, including the export of goods to a sanctioned country or territory or to sanctioned persons via Latvia or another country, exhibit signs of forgery in the supporting documents. These signs include false information about the goods, the true recipient, the place of receipt, inconsistent or poorly filled documents, or documents for one transaction containing contradictory information.

3.14. In export transactions to Russia, the value of luxury goods is artificially reduced to avoid the luxury goods’ export ban.

3.15. Backdated documents (agreements and contracts dated before the entry into force of sanctions) are used to prove and justify suspicious transactions with sanctioned persons after the entry into force of sanctions against Russia, in an attempt to prove

that pre-existing obligations are being fulfilled. Notably, before the sanctions against Russia came into force, there was no evidence of such a contract or agreement.

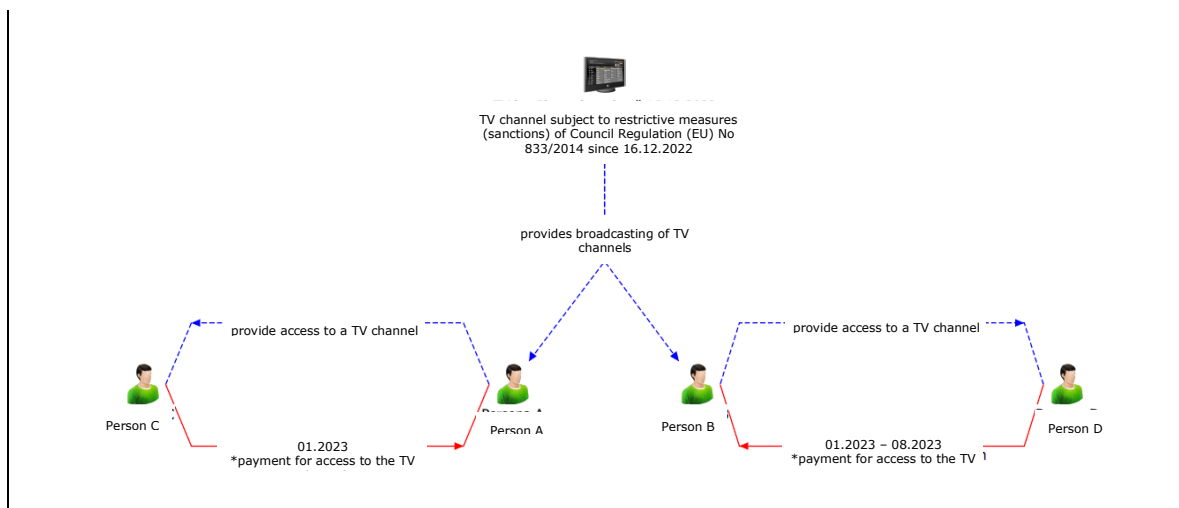
- 3.16. Parties involved in a transaction with sanctioned goods claim that goods are being exported/ imported in accordance with previously concluded contract, thereby justifying the transaction with the exception of previously obtained obligations when sanctions' regulations permit fulfilment of contracts for the purchase of goods that have been concluded before a certain period. However, in the transaction analyses it is determined that parties are justifying the transaction based on a framework agreement concluded before the introduction of the sectoral sanctions, which does not contain the essential elements of a contract such as the quantity and price of goods, and is not considered a "prior contract" in the meaning of sanctions regulations, as there is no binding commitment between the parties to execute the particular transaction.
- 3.17. The cooperating partner refuses to provide information about the final recipient of the sanctioned goods or the ownership structure of the partner. Payments for the goods are made through legal entities registered in different jurisdictions with accounts outside their country of registration.
- 3.18. The business partner is a newly established LP incorporated in a third country, where the shareholder, BO or representative is also the owner of an LP incorporated in Russia. The business partner and the Russian-registered LP operate in the same business sector.
- 3.19. After the imposition of sanctions against Russia, individuals directly or indirectly linked to the sanctioned person engage in unusual uncharacteristic cryptocurrency transactions. These include dealings with cryptocurrencies of dubious reputation, cryptocurrency service providers, or cryptocurrency mixers.²⁵
- 3.20. NPs receive payments from other NPs for services that are prohibited under EU sanctions.

Case analysis

In 2023, natural persons A and B received payments from natural persons C and D. The stated purpose of these payments was for access to a TV channel.

This TV channel is listed in Annex XV of Council Regulation (EU) No 833/2014, and its transmission is prohibited within the EU. Given this information, there is a suspicion that natural persons A and B were involved in facilitating access to a Russian-controlled TV channel, which is sanctioned by the EU, for individuals residing in Latvia.

²⁵ Latvian version of the term "*cryptocurrency mixer*". For further information, see the FIU study "Virtual Currencies: Money Laundering and Terrorism and Proliferation Financing Risk Assessment, 2022", available at: https://www.fid.gov.lv/uploads/files/2022/VVRN/VVRN%202022_FINAL%20%28002%29.pdf



Risk indicators related to ownership structure

- 3.21. Following the entry into force of sanctions against Russia, there are retroactive changes or attempts to change the identity of the BO, ownership structure of the sanctioned person (including LP owned or controlled by a sanctioned person) both within the EU and outside its territory, without clear economic or legal justification.
- 3.22. Despite the imposition of sanctions against Russia, providers of professional services (such as accounting, legal or consultancy services) continue to offer services to sanctioned persons. This includes making payments to registries or other institutions on behalf of the sanctioned person, or providing advice directly or indirectly related to evading the sanctions imposed.
- 3.23. Another person, such as a relative or associate of the sanctioned person (LP) (e.g., long-standing employees or officials of the relevant LP, business partners of the sanctioned person, etc.), is registered as the BO or owner of the LP of the sanctioned person after or shortly before the entry into force of the sanctions against Russia.
- 3.24. Publicly available information indicates relationship between the LP's BO or the owner to the sanctioned person.

Case analysis

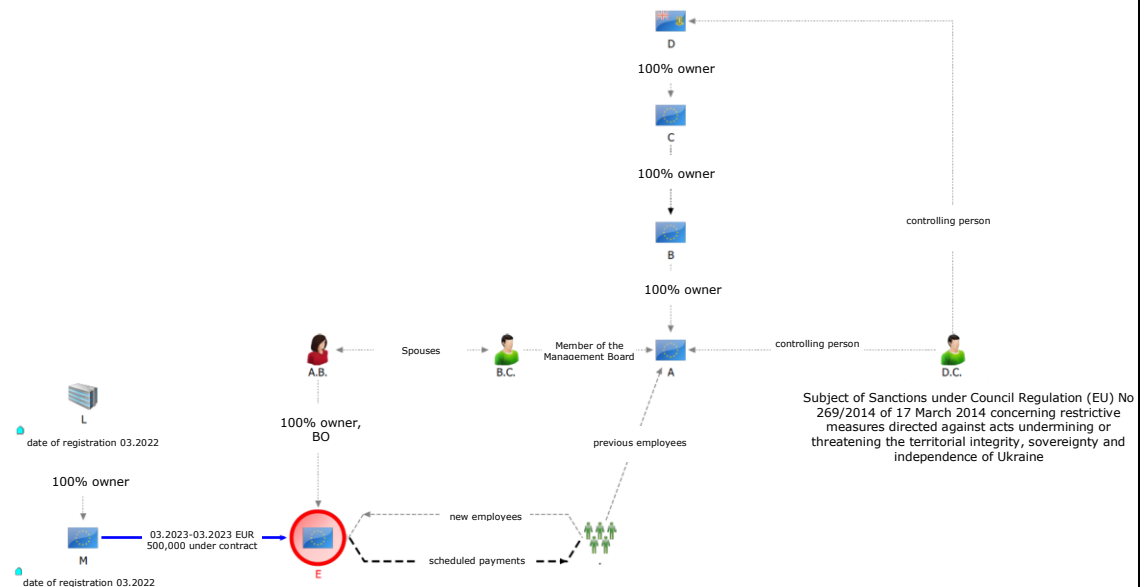
Legal person E, newly established in an EU Member State, received funds from legal person M, also newly established in an EU Member State.

There were reasonable grounds to suspect that legal person E was set up to take over the employees of legal person A and its controlling person D.C. (EU sanctioned person), to provide services prohibited by Council Regulation (EU) No 833/2014 to legal persons established in Russia.

This suspicion was supported by the following facts and circumstances:

- The employees of legal person E were previously the employees of legal person A. A's funds in Latvian credit institutions have been frozen due to sanctions against the entity.
- The sole owner and BO of legal person E (person A.B.) is the spouse of a member of the management board of legal person A (person B.C.).
- Legal person E planned to pay large bonuses to its new employees, even though they had only been employed for a few days.

- Open source intelligence (OSINT) information indicated that the new employees of legal person E provide services to legal persons registered in Russia that are related to the controlling natural person of the legal person A (an EU sanctioned person).
- The declared BO of legal person E, had no prior work experience in the relevant economic sector.



In this case, there were reasonable grounds to suspect that the prohibition on providing services to legal persons, entities or bodies established in Russia in Council Regulation (EU) No 833/2014 had been infringed.

The provision of services confers an economic benefit upon legal persons associated with an EU-sanctioned person (person D.C.), in violation of the prohibition in Council Regulation (EU) No 269/2014 on making funds or economic resources available, directly or indirectly, to or for the benefit of natural or legal persons, entities, or bodies listed in Annex I, or natural or legal persons, entities, or bodies associated with them.

3.25. Shortly before or after the entry into force of sanctions against Russia, the owners of a sanctioned person (LP) sell all or part (with the aim of reducing their holding below the 50% ownership threshold) of their shares in the LP to other owners of the LP or other persons related to the sanctioned person (such as family members, long-term employees, officials of the LP, or business) who are not sanctioned. Additionally, the sale price of the shares or capital is inconsistent with market prices and the transaction is atypical (e.g., the sale of shares or capital in a valuable company at very short notice without the usual procedures and due-diligence, cases where the sale price aligns with the value of the company but the settlement of the sale is long-term (one year or more) or the settlement period is unspecified).

3.26. LP has a legally and economically unreasonable ownership structure (e.g., involving trusts, or LPs showing signs of shell formation), which includes sanctioned persons (e.g., sanctioned person may have a minor ownership stake, but could indirectly control the company) and persons directly or indirectly related to them.

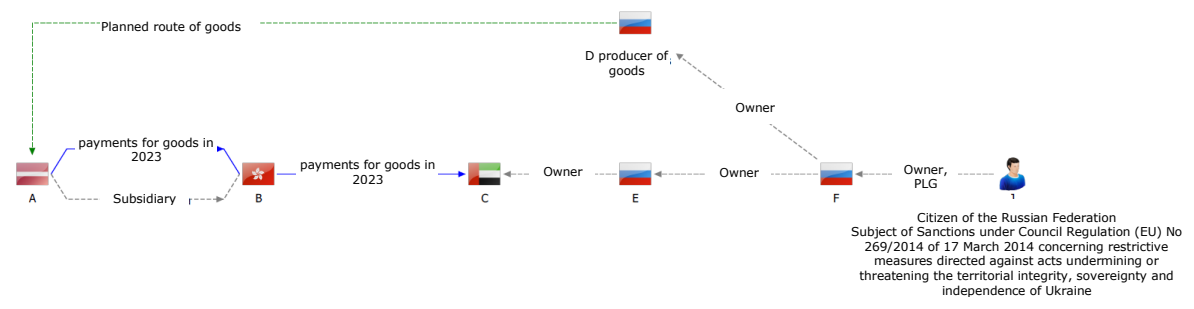
3.27. A LP incorporated in Latvia makes payments for goods to a LP incorporated in a foreign country. The ultimate recipient of the funds or the supplier of the goods is the LP whose BO is a sanctioned person.

Case analysis

In 2023, legal person A, a company incorporated in Latvia, made payments for goods (not subject to sanctions) to subsidiary B, a company incorporated in a third country. Legal person B then transferred the proceeds to legal person C, a company incorporated in the United Arab Emirates, through transit transactions.

According to the documents supporting the transaction, legal person A made prepayments for goods to be delivered from legal person D (i.e. the manufacturer of the goods) to Latvia.

It was established that both the producer of the goods D, and the legal person C, established in the United Arab Emirates, share a single BO – a Russian national J, who is subject to EU sanctions.



3.28. Assets belonging to sanctioned persons (e.g., real estate, aircraft, yachts, property) change ownership or attempt to change ownership shortly before or during the period when sanctions against Russia are in force. There are reasonable suspicions that these actions may be fictitious and backdated.

Risk indicators related to financial flows and payments

3.29. Following the entry into force of sanctions against Russia, there has been an increase in payments to and from Russia's neighbours or jurisdictions that do not impose sanctions against Russia (e.g., Kazakhstan, Uzbekistan, Turkey, Kyrgyzstan, China, United Arab Emirates, etc.). This is particularly notable when the increase in payments involves persons who, prior to the sanctions or before certain goods/services were exposed to sectoral sanctions, had previously cooperated with Russia. After the imposition of sanctions, these individuals have significantly increased their payments to/from neighbouring countries or jurisdictions that do not impose sanctions against Russia.

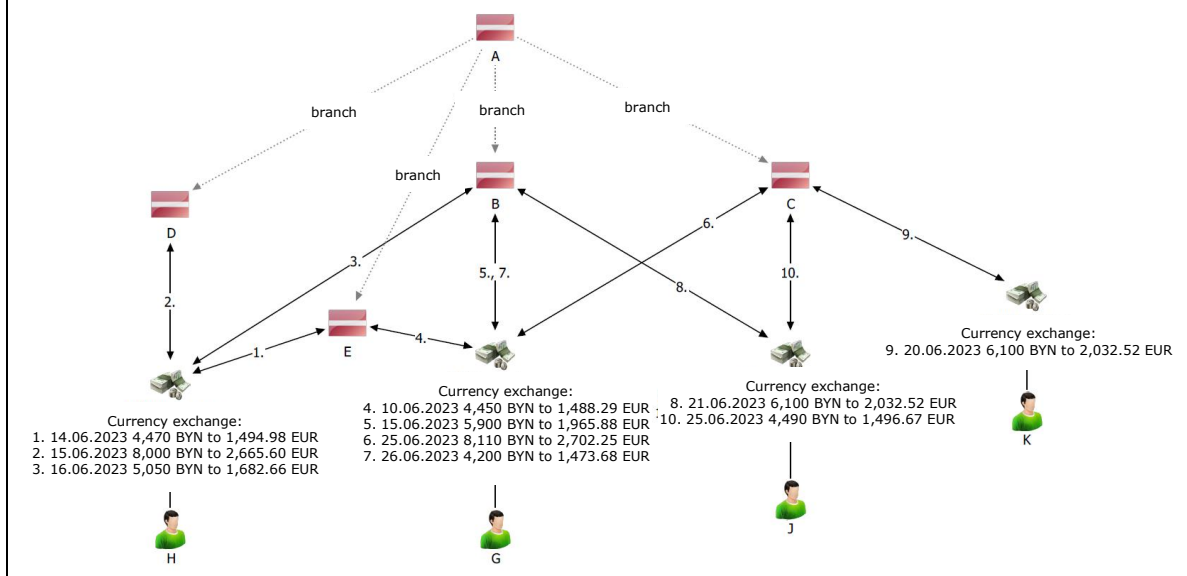
3.30. Following the entry into force of sanctions against Russia, for services/goods provided by a sanctioned person or goods/services subject to sectoral sanctions restrictions, customers are encouraged to settle to accounts in other countries, in particular in neighbouring countries of Russia or jurisdictions that do not impose sanctions against Russia, and customers are encouraged to settle using less traceable or monitorable payment methods.

3.31. Following the entry into force of sanctions against Russia, there has been an increase in foreign exchange transactions in Latvia, particularly involving the exchange of cash linked to third-country currencies for euro banknotes and the exchange of smaller denominations for larger denominations.

Case analysis

Within a short period of time (one month), several third-country nationals with no apparent connection to Latvia conducted currency exchange transactions in Latvia, exchanging Belarusian roubles for euros. These transactions were structured by exchanging different currency amounts at different branches of the exchange institution. Border crossing data showed that individuals travelled from Belarus to Latvia and back several times in the course of one month.

Taking into account the above, it was suspected that natural persons were importing EUR currency in Belarus which was not intended for personal use. Thus, the natural persons infringed Article 1za of Council Regulation (EC) No 765/2006 by importing into Belarus banknotes denominated in any official currency of a Member State (in this case the EUR).



- 3.32. Following the entry into force of sanctions against Russia, the use of postal services in Latvia for sending cash to Russia has increased.
- 3.33. After the sanctions against Russia enter into force, the subject of the sanctions transfers its liabilities, for example in an assignment transaction, to a non-sanctioned legal person.
- 3.34. Following the entry into force of sanctions against Russia, providers of professional services (such as accounting, legal, and consultancy) receive payments from new, non-sanctioned partners. The nature, amount, and details of these payments are similar to those made previously in cooperation with the sanctioned person. Payments are also received from companies with names similar to those of the sanctioned person or from entities directly or indirectly linked to the sanctioned person.
- 3.35. Following the entry into force of sanctions against Russia, financial flows have increased without economic or legal justification, and payment and receipt patterns have changed, including cash deposits or disbursements to family members of sanctioned persons (LPs).
- 3.36. Following the entry into force of the sanctions against Russia, the LP group (including the sanctioned persons directly or indirectly linked to it) has engaged in lending transactions among its members, often involving shell entities within transaction chains.

3.37. After the entry into force of the sanctions against Russia, the wages of employees at the sanctioned persons have increased significantly – based on labour market trends and bank account statements, these wages appear disproportionate for the positions held. In addition, the sudden increase in wages corresponds to or is close to the wage cost limit set in the general license²⁶ of the Financial and Capital Market Commission.²⁷

3.38. The agents of NPs or LPs make payments with payment cards in Belarus at merchants (e.g., petrol stations, hotels, airlines) which are subject to EU sanctions. So far, payments with payment cards have been identified at the following merchants in Belarus that are sanctioned persons: Belavia Belarusian Airlines, the logistics company Beltamozh service, Hotel Planeta, and Belorusneft petrol station.

Abbreviations and terms

EU	European Union
FIU	Financial Intelligence Unit of Latvia
NP	Natural person
LP	Legal person
ML	Money laundering
ML/TF/PF	Money laundering, terrorism financing, proliferation financing
CO	Criminal Offence
AML/CFTP Law	Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
NRA	National ML/TF/PF Risk Assessment Report for years 2020-2022
Council Regulation (EU) No 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
Council Regulation (EC) 765/2006	Council Regulation (EC) No 765/2006 of 18 May 2006 concerning restrictive measures in view of the situation in Belarus and the involvement of Belarus in the Russian aggression against Ukraine

²⁶ As of 1 January 2023, the Financial and Capital Market Commission (FCMC) is integrated into Latvijas Banka and, in accordance with Paragraph 4 of the Transitional Provisions of the Law on Latvijas Banka, the Latvijas Banka is the successor to the FCMC's property, financial resources, rights and obligations.

²⁷ Information on the general license issued by the Financial and Capital Market to Latvian banks to ensure that persons who are not targeted by the sanctions against Russia and Belarus are not affected by the sanctions, i.e. the license for payments related to the provision of basic needs or basic business expenses of these persons, is available at: <https://www.bank.lv/aktualitates-banklv/zinas-un-raksti/uzraudzibas-zinas-un-pazinojumi-lidz-2023-gadam/16171-fktk-latvijas-bankam-izdevusi-jaunu-visparejo-saskanojumu>

In accordance with the Transitional Provisions of the Law on International Sanctions and National Sanctions of the Republic of Latvia, the authorisations issued by Latvijas Banka and the Financial and Capital Market Commission for the execution of financial transactions (including the General license) are valid until revoked by the Latvijas Banka, but no later than 31 December 2024.

Law on International Sanctions and National Sanctions of the Republic of Latvia, available at <https://likumi.lv/ta/id/280278-starptautisko-un-latvijas-republikas-nacionalo-sankciju-likums>

Council Regulation (EU) No 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
Persons	Natural and legal persons
PF	Proliferation financing
BO	Beneficial owner
Sanctioned person	A public international law entity, natural or legal person or other identifiable entity subject to international or national sanctions
TF	Terrorism financing
Third countries	In the context of EU law, all non-EU countries.
SRS	State Revenue Service
STR	Suspicious transaction report