



Financial Intelligence Unit

NATIONAL ML/TF/PF RISK ASSESSMENT REPORT FOR 2020 - 2022

TRANSLATION

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TRANSLATION

1. Summary

The National Money Laundering and Terrorism and Proliferation Financing Risk Assessment 2020-2022 (NRA 2023) is an inter-institutional document that seeks to identify ML/TF/PF risks in Latvia. NRA 2023 is a collaborative effort between competent authorities,¹ supervisory and control authorities (SCIs)², and the private sector. A common understanding of ML/TF/PF risks is essential to their effective prevention or mitigation, thus ensuring effective functioning of the ML/TF/PF prevention and enforcement system. NRA 2023 provides a basis for developing risk-based ML/TF/PF prevention and enforcement policy, as well as identifying priority areas for allocating resources to prevent and combat ML/TF/PF.

The ML/TF/PF reforms carried out during the NRA 2020 reporting period together with appropriate resource allocation provided for in accordance with the Action Plan have resulted in a purposeful and effective AML/CTPF regime, which has contributed to the significant reduction of ML/TF/PF risks and vulnerabilities during the NRA 2023 reporting period.

The ML/TF risks identified in previous NRAs, which arose from the former status of Latvia as a regional financial centre, no longer poses a notable threat and are no longer significant in the current reporting period. It should, however, be noted that preventing these threats in credit institutions under liquidation continues to consume significant resources of the FIU, the LEAs, the Public Prosecutor's Office and the courts. A more significant ML threat is now posed by domestic crime, including shadow economy and criminal offences related thereto, such as tax offences, illicit trafficking in excise goods, including smuggling and other criminal offences, including fraud and corruption.

During the current reporting period, awareness of the ML/TF risks has been significantly increased and has become uniform at all stages of the ML/TF prevention and enforcement system. The ML/TF risk mitigation measures developed on the basis of the NRA 2020 and implemented during current reporting period, have significantly reduced the ML/TF risks by significantly limiting opportunities to use of the Latvian financial system for ML/TF purposes.

The cooperation between the competent authorities in the field of AML/CTPF, which is based on structured coordination mechanisms, as well as the active use of international cooperation, has significantly increased the overall effectiveness of Latvia's AML/CTPF regime, ensuring that Latvia is able to stop the flows of criminal proceeds, investigate complex ML schemes and, as a result, confiscate the proceeds of crime and prosecute perpetrators.

At the same time, new risks identified, which require appropriate mitigation measures, in the NRA 2023 should be highlighted. One of these risks is related to the rapidly growing number of Latvian natural persons and legal entities who have opened accounts with foreign financial institutions, including financial sector institutions registered in Lithuania. This trend poses new challenges in preventing and combating ML/TF, in particular with regard to the ML threat posed by the national predicate offence. Mitigating this risk requires also close international cooperation between Latvian and Lithuanian authorities.

Russia's war in Ukraine and the consequent EU sanctions have significantly increased the workload of Latvian authorities responsible for enforcing these sanctions, detecting violations and bringing those responsible to justice. This may have a significant impact on the capacity of the SRS TCPD to effectively combat ML and those predicate offences that pose the greatest ML threat, namely, tax offences, illicit trafficking of excise goods, including smuggling, and evasion of cash declaration. However, as a counter measure – more stringent border crossing measures have been introduced.

ML risks associated with the use of VC for ML purposes increase along with the popularity of the use of VC. NRA 2023 concludes that the ML/TF risks in Latvia significantly increase due to the fact that VC service providers established in countries with weak ML/TF prevention and enforcement systems may provide services to Latvia's residents. However, it should be noted that during the current reporting period, the awareness of the competent authorities, the LEAs, the prosecutor's office and the court of the risks of using VC for ML, as well as the capacity to deal with VC cases, has been significantly enhanced.

¹ MoFA, FIU, MoI, MoJ, RoE, CPCD, SRS, ISB, SP, SBG, SSS, Public Prosecutor's Office,

² Supervisory and control authorities according to Section 45 of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing

1.1. National ML Threats

Proceeds Generated from Criminal Offences Committed Abroad

- 1.1.1. The changes in the financial sector (Latvia is no longer considered a regional financial centre), which have taken place at the end of the NRA 2020 reporting period have remained effective also in the current reporting period. According to SWIFT system data, during the period 2013-2017, monthly flows of funds between Latvia's financial sector and the CIS countries averaged USD 13.5 billion, flows with offshore financial centres - USD 9.8. billion. During the current reporting period, flows with the CIS countries decreased by 89% year-on-year, while flows with offshore financial centres decreased by 93%.
- 1.1.2. The geography of the flow of funds of customers of the Latvian banking sector has changed significantly in the current reporting period compared to the NRA 2020 reporting period. The number of payments with Russia and Belarus has fallen significantly, while the number of payments with Lithuania have increased by a factor of more than two and a half. Lithuania is one of Latvia's largest foreign trade partners, and a significant number of Latvian natural persons and legal entities have opened accounts with Lithuanian financial institutions. At the same time, there is a risk that the growing ML risks in the Lithuanian financial sector may cause risks of negative side-effect also in Latvia, if not managed properly.³
- 1.1.3. Most of the criminal proceedings initiated and investigated during the current reporting period with regard to ML with a foreign predicate offence are related to transactions carried out before the current reporting period (risks corresponding to those identified in NRA 2020). In foreign predicate offences in ML criminal proceedings, where at least part of the transactions has taken place during the current reporting period, flows from the CIS countries are still being identified, while the number of criminal proceedings where the funds originated from EU countries (France, Germany) and third countries is proportionally increasing. In criminal proceedings where the funds come from EU member states, the most frequently identified predicate offence is fraud.
- 1.1.4. During the NRA 2020 reporting period, cash controls at the border were significantly enhanced, both by ensuring a more effective legal framework and by allocating the necessary resources to the SRS TCPD. This has resulted in a significant reduction in cross-border cash flows. At the same time, the Covid-19 pandemic and the movement restrictions associated thereto also contributed to a reduction in cross-border cash flows, as well as, Russia's war in Ukraine and the consequent EU sanctions.

Proceeds Generated from Domestic Crime

- 1.1.5. The number of recorded criminal offences in Latvia has been gradually decreasing since 2008; this decrease continued during the current reporting period - a decrease by 17% compared to the NRA 2020 reporting period and by 25.7% compared to the period 2013-2016. At the same time, the number of recorded criminal offences in certain groups of predicate offences are on the rise, with the most significant increase being in digital fraud.
- 1.1.6. Tax related predicate offences pose a high threat, while fraud, illegal movement of excise goods, illegal movement of narcotics and psychotropic substances, and criminal offences committed in state authority service pose a medium-high ML threat. Trafficking in human beings and environmental crime pose a medium-low ML threat of national predicate offence (with an increasing trend).
- 1.1.7. During the current reporting period, several studies have calculated different shares of the shadow economy in GDP, but, similarly as in other countries, studies in Latvia uniformly point to an increase in the shadow economy during the years of the Covid-19 pandemic.⁴ According

³ IMF, IMF Nordic Baltic Technical Assistance Project. ML risks are also reflected in the critically low number of suspicious transaction reports, which, according to the data on Latvian customers available to the FIU are provided by certain Lithuanian financial institutions with a significant number of Latvian customers.

⁴ Increase can be observed in 2020 and 2021 compared to the previous years before the Covid-19 pandemic.

to the data of the research "Shadow Economy Index in the Baltic States", presented on 30 May 2023, size of the shadow economy in 2022 was 26.5% of GDP.⁵

- 1.1.8. In relation to the Russia's war in Ukraine and the related EU sanctions, the number of criminal proceedings initiated by the SRS TCPD regarding the breach of sanctions "Violation of Sanctions Imposed by International Organisations and the Republic of Latvia" has increased significantly. Taking into consideration the fact that the SRS TCPD is the authority investigating tax related crimes, illegal movement of smuggled goods or other valuables, illegal movement of excise goods, as well as avoidance of cash declaration (that poses a high or medium-high ML threat), one of the main challenges in the next reporting period will be to provide the SRS TCPD with the necessary resources to be able to effectively combat criminal offences that pose a high or medium-high ML threat.
- 1.1.9. Overall, given that the crime rates decrease and the capacity of the LEAs, public prosecutor's office and the court combatting ML increases, the ML threat of the national predicate offence decreases compared to the NRA 2020 reporting period. However, during the current reporting period the ML threat in certain areas of crime has grown, such as illicit trafficking in narcotics and psychotropic substances, digital fraud, trafficking in human beings and criminal offences against natural environment.

ML Risk Profile

- 1.1.10. During the current reporting period, compared to the NRA 2020 reporting period, the national predicate offences posed a significantly higher ML threat than the foreign predicate offences, due to changes in the financial sector at the end of the previous reporting period, global events - the Covid-19 pandemic and the associated travel restrictions - as well as the Russia's war in Ukraine and the related EU sanctions.
- 1.1.11. Latvia's ML risk profile over the current reporting period can be divided into three parts.
- 1.1.11.1. First, the ML risk arising from Latvia's historic status of a regional financial centre, which during the reporting period continues to take a significant amount of the resources of the FIU, LEAs, public prosecutor's office and the courts. At the same time, it is important to stress that this risk profile no longer poses a significant ML threat; it remains current only to the extent that it concerns the share of funds in credit institutions under liquidation that has been criminally acquired.
- 1.1.11.2. Second, the risk of criminal offences committed in Latvia and mainly related to shadow economy and laundering of funds generated by digital fraud that remained at the same level during the reporting period, with a downward trend.
- 1.1.11.3. Third, the risk of foreign criminal offences, mainly related to laundering of funds generated by fraud and brought into Latvia or transferred to the Latvian financial system during the reporting period. Compared to previous reporting periods, this risk has decreased very significantly.

1.2. National ML Vulnerability


- 1.2.1. The following factors are main ones assessed for identifying national vulnerability: effectiveness and application of AML/CTPF laws and regulations, ability of authorities to identify and investigate ML/TF and prosecute the perpetrators, ability to identify cross-border criminal cash flows, the sufficiency of information required to identify customers. Score of the effectiveness of each national vulnerability criterion is shown in Table 1.2.1 on a scale from 0.0 to 1.0, where 0.0 indicates low effectiveness and 1.0 — high effectiveness. The higher is the effectiveness of each criterion, the higher is the country's capacity to combat ML.

⁵ A. Sauka, T. Putniņš. *Shadow Economy Index in the Baltic States 2009-2022*. Available at: <https://www.sseriga.edu/shadow-economy-index-2022-shadow-economy-latvia-almost-high-previous-year>.
Study conducted by Dr. F. Schneider, Professor at the University of Linz, *Development of the Shadow Economy of 36 OECD Countries over 2003-2021: Due to the Corona Pandemic a Strong Increase in 2020 and a Modest Decline in 2021*. Available at: <https://www.fm.gov.lv/iv/media/11125/download?attachment>.

Table No. 1.2.1 – Evaluation of national vulnerability criteria

National Vulnerability Criterion	NRA 2017–2019	NRA 2020–2022	Difference
Quality of ML prevention policy and strategy	1.0	1.0	–
Effectiveness of definition of the ML offence	0.8	0.9	0.1
Comprehensiveness of Asset Forfeiture Laws	0.8	0.9	0.1
Quality of FIU Intelligence Gathering and Processing	0.7	1.0	0.3
Capacity and Resources for Financial Crime Investigations	0.7	0.8	0.1
Integrity and Independence of Financial Crime Investigators	0.6	0.7	0.1
Capacity and Resources for Financial Crime Prosecutions	0.6	0.9	0.3
Integrity and Independence of Financial Crime Prosecutors	0.7	0.9	0.2
Capacity and Resources for Judicial Processes	0.6	0.9	0.3
Integrity and Independence of Judges	0.7	0.9	0.2
Quality of Border Controls	0.7	0.9	0.2
Comprehensiveness of Customs Regime on Cash and Similar Instruments	0.7	0.9	0.2
Effectiveness of Customs Controls on Cash and Similar Instruments	0.6	0.8	0.2
Effectiveness of Domestic Cooperation	0.7	1.0	0.3
Effectiveness of International Cooperation	0.7	0.9	0.2
Availability of Independent Audit	0.5	0.7	0.2
Level of Financial Integrity and Transparency	0.6	0.7	0.1
Level of Shadow Economy	0.6	0.6	–
Effectiveness of Tax Enforcement	0.6	0.7	0.1
Availability of Reliable Identification Infrastructure	0.8	0.9	0.1
Availability of Independent Information Sources	0.8	0.9	0.1
Availability of and Access to BO Information	0.9	1.0	0.1
National ML Combating Ability	0.67	0.76	0.09

- 1.2.2. The overall score for the ability to combat ML has increased by 0.09 points, i.e., from 0.67 (medium-high) in the NRA 2020 reporting period to 0.76 (medium-high) in the current reporting period. National vulnerability to ML decreases as the capacity to combat ML increases.
- 1.2.3. A ML continued to be a high priority for the government, the SCIs, as well as the LEAs, public prosecutor's office, the courts and other competent authorities during the reporting period. This is demonstrated by the continuation of the ongoing reforms of the ML/TF prevention and enforcement system, ensuring a common AML/CTPF policy, the improvements made to the legal framework and by the allocation of resources to strengthen the capacity of the FIU, investigative authorities, public prosecutor's office, courts and to promote inter-institutional cooperation.
- 1.2.4. The definition of ML has not been amended during the reporting period and it remains consistent with Latvia's international obligations. The increasing number of ML cases referred to and tried at courts shows that the capacity of prosecutors and judges to prove ML has improved significantly. Furthermore, the improvements made to the range of sanctions provided for in the Criminal Law during the reporting period ensure that proportionate and dissuasive sanctions can be imposed in line with the nature of the offence and the harm caused.
- 1.2.5. During the reporting period, the case law on criminally acquired property continued to evolve, strengthening the understanding of LEAs, public prosecutor's office and courts on the need to recover criminally acquired property and the applicability of legal norms.

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- 1.2.6. The FIU's capacity has grown over the reporting period in terms of staff numbers, qualifications and technological support. Despite the changes in the organisation of work due to the restrictions imposed by the Covid-19 pandemic, performance of the FIU (e.g. amount of suspected criminal assets frozen, number and quality of dissemination, etc.) has improved significantly compared to the NRA 2020 reporting period.
- 1.2.7. In line with the Action Plan (2020-2022), capacity of LEAs has been substantially strengthened during the reporting period through the allocation of additional increase in human resources and provision for the development of their competences. While the majority of the ML investigations during the reporting period relate to the historical Latvia's risk profile cases (risk deriving from the status of former regional financial centre, identified in NRA 2020), the number of ML investigations initiated on the financial assets generated through national predicate offences is expected to increase in the future. Organisational changes in the SP aimed at improving the functioning of the various units, improving the pre-trial investigation process and efficient management of human resources is a positive development. However, problems related to the differing levels of remuneration and social security policies among LEAs persisted, making it difficult for all LEAs (in particular the SP and the SRS TCPD) to ensure sufficient staffing levels and sometimes distribution of work.
- 1.2.8. Capacity of prosecutor's office with regard to the skills and experiences of prosecutors in the field of investigation of financial crime in the specialised prosecutor's offices has increased. In order to improve the fight against ML, an Anti-Money Laundering Coordination Unit has been set up under the PGO. During the reporting period, prosecutors became more involved in the pre-trial investigation process providing support and required training for persons directing the proceedings.
- 1.2.9. Judges have also improved their knowledge in the field of ML during the reporting period, the number of ML cases has increased together with the number of judges hearing them. During the reporting period, both the number of ML-related criminal cases tried before the courts and their complexity have increased. Establishment of the Economic Affairs Court, which has significantly improved the quality and speed of the handling of ML cases should be especially emphasised.
- 1.2.10. Inter-institutional cooperation in the area of prevention of AML/CTPF remained high during the reporting period. In the area of domestic cooperation, the FIU-CCG cooperation format highly appreciated by international institutions should be particularly emphasised. Despite the global challenges during the reporting period (Covid-19 pandemic, Russia's war in Ukraine), international cooperation within the context of AML/CTPF remains at a high level.
- 1.2.11. The quality of State Border Guard and customs control during the reporting period has improved significantly. Changes in the laws and regulations, as well as the involvement of the National Armed Forces and the SP to perform functions of the SBG can be assessed as positive factors during the reporting period with regard to the scope of the customs regime and the effectiveness of controls. Capacity of the SRS TCPD has also been strengthened, both in terms of the resources available to the institution and the competences of its staff. The decreasing cross-border cash flows to Latvia should also be assessed positively, although further work is required on supervisory and control measures of cash movements on the internal State borders.
- 1.2.12. During the reporting period, the amount of information available to the reporting entities increased and its broader use was promoted. This has been achieved through changes in the regulatory framework and the introduction of innovative technical solutions. At the same time, further work is required to assess the effectiveness of the existing system, reviewing whether the resources involved are being used efficiently and effectively. Furthermore, knowledge and skills of the reporting entities need to be strengthened so that all the resources available thereto are used effectively.

1.3. Sectoral Assessment and Services Involving High ML Risk

Sectoral Assessment

- 1.3.1. Internal assessment carried out by reporting entities is an integral part of the ML risk assessment is formed by sectoral assessment of the reporting entities. The risk assessment of each sector included in the NRA 2023 has been prepared by the relevant SCIs and the sectoral risk assessment integrates information from the FIU and LEAs, aligning with the NRA 2023's "National Threats" and "National Vulnerabilities" chapters. Table No. 1.3.1 details sectoral ML threats, vulnerabilities, and risks.
- 1.3.2. In the financial sector as a whole, during the reporting period, the risk of ML has decreased. In the IMC, PI/EMI, FCT and credit institution sectors, it has changed from "medium-high" to "medium", while in a number of sectors the overall situation has improved, the risk mitigation threshold has not been reached and thus the level has remained at its current level. Comprehensive improvements to the ML/TF prevention and enforcement system were made during the NRA 2020 reporting period, and the NRA 2023 reporting period shows their positive impact.
- 1.3.3. At the same time, the number of Latvian natural persons and legal entities opening accounts abroad, for example, in Lithuanian PIs and EMIs, has increased sharply during the reporting period. The increasing competition for modern financial services, the need to efficiently settle payments with certain service providers⁶ and other factors have also contributed to the opening of an account abroad. Conservative estimates suggest that at least 15% of natural persons and at least 20% of legal entities have accounts with foreign PI and EMI,⁷ while the total is likely to be higher.
- 1.3.4. During the next reporting period, a strategy needs to be developed to address *de-risking* in the financial sector by reviewing the impact of the AML/CTPF requirements of Latvian financial institutions on their cooperation with domestic customers.

Table No. 1.3.1 – ML threat, vulnerability and risk in financial sectors

Sector	ML threat	ML vulnerability	ML risk
Credit institutions	Medium	Medium	Medium
IF	Medium high	Medium high	Medium high
PI/EMI	Medium	Medium	Medium
FCT	Medium	Medium	Medium
IMC	Medium	Medium	Medium
Cash-in-transit service providers	Medium	Medium	Medium
Virtual currency service providers	Medium	Medium	Medium
Crediting, incl. leasing service providers	Medium low	Medium	Medium
Licensed consumer creditors	Medium low	Medium	Medium
Managers of alternative investment funds	Medium low	Medium	Medium
Corporate loan and saving companies	Low	Medium low	Medium low
Life insurance service providers / intermediaries	Low	Medium-low / Low	Medium-low / Low
Private pension funds	Low	Low	Low

- 1.3.5. Although the situation has improved during the reporting period, one of the main problems identified in the sectoral ML/TF risk assessment is the comparably low number of suspicious transaction reports submitted by the non-financial sector to the FIU.

⁶ For example, payment service for children's meals at the Riga municipal pre-school educational institutions and schools is provided by Lithuanian PI/EMI, which opens an electronic money wallet with an IBAN account number in Lithuania for parents to pay for children's meals at the Riga municipal pre-school educational institutions and schools.

⁷ Data summarised by the FIU.

- 1.3.6. Some non-financial sectors show positive trends (e.g. sector of insolvency administrators, sector of certified auditors), but there are sectors where the ML risk is assessed as medium-high and no suspicious transaction reports have received by the FIU during the reporting period (e.g. sector of tax advisors).
- 1.3.7. Although several non-financial sectors have a significant number of reporting entities (1,000 and more), it is important to take into consideration the fact that representatives of the non-financial sector often represent several sectors at the same time, or one person provides several services provided for in the AML/CTPF Law. For example, an outsourced accountant is often also a tax adviser or provider of legal services, in addition to being a provider of incorporation services. Accordingly, the total number of unique non-financial sector participants is significantly lower than the total of the number of entities reported in the individual sector risk scores.

Table No. 1.3.2 – ML threat, vulnerability and risk in non-financial sectors

Sector	ML threat	ML vulnerability	ML risk
Outsourced accountants	Medium	Medium high	Medium high
Lottery and gambling organisers	Medium	Medium high	Medium high
Real estate agents	Medium	Medium high	Medium high
Tax advisors	Medium	Medium high	Medium high
Legal arrangement or legal entity incorporation and operation service providers (TCSP)	Medium	Medium	Medium
Independent legal service providers	Medium low	Medium high	Medium
Financial consultants	Medium	Medium	Medium
Sworn advocates	Medium low	Medium	Medium
Dealers and brokers in other goods	Medium	Medium low	Medium
Trade in precious metals, precious stones, and their products	Medium	Medium	Medium
Vehicle sales and brokerage service providers	Medium	Medium	Medium
Sworn auditors	Medium low	Medium low	Medium low
Movement of art and antiquities	Medium low	Medium low	Medium low
Insolvency administrators	Medium low	Medium low	Medium low
Debt collection service providers	Medium low	Medium low	Medium low
Sworn notaries	Medium low	Medium low	Medium low
Traders of cultural monuments	Low	Low	Low
Issue of guarantees and other obligation documents imposing duties	Low	Low	Low

Services with a Higher ML Risk


- 1.3.8. In addition to the services provided by the reporting entities subjected to the controls under the AML/CTPF Law, the NRA 2023 separately assesses those high ML risk services where the competence of the reporting entities is fragmented among several sectors or only related to part of the scope of the service.
- 1.3.9. According to the suspicious transaction reports received by the FIU for the purpose of analysis of ML criminal proceedings, the information contained in the SNRA, as well as the strategic analysis studies developed during the reporting period, the following high ML risk services were identified in Latvia during the reporting period:
- 1.3.9.1. trade in free zones;
 - 1.3.9.2. crypto-assets;
 - 1.3.9.3. Real estate (RE) transactions;
 - 1.3.9.4. construction;
 - 1.3.9.5. investments in temporary residence permit (TRP) deals.

- 1.3.10. Latvia has five free zones (three special economic zones and two freeports). Free zones import, store, trade, produce and re-export a significant range of various goods and services. The facilitated supervision by competent authorities in free zones, combined with weaker commodity inspection and legal entity registration and accounting processes, leads to increased ML/TF risks.
- 1.3.11. Services related to cryptographic and distributed ledger technology (VC, NFT and decentralised finances) are associated with an increased ML risk. While VC providers are subject to the AML/CTPF Law and the virtual currency sector is regulated, other services related to these technologies were not regulated and their supervision was limited during the reporting period. Moreover, it should be noted that Latvian laws and regulations do not regulate the activities of foreign-registered VC service providers in Latvia. Thus, crypto-related service providers may be registered in countries with weak ML/TF prevention and enforcement systems and provide services to local residents, which significantly increases the ML/TF risk in Latvia. Vulnerability is increased also by a general lack of knowledge and understanding of these technologies, their applications and the risks involved.
- 1.3.12. During the reporting period, the construction and RE sectors remained at high AML risk. The limited supervision of both sectors within the context of AML/CTPF, their high cash flow rates and the high share of the shadow economy in the construction sector make both interconnected sectors attractive intermediaries for laundering of the proceeds of criminal offences committed both in the EU and third countries.
- 1.3.13. International institutions and NGOs highlight that investment-citizenship and investment-residency schemes are associated with increased security, ML, tax crime and corruption risks. At the end of the reporting period, Russian and Belarusian citizens were banned from purchasing investment TRPs in Latvia. Although citizens of these countries have historically been associated with the largest amounts of funds laundered through investment TRPs, this service is still available to citizens of other countries who, according to the OCMA statistics, come mostly from non-democratic countries with high levels of corruption and weak institutions, thus increasing Latvia's ML risk.

1.4. Risks of Legal Entities and Non-Governmental Organisations

Legal Entities

- 1.4.1. Legal entities may be at higher ML/TF risk as they are a world-wide popular vehicle for the implementation of ML/TF schemes (1) to simulate economic activity, including through fictitious transactions, payments, submission of fictitious documents, reports; (2) to conceal and disguise the existence of a TBP by creating complex ownership structures; and to use corporate bank accounts and other financial services as a means of access to the financial system. In view of the above, it is essential to carry out an assessment of the ML/TF risks typical of legal entities.
- 1.4.2. In the NRA 2023 an in-depth analysis has been carried out regarding the legal entity's form of capital companies (LLC and JSC), which make up the vast majority of legal entities registered in Latvia, i.e., as of 31 December 2022, 131 - 310 LLCs and JSCs have been registered in Latvia. Movement of funds operated by these legal entities dominates in the national economy, and they are most frequently referred to in the suspicious transaction reports. The NRA 2023 contains also assessment of the ML/TF risks of non-resident legal entities operating in Latvia.
- 1.4.3. With regard to the registration trends, it should be noted that the total number of legal entities (the scope of subjects [in Clause 9.2.1](#) and [Clause 9.3.2](#)) is decreasing, as the RoE continues to purge the records of registered companies of economically inactive legal entities by removing them from the Commercial Register. The most commonly registered form of legal entity is still the small-capital LLC, which can be an attractive vehicle for carrying out ML/TF activities due to its simplified registration procedure. Legal entities registered during the reporting period were mostly (90%) incorporated by legal entities and natural persons registered in Latvia. At the end of the reporting period, the number of refusals to register legal entities increased significantly, but there was not a single case where the registration of a legal entity was refused on the grounds of non-compliance with the ML/TF requirements.

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- 1.4.4. The number of shell arrangements continues to decrease during the reporting period, and, consequently, scale of their activity is also decreasing - in 2022, their turnover accounted for 1.7% of total turnover of the credit institutions' customers (3% in 2021 and 3.7% in 2020). The number of customers - non-EU legal entities - also continues to decline in credit institutions. In general, flow of cross-border payments of foreign customers of credit institutions has slightly increased; however, flows from/to high-risk countries were decreasing.
- 1.4.5. As regards the trends in the detection of the UBOs, the number of legal entities that have disclosed their UBOs has increased year on year during the reporting period. By the end of 2022, 98.45% of the 133,839 active legal entities had registered information on their UBOs, which are mostly Latvian residents (90%).
- 1.4.6. The risk of false UBO information available is mitigated by the obligation of reporting entities and SCIs to submit a report to the RoE, if the findings of customer due diligence differ from those registered with the RoE. At the same time, practice has shown that there is a need to assess the procedures for reporting non-conformity of UBOs to make current practices more efficient.
- 1.4.7. The use of legal entities to carry out ML/TF activities is facilitated by the involvement of providers of incorporation, management, and operation services for legal entities in the concealment of BO, such as the use of fictitious directors and fictitious owners. This however, is monitored by the FIU in cooperation with other competent authorities.
- 1.4.8. Higher ML/TF risk is inherent to legal entities whose actual owners are other legal entities at several levels and whose actual owners are non-residents of the legal entities. This situation makes it difficult for the Register of Enterprises and entities under the AML/CTPF Law to identify and ascertain the beneficial owners of the legal entities.
- 1.4.9. During the reporting period, it was established that EU-registered companies were involved in transaction schemes to serve as fictitious intermediaries and "serving" many Latvian-based companies with completely different types of business activities for tax related crime purposes.
- 1.4.10. During the reporting period, Russian and Belarusian citizens were denied the possibility to obtain TRPs in Latvia in return for investments in capital companies because of the Russia's war in Ukraine. Taking into consideration the data of the OCMA, it should be concluded that the number of investments in capital companies has significantly decreased compared to the previous period, which accordingly reduces the risk of Latvian legal entities being used as instruments for ML where the funds originate from these countries.

Non-Governmental Organisations

- 1.4.11. During the reporting period, the NGO sector comprises around 27 thousand NGOs with their total number of incoming payments amounting to approximately 760 million EUR per year. The greatest part of this funding is being used in Latvia. The services provided by NGOs play an important role in society, but the size and vulnerability of transactions of the NGO sector to ML, TF makes it necessary to identify, assess and manage the associated ML/TF risks accordingly.
- 1.4.12. With regard to the NGO registration trends, it should be indicated that the most frequently registered forms of NGOs are societies and foundations. While the total number of active NGO increased by the end of the reporting period, the number of new NGO registered steadily fell every year. As of the end of 2022, 1651 NGO (6.11% of all NGO) with PBO (public-benefit organisation) status were registered in the country. During the reporting period, the status of PBO (public benefit organisation) previously granted to 1,140 NGOs was annulled, there were no cases where such action was related to violations of the ML/TF requirements.
- 1.4.13. Laws and regulations do not provide for mandatory obligation to register the NGO's field of activity. As at the end of the reporting period, 88.67% of all NGOs had not indicated their field of activity. The obligation for NGOs to register a specific field of activity, avoiding also the registration of the field of activity "Society or foundation not classified elsewhere", would contribute to the transparency of the sector and significantly facilitate not only the work of financial institutions, but also provide more efficient control and supervision of NGOs.

- 1.4.14. In terms of the nature of disclosure of UBO, it should be noted that the disclosure of UBO could be more complicated for the NGO sector than for companies, as the NGO sector frequently is not subject to the classic forms of participation. Most of the times, it is not possible to identify a specific individual as a UBO of the NGO. In general, as at the end of 2022, a total of 8,881 NGOs or 33% had registered information on the UBOs, and mostly (96%) registered UBOs of the NGOs were Latvian residents.
- 1.4.15. FATF has identified NGOs that run a high risk of TF. These include religious organisations, charities, as well as organisations involved in social assistance, housing affairs, healthcare, education, representation or other “good works”. However, it is important to note that a set of NGOs possessing higher TF risk may vary from country to country.
- 1.4.16. The set of Latvian NGOs possessing factors increasing TF risks remained unchanged compared to the NRA of the previous reporting period:
- 1.4.16.1. NGOs registered in Latvia whose scope of activity corresponds to the high-risk NGOs defined in the FATF;
 - 1.4.16.2. NGOs registered in Latvia, established for the purpose of promoting mutual respect and cultural diversity at international level, social and economic development in other countries, providing assistance to disaster-stricken regions at international level, and promoting and supervising respect for human rights and peacekeeping at international level;
 - 1.4.16.3. NGOs registered in Latvia that have not indicated a specific field of activity or have indicated “Society or foundation not classified elsewhere” as their field of activity (when starting or maintaining a business relation, they refuse to specify the field of activity and provide a detailed explanation for the transaction).
- 1.4.17. In addition to the criteria defined above, another mandatory qualifying criterion for NGOs is whether the NGO in question deals with high-risk countries (list of the countries given in the chapter “ML/TF risks of legal entities and legal arrangements”, list [No. 2 “Lists of the countries used in Chapter 9”](#)).
- 1.4.18. According to the volume of NGO transactions registered in Latvia, less than 1% of all NGO transactions correspond to the group of NGOs possessing factors increasing the TF risk. During the reporting period, transactions in the credit institution accounts held by NGOs took place mainly within Latvia. No transactions involving persons from countries where military conflicts take place were identified.
- 1.4.19. In addition, it should be noted that, despite the fact that according to FATF standards NGOs are mainly characterised by TF risks, Latvian NGOs are also characterised by ML risks inherent to legal entities, as they have the status of legal entities, and the involvement of NGOs in ML activities and tax avoidance schemes cannot be ruled out.
- 1.4.20. NGOs that have the PBO status are at increased risk of being used in tax schemes, as both NGO and individuals making donations are eligible for tax benefits. There is also a need to pay increased attention to the financial flows of NGOs involving persons from low-tax or no-tax countries and territories.
- 1.4.21. NGOs that rely on funding from local or national authorities for the most of their annual income may be at increased risk of ML, i.e. their ability to achieve their defined objectives is directly dependent on the local or national authorities concerned. Situations have been identified where the largest share of municipal funds earmarked for financing NGOs goes to the NGOs that are directly or indirectly linked to the political majority of the local government in question, furthermore, frequently, board members of these NGOs are current or former public officials.
- 1.4.22. In the NGO sector, the ML risk is significantly increased by the cash movements. Regulation of the Cabinet of Ministers No. 380 and Regulation of the Cabinet of Ministers No. 439 took effect during the reporting period to mitigate this risk, providing, among other things, that the annual reports of associations, foundations, and trade unions, as well as religious organisations and their institutions, contain separate information regarding cash and non-cash donations and gifts. This promotes transparency in NGO financial flows and reduces the possibility of integrating cash gained through criminal means into the Latvian financial system.

1.5. Terrorism Financing, Proliferation Financing and Sanctions Violation Risks

Financing of Terrorism

- 1.5.1. Although there are several internationally known terrorist groups causing TF threat also in Latvia, abuse of the Latvian financial system in financing thereof has not been established during the investigations conducted into terrorist attacks.
- 1.5.2. Latvia's financial sector is well-developed, and it provides the services that can be used for TF. However, it should be concluded that, during the reporting period, there has been a significant improvement in the awareness of reporting entities of TF and sanctions violations and circumvention, as well as in their ability to identify suspected TF and sanctions violations and circumvention (including violations and circumvention of sanctions non-related to terrorism) and to report suspicions to the FIU in accordance with the AML/CTPF Law and the Sanctions Law. State institutions have increased their capacity and understanding of TF and sanctions violation and circumvention.
- 1.5.3. In view of the above, it has been concluded that the risks of TF in Latvia are low. However, there is a risk that Latvia can be used for TF in the following ways (the list is not exhaustive):
 - 1.5.3.1. In case of possible radicalisation of Latvian population, TF may take place as self-financing (incl. by use of financial services);
 - 1.5.3.2. In case of possible radicalisation of Latvian population, TF may take place by acquiring assets from family members or relatives (incl. by use of financial services);
 - 1.5.3.3. Criminals and terrorist groups can use the Latvian financial system for conducting transfers as a part of a chain of complex TF transactions.

Proliferation Financing

- 1.5.4. The main identified international PF risks are posed by North Korea and Iran, while theoretically there are also other PF threats. North Korea and Iran are subjected to sanctions and thus their persons, that are related to proliferation, are forced to transfer transactions through complex payment schemes by using services of very vulnerable financial institutions.
- 1.5.5. Latvia is a suitable place for organisation of transit and logistics among the countries of the EU, CIS, and Asian markets. There is a risk that Latvian transport infrastructure and favourable geographical location may be used for transportation of GSS through Latvia to the countries against which sanctions have been imposed in relation to proliferation and to the countries of a high terrorism risk with an aim of transferring the GSS to terrorist groups. At the same time, there are effective control mechanisms for GSS movement in Latvia.
- 1.5.6. In view of the above, it has been concluded that the PF risks in Latvia are medium-low. There is a risk that Latvia can be used for PF in the following ways (the list is not exhaustive):
 - 1.5.6.1. Criminals may use the Latvian financial system for transfers as a part of a chain of complex transactions for the purposes of PF or violation of sanctions imposed in relation to proliferation.
 - 1.5.6.2. Criminals may use the Latvian financial system for transfers as a part of a chain of complex transactions when transporting GSS through other countries while transferring financial assets through financial service providers registered in Latvia.
 - 1.5.6.3. Criminals may use the Latvian transport infrastructure and favourable geographical location by transporting the GSS through Latvia to the countries against which sanctions have been imposed and to the countries of a high terrorism risk with the aim of transferring the GSS to terrorist groups.

Violation of Sanctions

- 1.5.7. Given the current geopolitical situation and Latvia's geographic location, the most significant threat of sanctions violation and circumvention in Latvia comes from the EU sanctions imposed on Latvia's neighbours - Russia and Belarus.

- 1.5.8. In Latvia, there is a presence of both Russian and Belarusian nationals in the Latvian financial system, and access to the necessary infrastructure for possible activities related to sanctions violation and circumvention. This is evidenced by the number of TRPs issued to Russian and Belarusian nationals, as well as their shareholdings in a number of Latvian companies. At the same time, it should be stated that, during the reporting period, in light of the Russia's war in Ukraine, Russian and Belarusian citizens were denied the possibility to obtain a TPR in Latvia through investments in capital companies.
- 1.5.9. NRA 2023 provides in-depth assessment of the risks of violation of financial restrictions and restrictions on the movement of goods of strategic significance and other goods, or sectoral sanctions, because these types of sanctions prevailed in the reporting period in terms of frequency and complexity of implementation. Their enforcement has required significant resources on the part of both private- and public-law bodies, as well as certain practical insufficiencies were identified in the system of sanctions enforcement at the level of the EU, including in Latvia.
- 1.5.10. The number of reports received by the FIU on suspected or attempted circumvention of international and national sanctions reflects a high level of awareness and knowledge of the reporting entities, as well as the ability to respond to new rounds of sanctions adopted by the EU, which broaden the scope of restrictions and the range of persons subject to sanctions.
- 1.5.11. In response to the unprecedented pace and volume of sanctions, several new cooperation formats were introduced during the reporting period, such as an informal institutional coordination platform - the Sanctions Consilium; the Sanctions Working Group established in accordance with the procedure laid down in Section 55(2) of the AML/CTPF Law; active work was continued by the Sanctions Coordination Council, etc. A range of educational and public information activities have also been carried out.
- 1.5.12. NRA 2023 concludes that the level of risk of violation and circumventing financial restrictions in Latvia is assessed as medium. The level of risk is based on the basis of the following findings:
- 1.5.12.1. Deposits from domestic and EU customers dominate in Latvian credit institutions. Amount of deposits from the CIS countries, including Russia and Belarus, is relatively small in the Latvian credit institutions.
 - 1.5.12.2. The amount of funds frozen in Latvian credit institutions (in excess of EUR 81 million) shows the capacity of the institutions involved in the sanctions enforcement system to provide enforcement of financial restrictions.
 - 1.5.12.3. A certain number of private-law bodies are obliged to carry out a risk assessment related to sanctions violation and circumvention and to establish ICS that reduces their vulnerability to sanctions violation and circumvention.
 - 1.5.12.4. Use of automated tools to ensure sanctions compliance (e.g. screening of customers, their UBOs and other persons against sanctions lists, known as sanctions screening) also reduces the vulnerability.
 - 1.5.12.5. The solutions introduced in Latvia, which are freely available to the subjects responsible for sanctions enforcement, significantly facilitate the implementation of financial restrictions, e.g. information on the UBOs available in the registers maintained by the RoE, the list of sanctions subjects maintained on the FIU website, etc.
- 1.5.13. The NRA 2023 concludes that the level of risk of sectoral sanctions violation and circumvention in Latvia is assessed as medium/high. The level of risk is based on the basis of the following findings:
- 1.5.13.1. Due to its geographical location, Latvia has historically enjoyed close economic cooperation with both Russia and Belarus. The reporting period shows changes in the range, volume and value of goods exported to and imported to these countries.
 - 1.5.13.2. Flow of payments of the customers of Latvian credit institutions to Russian credit institutions continued to reduce during the reporting period. At the same time, payment flows to countries such as Kazakhstan and Azerbaijan showed an increasing trend in the second quarter of 2022.
 - 1.5.13.3. The increased threat of sectoral sanctions violation and circumvention is evidenced also by the volume of cargoes rejected at the Latvian border. The workload of the SRS Customs Administration has grown due to increased controls at Latvia's external border with the EU.

- 1.5.13.4. The vast majority of reports of suspected or attempted circumvention of international and national sanctions (around 70%) concern suspected violation and circumvention of sectoral sanctions.
- 1.5.13.5. During the reporting period, the number of criminal proceedings initiated by the SRS TCPD has grown significantly, thus increasing the workload of the SRS TCPD staff, but its capacity and resources have not been strengthened.
- 1.5.13.6. The EU sanctions imposed against sectors of the Russian and Belarusian economies are not consistent - items included in the sanctions lists that are subject to export, import or transit restrictions are different.

1.6. Future Risks

Virtual IBANs and Open Banking Services

- 1.6.1. Virtual IBANs and open banking services⁸ have developed rapidly during the reporting period.⁹ IBAN (International Bank Account Number) in payment systems is an internationally recognised system of account numbers used to record and identify the senders and beneficiaries of transaction payments.¹⁰ Each account has its own IBAN, which designates and identifies the person and institution linked thereto. A virtual IBAN is an account reference code that is not linked to a physical credit institution account, but is linked to another IBAN.¹¹
- 1.6.2. There are 2 main models of virtual IBANs: mass payment IBANs and virtual accounts. In the IBAN model for mass payments, the basic account holder maintains sub-accounts with a PI, an EMI or a credit institution. In this model, true *reconciliation* with a licensed and supervised service provider only takes place from the basic account, while sub-account payment flows and balances are reconciled only at the basic account level. Sub-account holders are typically the end-users of the services of the basic account holder. The main purpose of mass payments in virtual IBANs is payment identification - the correct identification and attribution of payment flows to a specific customer. Such services are typically used by legal entities with many customers, such as telecoms, internet or energy service providers. The end-user usually only has the right to make deposits and view their account balance (e.g. if an invoice is overdue, the balance may be negative).
- 1.6.3. In the second model, virtual accounts, the holder of a basic account maintains a virtual IBAN with a PI, an EMI or a credit institution for another similar institution, granting that institution the right to open mutually segregated current accounts with separate and individual IBANs. Sub-accounts may be maintained in both the service provider's and the basic account holder's system. Cash flows can be transparent in either system, based on a civil law contractual relationship. The main difference from the mass model is that sub-accounts have an extended functionality where, within the context of a contractual relationship, virtual accounts allow the end-user not only to make deposits, but also to make payments and use various payment instruments. Their functionality is similar to a real current account and includes payment processing, performance of outgoing money transfers, debit card connection and account balance maintenance.
- 1.6.4. The IBAN virtual account model implies an increased ML/TPF risk for service providers. The basic account holder is responsible for ML/TPF in relation to both its direct customers and transactions and its sub-account customers and transactions. The more are the tiers at which sub-account holders' accounts are placed, the more opaque their activities and the effectiveness of risk assessment become. The basic account holder shall be responsible for sufficient customer due diligence in sub-accounts and for monitoring of the operation of the current accounts allocated to the sub-account according to the level of risk. However, sub-account activities may involve a wide range of activities outside the licensed country of the

⁸ In English, designated with "open banking", "embedded finance".

⁹ LV Portāls, *Payment institutions: rapid development and money laundering risks*. Available at: <https://lvportals.lv/norises/327780-maksajumu-iestades-strauja-attistiba-un-naudas-atmazgasanas-riski-2021>.

¹⁰ The IBAN shall be created in accordance with ISO 13616:2020. The IBAN account number includes the country code of the beneficiary bank, the beneficiary's account number and a control number that verifies the correctness of account numbers before the payment is sent. The function of IBAN is to enable a financial institution to participate in international and local payment systems between members of the SWIFT network. SWIFT (Society for Worldwide Interbank Financial Telecommunication) The Worldwide Interbank Financial Telecommunication Network is responsible for the implementation of the IBAN standard, which has now been adopted in 80 countries in total, including the EU and the European Economic Area.

¹¹ The right to set up such accounts is granted by PSD2, which allows payment service providers to offer their payment infrastructure to other "non-bank" payment service providers across the EU.

basic account holder, reducing the basic account holder's transparency, speed of access to information and perception of the nature of the sub-accounts' operations.

- 1.6.5. Depending on how the customer due diligence and transaction monitoring responsibilities are shared between the basic account holder and its sub-account holders, there is also a risk of insufficient monitoring of customers and transactions being applied in sub-accounts. The wide range of transactions also creates practical uncertainties. For example, when the FIU and LEA need to request for information, freezing and seizure of assets or take other actions in various countries, there may be confusion as to where to address the necessary request.

Artificial Intelligence

- 1.6.6. Artificial intelligence and its wide-ranging applications are a major future risk of ML/TPF. AI is a combination of computer systems and algorithms able to perform complex tasks quickly, usually based on large repositories of data. It differs from other technologies that can solve a variety of tasks in that it can improve its performance over time by applying machine learning techniques without human intervention by using unstructured data such as text, images or video.¹² The wide-ranging capabilities and functions of AI can help to significantly speed up and make more efficient a variety of activities, and it applies also to the commission of predicate offences and ML.
- 1.6.7. AI poses two major ML/TPF risks. First, AI can be used to increase the effectiveness of cybercrimes. During the reporting period, digital fraud is on the rise both in Latvia and abroad,¹³ showing formation of sophisticated schemes that can be created faster and more efficiently with the help of AI. In 2022, the number of criminal offences under Section 177¹ of the Criminal Law - fraud in an automated data processing system - has increased significantly.¹⁴
- 1.6.8. AI enables the automation of a range of activities, including the preparation, management and sending of online communications, as well as the automated preparation and sending of cyber-attacks (e.g. ransomware). It can also be used to select victims by using publicly available data to help criminals identify people vulnerable to cyber-attacks and digital fraud, such as the elderly or people with low financial literacy.¹⁵
- 1.6.9. The second major risk posed by AI is its potential to create *deepfakes*. Deepfakes mean artificial intelligence-generated, fake video or audio material. Europol's Innovation Lab Centre report 2022 points out that deepfake technology can facilitate a variety of criminal activities, including online identity fraud and circumvention of "know your customer" mechanisms.¹⁶

Hybrid Warfare

- 1.6.10. Hybrid warfare refers to the synchronised use of standard and non-standard power tools and techniques by states to weaken other states.¹⁷ Hybrid warfare can take the form of disinformation campaigns, cyber-attacks or economic manipulation, but it can also include other actions by which a state deliberately seeks to undermine the stability of another state, such as the deliberate suspension of international law enforcement cooperation. Latvia is particularly exposed to the risks of hybrid warfare given its land borders with Russia and Belarus and their poor relations with NATO member states since Russia's full-scale invasion of Ukraine on 24 February 2022.¹⁸

¹² Europol, *Misuse of Artificial Intelligence*. Available at:

https://www.europol.europa.eu/cms/sites/default/files/documents/malicious_uses_and_abuses_of_artificial_intelligence_europol.pdf

¹³ See more in the NRA *Threats* section.

¹⁴ 19 criminal offences in 2020, 57 - in 2021, and 76 criminal offences in 2022. *Law enforcement criminal intelligence analytical report for 2020, 2021 and 2022*.

¹⁵ Europol, *ChatGPT - The impact of large language models on law enforcement*. Available at: <https://www.europol.europa.eu/publications-events/publications/chatgpt-impact-of-large-language-models-law-enforcement>.

¹⁶ Europol. *Facing reality: the challenge of deepfakes*. Page 10. Available at:

https://www.europol.europa.eu/cms/sites/default/files/documents/Europol_Innovation_Lab_Facing_Reality_Law_Enforcement_And_The_Challenge_Of_Deepfakes.pdf.

¹⁷ NATO Review, *Hybrid warfare - new threats, complexities, and countermeasures*. Available at: <https://www.nato.int/docu/review/articles/2021/11/30/hybrid-warfare-new-threats-complexity-and-trust-as-the-antidote/index.html>.

¹⁸ Office for the Protection of the Constitution of the Republic of Latvia, *2022 Annual Report*. Available at: https://www.sab.gov.lv/files/2022_parskats.pdf

- 1.6.11. Activities carried out within the framework of a hybrid war may weaken a country's capacity to combat ML/TPF and consequently increase national vulnerability to ML/TPF. For example, during the reporting period since June 2021, the Belarusian regime actively supported the irregular migration of natural persons to EU countries across the Belarusian-Latvian border, resulting in unplanned support to the State Border Guard (VRS) by the law enforcement through the redeployment of additional human resources from other units.¹⁹
- 1.6.12. Hybrid warfare can also involve actions that are linked to the commission of criminal offences and that pose a direct threat of ML/TPF, including both state-sponsored proactive actions and deliberate inaction in combating criminal activities. This can include, for example, attempts to circumvent sanctions supported by the Russian government.
- 1.6.13. The movement of criminal funds during the reporting period has been and is expected to continue to be driven by state-sponsored cyber-attacks against Latvia, originating in Russia and involving both extortion and digital fraud.²⁰ Similarly, other organised crime supported by the Russian government have been observed to have developed in Europe, including drug and arms trafficking, trafficking in human beings and other forms of crime.²¹ Support for such organised crime activities can range from the direct provision of funds to deliberate disregard of criminal activities by the state.
- 1.6.14. As the geopolitical escalation between NATO member states and Russia and its allies continues, hybrid warfare may be increasingly targeted, including against Latvia.

Termination of Cooperation to Avoid Risk (*de-risking*)

- 1.6.15. *De-risking* is defined by the FATF as "the phenomenon whereby financial institutions cease or limit their interaction with customers or categories of customers to avoid risk rather than to manage it in accordance with the principles of the FATF's risk-based approach."²²
- 1.6.16. During the NRA 2020 reporting period, a number of measures were taken in Latvia to improve the regulatory framework and generally align the area of AML/CTPF. One of the most important measures was to cleanse the financial sector of high or inconceivable risk customers.
- 1.6.17. During the NRA 2023 reporting period, opening of bank accounts by Latvian natural and legal entities with foreign banks and PI/EMI increased, especially with financial institutions where the account can be opened remotely. According to the data collected by FIU, the number of Latvian legal entities in the Lithuanian electronic money institutions sector alone is at least 20% of all Latvian legal entities, while the number of Latvian natural persons is conservatively estimated to be at least 15%, but possibly even twice as high,²³ thus the trend of increase in number of Latvian customers in the Lithuanian EMI sector identified at the end of the NRA 2020 reporting period continues rapidly. It is important to note that the increase in the opening of foreign accounts is not proportional to the decrease in the number of customers at Latvian financial institutions and a significant share of customers continues to use financial services simultaneously at both Latvian and foreign financial institutions.
- 1.6.18. The opening of an account abroad has been driven by increasing competition for modern financial services, the need to settle efficiently with specific service providers²⁴ and other factors. It is also possible that, for a variety of reasons (including those related to the commission of criminal offences), customers may wish to find financial institutions that do not carry out, or carry out to a significantly lesser extent and quality, customer due diligence and transaction monitoring activities, and consequently terminate their relationship with a Latvian financial institution and open a current account abroad. At the same time, some of the

¹⁹ Ministry of Defence, *Video: Belarus uses the flow of migrants to Latvia as an element of hybrid warfare*. Available at: <https://www.mod.gov.lv/zinas/video-balkrievija-migrantu-plusmu-uz-latviju-izmanto-ka-hibridkara-elementu>.

²⁰ Office for the Protection of the Constitution of the Republic of Latvia, *2022 Annual Report*, p. 16. Available at: https://www.sab.gov.lv/files/2022_parskats.pdf.

²¹ European Council on Foreign Relations, *Crimintern: how the Kremlin uses Russian organised crime networks in Europe*. Available at: [ECFR208_-CRIMINTERM_-_HOW_RUSSIAN_ORGANISED_CRIME_OPERATES_IN_EUROPE02.pdf](https://ecfr208_-CRIMINTERM_-_HOW_RUSSIAN_ORGANISED_CRIME_OPERATES_IN_EUROPE02.pdf).

²² FATF, *High-Level Compendium on the Unexpected Consequences of Implementing the FATF Standards Circular (2021)*. Available at: <https://www.fatf-gafi.org/en/publications/FinancialInclusionandnpoissues/Unintended-consequences-project.html>.

²³ FIU compiles data on the largest market players.

²⁴ For example, payment service for children's meals at the Riga municipal pre-school educational institutions and schools is provided by Lithuanian PI/EMI, which opens an electronic money wallet with an IBAN account number for parents in Lithuania to pay for children's meals at the Riga municipal pre-school educational institutions and schools.

customers are those with whom Latvian financial institutions have terminated business relations.

- 1.6.19. Termination of cooperation to avoid risk can lead to increased payment costs and concentration of financial service providers, as well as reduce access to financial services for different individuals, thereby undermining access to financial services and financial inclusion indicators.²⁵
- 1.6.20. Given that one of the prerequisites for effective ML/TPF risk management is that transactions are monitored and take place within the financial system, the migration of Latvian financial sector customers away from the Latvian financial sector creates a significant vulnerability in terms of the ML/TPF prevention system's access to information on suspicious transactions carried out by persons in Latvia.
- 1.6.21. During the next reporting period, it is necessary to monitor developments and continue to work on the balance between effectiveness, resilience and flexibility to address the existing ML/TPF risks not only at the level of the regulatory framework but also in their practical application, in order to limit and prevent the occurrence of negative consequences and damage.

Central Bank Digital Currency

- 1.6.22. The ECB has started the exploratory phase of the digital euro project and plans to complete it in 2023.²⁶ A central bank digital currency means central bank liabilities in digital form to be used along the existing cash banknotes and electronic payments. The availability of programmable currency, retail bank accounts with central banks and discreetly traceable digital money are just some of the ways in which central bank digital currency can fundamentally change the current banking and payments paradigm. Several central banks are already piloting their own central bank digital currency solution (at least 87 countries, representing more than 90% of global GDP, are already exploring this solution).²⁷
- 1.6.23. Although the implementation of the digital euro is not yet complete at the time of development of the NRA 2023, there are several clear functional advantages of the digital euro. From the very outset, the digital euro is planned to be a retail currency, thus extending the reach of the central bank's digital currency beyond its wholesale use. The digital euro aims to be programmable for the intermediaries to be able to develop and offer their services based on the digital euro infrastructure. To support financial inclusion, the digital euro must ensure offline usability and the highest standards of user privacy, and be as integrated as possible with existing financial and payment systems in the euro area.²⁸
- 1.6.24. The introduction of the digital euro is expected to give rise to a number of ML/TPF risks, depending on its characteristics and features. First, the degree of programmability of the digital euro can create a commensurate level of risk for a product or service. The high level of digital intermediation of the euro is a key advantage of the digital euro, but it is also a key vulnerability. Free interconnection with other digital products and services can create a variety of new ML schemes that use high-frequency micro-transactions among multiple actors. Functionalities such as real-time payment system, the ability to create complex multi-layered payment schemes, and services and products that use these schemes can be used, including ML.
- 1.6.25. Second, there is also a significant geographical risk. Initially, the digital euro will only be distributed in euro area jurisdictions. Each country has a unique risk profile, and non-standardised supervision in the approach to the introduction and use of the digital euro can

²⁵ FATF, *High-Level Compendium on the Unexpected Consequences of Implementing the FATF Standards Circular (2021)*. Available at: <https://www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Unintended-consequences-project.html>.

²⁶ Christine Lagarde and Fabio Panetta, *Key Objectives of the Digital Euro*. July 13, 2022. Available at: <https://www.ecb.europa.eu/press/blog/date/2022/html/ecb.blog220713~34e21c3240.en.html>.

²⁷ The researchers point out that "central banks, which together represent a fifth of the world's population, are likely to launch retail CBDC in the next three years". See Codruta Boar and Andreas Wehrli, *Ready? Start! BIS central bank survey, BIS Paper* (Bank for International Settlements, January 2021). Available at: <https://econpapers.repec.org/bookchap/bisbisbps/114.htm>.

²⁸ Christine Lagarde and Fabio Panetta, *Key Objectives of the Digital Euro*. July 13, 2022. Available at: <https://www.ecb.europa.eu/press/blog/date/2022/html/ecb.blog220713~34e21c3240.en.html>.



create legal or supervisory arbitrage opportunities for criminals. Thus, differing supervisory capacities and legal provisions rules between EU Member States using the digital *euro* may reinforce local risk profiles and potentially create new synergies in regional-level ML schemes.

TRANSLATION

2. Introduction

Development of the NRA is a significant process that enables ML/TF risks to be recognised and identified, as well as their consequences to be assessed in a timely manner. Development of the NRA contributes, inter alia, to the identification, assessment and mitigation of the ML/TF risks. The NRA should be used as a basis for the development of AML/CTPF policy. More detailed information on the necessity for the development of the NRA and the benefits provided by the ML/TF risk assessment process, both nationally and internationally, is available in "Guidelines for conducting NRA".

WB methodology was used for the development of NRA, this methodology is based on the principles set in FATF recommendations and elaborated in such a way as to be applicable in the countries with different economic and geopolitical situation. Recommendations received from international evaluators of the ML/TF prevention and enforcement system, data availability and current trends in the field of AML/CTPF in Latvia are taken into consideration. The requirements of the WB methodology used in the NRA, as well as changes and additions introduced thereto, are explained in detail in the document "Guidelines for conducting NRA".

Purpose of the introductory chapter is to provide a comprehensive description of a number of key topics relevant to the functioning and preparatory works of a national ML/TF prevention and enforcement system. The economic and geopolitical profile points to the development of the economy of Latvia and various domestic markets, in view of events undermining stability, such as the Russia's war in Ukraine or the Covid-19 epidemiological crisis. Impact of the Covid-19 pandemic is under in-depth examination in light of the international movement restrictions introduced during the crisis and the significant development of the application of online tools. Furthermore, an overview is provided on the changes within the regulatory framework for the ML/TF prevention and enforcement system, as well as on the results of international assessments of the Latvia's ML/TF prevention and enforcement system.

2.1. Economic and Geopolitical Characteristics

- 2.1.1. The Republic of Latvia is a country located in north-eastern Europe, between Lithuania and Estonia. Latvia shares a maritime border of almost 500 km along the Baltic Sea and 1,370 km of land borders with Estonia, Russia, Belarus and Lithuania. This geographical position characterises Latvia as crossroads for transport and trade between the EU and the CIS. Latvia's status as a transit country is also provided by the location of the commercial ports of Ventspils, Liepaja and Riga, as well as the Riga Airport.
- 2.1.2. Latvia has been a member of the World Trade Organisation (WTO) since 1991 and a member of the EU and NATO since 2004. On 1 January 2014, Latvia joined the eurozone and adopted *euro*. Latvia has been a member of the OECD since 1 July 2016.
- 2.1.3. The aforementioned geographical location, participation in international organisations, the speed of the internet and accessibility, as well as foreign language knowledge and the high level of education²⁹ of Latvian residents promote favourable conditions for foreign entrepreneurs to establish business in Latvia and to invest in Latvian banks. However, Russia's invasion of Ukraine in 2022 has created new risks and challenges due to Latvia's geographically close location.
- 2.1.4. Two major external developments have had a negative impact on the economic and geopolitical situation during the reporting period. First: The Covid-19 epidemic crisis in 2021 and 2022, which significantly slowed Latvia's economic development in the early years of the reporting period and disrupted the supply chain of medical supplies, food, and various raw materials in the EU and beyond.³⁰ Supply chains were temporarily interrupted on the basis of the EU's basic principles when EU Member States unilaterally restricted free movement rights or solidarity.³¹

²⁹ EC, *Education and Training Report (2022)*. Available at: <https://op.europa.eu/webpub/eac/education-and-training-monitor-2022/lv/country-reports/latvia.html>.

³⁰ World Health Organization, *Health systems resilience during Covid-19*. Page 35. Available at: <https://apps.who.int/iris/handle/10665/348493>.

³¹ Ibid.

The Covid-19 epidemic also had a negative impact on the economy, with various restrictions on activity and movement, reducing consumption, investment and trade.³²

- 2.1.5. The second factor that had a negative impact on Latvia during the reporting period is the Russia's war in Ukraine in 2022. The attack significantly disrupted the energy market, with negative impact on the Latvia's economy. Since the NRA 2020 reporting period, Latvia has received more than 16% of its total electricity imports from third countries - mainly Russia.³³ Following the Russia's war in Ukraine, energy prices in Latvia rose significantly, with retail prices of natural gas more than tripling.³⁴ Alongside the energy sector turmoil, economic uncertainty also intensified - changes in the flows of money, goods and services based on a reduced ability to predict market developments.³⁵
- 2.1.6. Macroeconomic indicators over the reporting period show a volatile economy, with very sharp falls and rises. GDP decreased by 2.2% in 2020 due to the Covid-19 epidemiological crisis.³⁶ Whereas, in 2021, GDP grew by 4.1%, following an improvement in the epidemiological situation and strong government and EU support for the economy. With the Russia's war in Ukraine in early 2022, GDP growth in Latvia slowed to 2% in 2022 due to higher energy and other raw material prices.³⁷
- 2.1.7. Although the volatility during the reporting period applies to the broader global economy, Latvia's geographical location and trade relations with Russia and Belarus created additional strains in the national economy of Latvia. Inflation during the reporting period has been 0.2% in 2020, 2.6% in 2021 and reached already 17.4% in 2022. Rise in inflation in the last year of the reporting period is the fastest since 2008 and almost the highest among the EU member states. Russia's invasion of Ukraine significantly increased the costs of energy, food, and various raw materials, affecting the economy of Latvia more than in other countries.³⁸ The high inflation rate in 2022 is also one of the main reasons for the significant statistical deviations described in this NRA for the reporting period.
- 2.1.8. The geopolitical situation has also affected the economy indirectly, reducing the confidence of international markets in the economy of Latvia. In 2020, investments grew by only 2.6% because of the Covid-19 epidemic, and, in 2021 - by 2.9% of GDP. In 2022, however, number of investments fell to 1.6% of GDP due to uncertainty about Russia's invasion of Ukraine and its economic and regional security consequences. The slow GDP growth was also caused by low foreign direct investment, which was 3% of GDP in 2020, rising to 8.4% of GDP in 2021, before falling to 3.5% of GDP in the first half of 2022.³⁹ The volatile foreign confidence in the economy of Latvia is also reflected in the sharp fall in the yield on Latvian government 10-year bonds after the Russian attack on Ukraine and the sharp rise a few months later.⁴⁰
- 2.1.9. Both imports and exports were volatile during the reporting period. The main foreign trade cooperation countries to which Latvia has exported during the reporting period were Lithuania, Estonia, Germany, and Russia. The main importing countries in Latvia are Lithuania, Germany, Poland, Estonia and Russia.⁴¹
- 2.1.10. Trade cooperation with Russia and Belarus has been negatively affected by the Russia's war in Ukraine and the EU sanctions regime. The wholesale sector decreased by 23% in Q3 2022 compared to Q3 of the previous year.⁴² In 2022, imports of goods from the CIS countries decreased only by 2.6% in the first ten months of the year.⁴³ In 2020, imports exceeded

³² MoE, *Report on Economic Development of Latvia 2021*. Page 11. Available at: <https://www.em.gov.lv/lv/media/12820/download?attachment> and MoE, *Report on Economic Development of Latvia 2022*. Available at: <https://www.em.gov.lv/lv/media/12820/download?attachment>.

³³ Latvia's National Energy and Climate Plan 2021-2030. Page 30. Available at: <https://www.em.gov.lv/lv/nacionalais-energetikas-un-klimata-plans>.

³⁴ PUC explains global natural gas prices and their impact on Latvian natural gas users. Available at: <https://www.sprk.gov.lv/events/sprk-skaidro-dabasgazes-cenas-pasaule-un-ietekmi-uz-latvijas-dabasgazes-lietotajiem-0>.

³⁵ Ezgi Ozturk, Xuguang Sheng. *Measuring global and national uncertainty*. IMF working paper. Pages 3-6. Available at: <https://www.imf.org/en/Publications/WP/Issues/2017/10/30/Measuring-Global-and-Country-Specific-Uncertainty-45168>.

³⁶ *Report on Economic Development of Latvia*. Page 10. Available at: <https://www.em.gov.lv/lv/latvijas-ekonomikas-attistibas-parskats>.

³⁷ Bank of Latvia. *Macroeconomic developments report*. Available at: <https://www.makroekonomika.lv/kategorija/makro-norisu-parskats>.

³⁸ Mārtiņš Kazāks. *Elevated inflation in Latvia: what to do and what not to do now?* Available at: <https://www.bank.lv/aktualitates-banklv/publikacijas/zinas-un-raksti/raksti/13034-augsta-inflacija-latvija-ko-sobrid-darit-un-ko-nedarit>.

³⁹ Ibid.

⁴⁰ Macroeconomics. *Macroeconomic Developments Report*. March 2023. Page 26. Available at: <https://www.makroekonomika.lv/makroekonomisko-norisu-parskats-2023-gada-marts>.

⁴¹ CSB data. Available at: <https://www.csb.gov.lv/lv/statistika/db>.

⁴² *Report on Economic Development of Latvia*. Page 11. Available at: <https://www.em.gov.lv/lv/latvijas-ekonomikas-attistibas-parskats>.

⁴³ Ibid, page 33.

exports, resulting in a negative export-import balance. In 2021 and 2022, this trend continued at a similar level.⁴⁴

- 2.1.11. In the NRA 2020 reporting period, Latvia's main export goods were electrical equipment, machinery and mechanical equipment, sawn timber, wheat and a mixture of wheat and rye. Whereas, in the NRA 2020 reporting period, the import goods were: electrical devices and electrical equipment, mechanisms and mechanical equipment, diesel fuel, passenger cars and pharmaceuticals. It can be concluded that the main Latvian export and import goods are also similar to current reporting period. They include wood and wood products, electrical equipment, mineral products, pharmaceuticals and cereal products. The main import goods during the reporting period were: mineral products, electrical devices and electrical equipment, mechanisms and mechanical equipment, passenger cars and pharmaceuticals.⁴⁵
- 2.1.12. The unemployment rate has declined over the reporting period from 8.1% in 2020 to 7.5% in 2021 and 7.0% in 2022, indicating slow but steady growth in market demand.⁴⁶
- 2.1.13. A significant change in the risk exposure profile is also associated with successful completion of the so-called "financial sector overhaul" in 2020.⁴⁷ The NRA 2020 objectives were achieved during the reporting period through significant reforms in financial sector supervision, which significantly enhanced the capacity to prevent the national economy of Latvia from being used for ML/TF. The main objectives of the reforms were divided into 11 action lines.⁴⁸ The success of the reform is also reflected by the fact that, in 2020, Latvia became the first Moneyval member state to successfully implement all of the FATF 40 recommendations.⁴⁹
- 2.1.14. Alongside the financial sector reforms, the level of risk in the financial sector was significantly reduced.⁵⁰ Non-resident deposits decreased from 53% in 2015 to 17% in 2021.⁵¹ The reporting period also saw significant further de-risking of exposures to Russia and Belarus and the resulting financial flows to Latvia. Funding (mainly deposits) from Russia and Belarus accounted for only 1.6% of credit institutions' total assets in March 2022, compared to 3.7% in 2015.⁵² Investment of the credit institutions of Latvia in Russian and Belarusian subsidiaries has also been sharply reduced, amounting to less than 0.1% of the credit institutions' assets in 2022.⁵³ These changes have improved the independence of the national economy and financial sector of Latvia from Russia and Belarus.⁵⁴ Due to the low direct financial link, no significant direct impact of the war on the financial sector of Latvia was observed, and the sector continued to be profitable during the reporting period.⁵⁵
- 2.1.15. Changes in Latvia's financial sector weighting, together with enhanced AML/CTPF surveillance, have significantly strengthened Latvia's position as a stable, safe and transparent partner country. As of the beginning of the reporting period, Latvia is no longer considered a regional financial centre, and the ML/TF risks previously associated with this status have been significantly reduced for other countries.⁵⁶ Since 2019, total international cash flows of Latvia have decreased by approximately 20%, and the existing ML/TF risks are more related to domestic challenges than Latvia's status as a transit country for cash flows.⁵⁷ Financial sector reforms have also led to increased preparedness for the sanctions enforcement, and Latvia is taking an active role in the development and implementation of international sanctions

⁴⁴ Report on Economic Development of Latvia. Available at: <https://www.em.gov.lv/lv/latvijas-ekonomikas-attistibas-parskats>.

⁴⁵ Imports from 2005 to 2020. Available at: <https://eksports.csb.gov.lv/lv/years/products/import/2019>.

⁴⁶ Imports from 2005 to 2020. Available at: <https://eksports.csb.gov.lv/lv/years/products/import/2019>.

⁴⁷ CoM, Karins: The "overhaul" of financial sector supervision has been a success - we have restored the country's reputation and built a strong Financial Crime Prevention System. Available at: [mk.gov.lv/lv/jaunums/karins-finansu-sektora-uzraudzibas-kapitalais-remonts-ir-izdevies-esam-atjaunojusi-valsts-reputaciju-un-izveidojusi-stipru-finansu-noziegumu-noversanas-sistemu](https://www.mk.gov.lv/lv/jaunums/karins-finansu-sektora-uzraudzibas-kapitalais-remonts-ir-izdevies-esam-atjaunojusi-valsts-reputaciju-un-izveidojusi-stipru-finansu-noziegumu-noversanas-sistemu).

⁴⁸ They are: assessment of money laundering and terrorism financing risks, policy and coordination; international cooperation; supervision; preventive measures; legal entities and arrangements; financial intelligence; investigation and prosecution; confiscation; investigation of terrorism financing and prosecution; preventive measures and financial sanctions against terrorism financing; combating of proliferation of financial sanctions. See: LV portāls, *Improving the effectiveness of the system for prevention of money laundering and terrorism financing. Summary of results*. Available at: https://lvportals.lv/wwwraksti/TEMAS/2019/APRILIS/BILDES/INFO_IO_LV.PDF.

⁴⁹ Moneyval report. 22.02.2020 Available at: <https://www.coe.int/en/web/moneyval/-/moneyval-publishes-follow-up-report-on-latvia>.

⁵⁰ Ibid, page 6.

⁵¹ EC, Report on Economic Development of Latvia 2021. Available at: <https://www.em.gov.lv/lv/media/12820/download>.

⁵² Bank of Latvia, Financial Stability Report 2022. Page 14. Available at: https://datnes.latvijasbanka.lv/fsp/FSP_2022_lv.pdf.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ EC, Report on Economic Development of Latvia 2022. Page 12. Available at: <https://www.em.gov.lv/lv/media/12820/download?attachment>.

⁵⁶ Agnese Margēviča. Diena, Latvia is no longer a financial centre. 2022 Available at: <https://www.diena.lv/raksts/latvija/zinas/latvija-vairs-nav-finansu-centrs-14289321>.

⁵⁷ The FIU data.

enforcement policy.⁵⁸ Latvia has moved from being an implementer of best practices to a developer of new best practices in the area of ML/TF.

- 2.1.16. The geopolitical situation may continue to affect the economy also after the reporting period. Latvia has taken various measures to develop energy independence, support the national economy and eliminate uncertainty.⁵⁹ Economic growth may continue to slow down in light of higher energy and other raw material prices, increased supply disruptions, rising inflation and other developments during the reporting period.⁶⁰ Furthermore, the macroeconomic risk sentiment and confidence indicators may be affected by developments in the Russia's war in Ukraine.⁶¹

2.2. Impact of Covid-19 on the Reporting Period

- 2.2.1. The Covid-19 pandemic in Latvia had significant consequences for health, social and economic processes and indicators.⁶² With the purpose to limit the spread of the Covid-19 epidemiologic pandemic, in March 2020, the Latvian government declared a state of emergency.⁶³ A number of restrictions and bans on movement, trade and other activities were introduced.⁶⁴ International passenger services at airports, ports, bus and train stations were cancelled as of March 2020.⁶⁵ Carriage of persons and traffic across the EU's external borders were banned, except for freight.⁶⁶ Quarantine measures were also introduced, requiring state, municipal and private sector organisations and institutions to provide remote working facilities.⁶⁷ Safety measures were introduced, including a maximum number of people allowed for assembly and compulsory use of face masks.⁶⁸
- 2.2.2. Because of closures of many businesses, trade and travel restrictions, the year of 2020 saw a significant economic downturn.⁶⁹ GDP in current prices fell by 1.3%⁷⁰, and the number of employed people fell by 1.9% in 2020 compared to 2019, which was the highest decrease in employment since 2010.⁷¹ In 2021, due to the reduction the spread of Covid-19 and other improvements in epidemiological safety measures, the global and Latvian economies experienced rapid growth, with an 11.1% increase in GDP in current prices and a 0.5% increase in employment.⁷²
- 2.2.3. To prevent and address the economic disruptions caused by the Covid-19 epidemic crisis, the government of Latvia implemented various support measures, including investment, solvency and social measures.⁷³ In 2020 and 2021, up to EUR 1.4 billion was earmarked for a total of 24 support programmes, and EUR 1 billion was actually awarded in the form of grants, scholarships, loans, equity investment and guarantees.⁷⁴ These measures included public

⁵⁸ MoFA, *Annual report by the Minister for Foreign Affairs on the performed actions and intended activities in the country's foreign policy and EU activities in 2022*. Available at: <https://www.mfa.gov.lv/leiropas-savienibas-sankcijas-pret-krievijas-federaciju>.

⁵⁹ MoE, *Report on Economic Development of Latvia 2022*. Available at: <https://www.em.gov.lv/lv/media/12820/download?attachment>.

⁶⁰ MoE, *Report on Economic Development of Latvia 2022*. Available at: <https://www.em.gov.lv/lv/media/12820/download?attachment>.

⁶¹ *Macroeconomics. Macroeconomic Developments Report*. March 2023. Page 26. Available at: <https://www.makroekonomika.lv/makroekonomisko-norisu-parskats-2023-gada-marts>.

⁶² At the highest level of Covid-19 epidemiological crisis infections in 2021, mortality rate from Covid-19 was 4,351 per 100,000 population. See CDPC (Centre for Disease Prevention and Control), *Mortality from Covid-19 by months*. Available at: <https://www.spkc.gov.lv/lv/media/17732/download?attachment>

⁶³ Cabinet Order No. 103 *On Declaration of the Emergency Situation*. Available at: <https://www.vestnesis.lv/op/2020/51A.1>.

⁶⁴ Ibid.

⁶⁵ *Additional restrictions and bans are in place to reduce the spread of Covid-19*. Available at: <https://lvportals.lv/skaidrojumi/314151-noteikti-papildu-ierobejojumi-un-ajzliegumi-covid-19-izplatibas-samazinasanai-2020>

⁶⁶ Ibid.

⁶⁷ Ibid.

⁶⁸ Regulation of the Cabinet of Ministers No. 360 *Epidemiological Safety Measures for the Containment of the Spread of COVID-19 Infection*. Available at: <https://likumi.lv/ta/id/315304-epidemiologiskas-drosibas-pasakumi-covid-19-infekcijas-izplatibas-ierobezosanai>.

⁶⁹ MoE, *Monthly Survey of the Economics and General Government Budget*. Available at: <https://www.fm.gov.lv/lv/ikmenesa-makroekonomikas-un-kopbudzeta-apskats>.

⁷⁰ Ibid.

⁷¹ MoE, *The negative impact of the Covid-19 pandemic on the labour market in 2020 has been mitigated by state support measures*. Available at: <https://www.em.gov.lv/lv/jaunums/covid-19-pandemijas-negativo-ietekmi-uz-situaciju-darba-tirgu-2020-gada-ir-mazinajusi-valsts-atbalsta-pasakumi>.

⁷² MoE, *Monthly Survey of the Economics and General Government Budget*. Available at: <https://www.fm.gov.lv/lv/ikmenesa-makroekonomikas-un-kopbudzeta-apskats> and Fiscal Discipline Council, *Monitoring Report No 6*. Available at: <https://www.fdp.gov.lv/lv/media/1217/download++>.

⁷³ The government of Latvia identified the sectors most affected by the crisis, where the employer's financial situation may have deteriorated significantly due to the spread of Covid, and which may have experienced crisis conditions due to the spread of Covid. See *Provisions on sectors whose financial situation has deteriorated significantly due to the spread of Covid-19*. Available at: <https://likumi.lv/ta/id/313428-noteikumi-par-nozarem-kuram-sakara-arcovid-19-izplatibu-ir-butiski-pasliktinajusies-finansu-situacija> un <https://www.fm.gov.lv/lv/komercedarbibas-atbalsts> and <https://www.lrvk.gov.lv/uploads/files/Dokumenti/Revizijas/Kopsavilkuma%20materija%20C4%81s%20par%20Covid.pdf>, see also the *Law On Measures for the Prevention and Suppression of Threat to the State and Its Consequences Due to the Spread of COVID-19*. Available at: <https://likumi.lv/ta/id/313373-par-valsts-apdraudejuma-un-ta-sekunoversanas-un-parvaresanas-pasakumiem-sakara-ar-covid-19-izplatibu>.

⁷⁴ Cabinet Order No. 103 *On Declaration of the Emergency Situation*. Available at: <https://likumi.lv/ta/id/313191-par-arkartejas-situacijas-izsludinasanu>.

subsidies for employees remaining idle, unemployment benefits and other social benefits.⁷⁵ A total of 36,928 different beneficiaries were granted aid.⁷⁶ The government also decided to reduce the regulatory requirements for public procurement by allowing certain entities - state capital companies, in-patient medical institutions and other services and institutions - to waive the requirements of the Public Procurement Law when purchasing goods and services necessary to contain Covid-19.⁷⁷

- 2.2.4. Along with the restrictions on movement, the restructured use of public resources and the general economic downturn, the financial and social behaviour of society changed. Governments, legal entities and individuals started to increasingly use online systems and solutions for remote work and social interaction.⁷⁸ Activities and customer on-site service for businesses offering goods and services that can be classified as non-essential were limited, which led to a significant increase in the figures for goods and services sold online.⁷⁹ In 2020, the share of e-commerce - businesses selling goods or services over the internet or other computer networks - grew by 1.6%, and by 0.9% in 2021.⁸⁰ Banks and financial institutions also continued to provide services, limiting the types of services and services provided in person.
- 2.2.5. The Covid-19 pandemic, especially in 2020, triggered a significant demand for medical supplies. The rapid increase in demand for medical goods such as personal protective equipment or medicines led to shortages. Trade in counterfeit medical and related products (e.g. disinfectants) and large-scale fraud also increased.⁸¹ Increased unemployment also affected the financial and social behaviour of society resulting in higher number of crimes against property.⁸²

Impact of Covid-19 on the Prevention of ML/TF

- 2.2.6. The Covid-19 pandemic also had an impact on predictive offence trends. Restrictions on movement and trade have made it necessary for criminals to find new ways of committing crimes, by re-specialising or developing existing methods.⁸³ While the number of offences against property in general decreased during the reporting period - mainly due to restrictions on movement - some types of criminal offences increased, as did the number of criminal offences against the national economy (Chart 2.2.1).⁸⁴

⁷⁵ Emergency allowances and other support in the first half of 2021: Available at: <https://lvportals.lv/skaidrojumi/324698-arkartejas-situacijas-pabalsti-un-cits-atbalsts-2021-gada-pirmaja-puse-2021> and MoE, *Support for businesses and residents continues during the period of Covid-19 security measures continues*. Available at: <https://www.fm.gov.lv/atbalsts-uznemejiem-un-iedzivotajiem-covid-19-drosibas-pasakumu-laika-turpinas>.

⁷⁶ SAO of the Republic of Latvia, *Situation study on support programmes for business and employees to overcome the Covid-19 pandemic*. Available at: <https://www.lrvk.gov.lv/lv/getrevisionfile/29678-c9S2-4qsoWoFIRkHDLAW2XUQnGKtkyFD.pdf>.

⁷⁷ Cabinet Order No. 103 *On Declaration of the Emergency Situation*. Available at: <https://likumi.lv/ta/id/313191-par-arkartejas-situacijas-izsludinasanu>.

⁷⁸ FIU, *Money laundering and terrorism financing risks posed by Covid-19*. Available at: https://www.fid.gov.lv/uploads/files/Dokumenti/FID_Covid-19%20rad%C4%ABtie%20NILL%20un%20TF%20riski_.pdf.

⁷⁹ Ibid.

⁸⁰ Official statistics portal, *68% of Latvian companies have their own website*. Available at: <https://stat.gov.lv/lv/statistikas-temas/informacijas-tehn/interneta-lietosana/preses-relizes/7123-informacijas-un?themeCode=EK> and Official Statistics Portal, *Remote access to ICT systems 77.6*. Available at: <https://stat.gov.lv/lv/statistikas-temas/informacijas-tehn/interneta-lietosana/preses-relizes/7123-informacijas-un?themeCode=EK>.

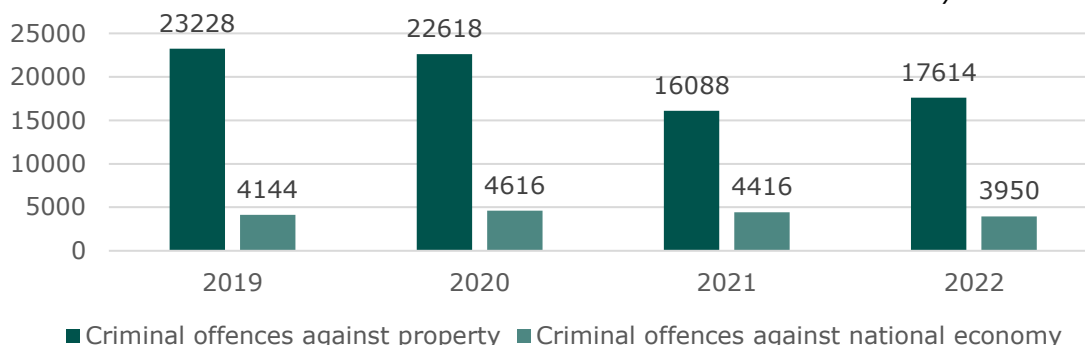
⁸¹ Secretariat of the Crisis Management Board, *Information report on the follow-up Measures Introduced in the Emergency Situation*. Available at: <https://www.mk.gov.lv/lv/media/5623/download>.

⁸² The FIU, *Money laundering and terrorism financing risks posed by Covid-19*. Available at: https://www.fid.gov.lv/uploads/files/Dokumenti/FID_Covid-19%20rad%C4%ABtie%20NILL%20un%20TF%20riski_.pdf.

⁸³ The FIU, *Money laundering and terrorism financing risks posed by Covid-19*. Page 5. Available at: https://www.fid.gov.lv/uploads/files/Dokumenti/FID_Covid-19%20rad%C4%ABtie%20NILL%20un%20TF%20riski_.pdf.

⁸⁴ LEAs' *Criminal Intelligence Analytical Report 2019, 2020 and 2021*.

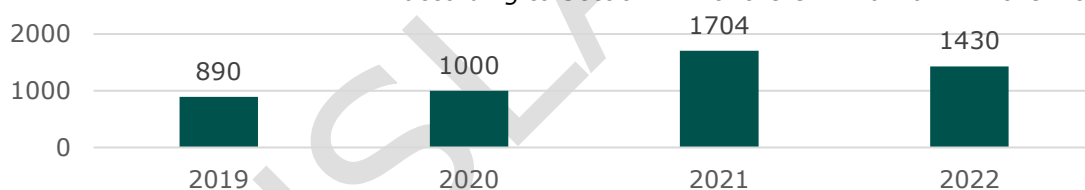
Chart 2.2.1 - Number of criminal offences against property and national economy in 2019-2022



2.2.7. One of the fastest growing types of criminal offences during the period of Covid-19 was online or telephone fraud (Chart 2.2.2).⁸⁵ The most common fraudulent activities were impersonations of civil servants and representatives of various institutions or companies. In these cases, criminals contacted individuals by email or phone in an attempt to obtain their bank details or cash, using the support mechanisms by the government as justification.

2.2.8. Number of counterfeiting or payment scams also increased, including in relation to essential articles. Online fraud related to certain medical products, personal protective equipment and pharmaceuticals increased in 2020 and 2021 due to strong demand and movement restrictions. In these cases, the alleged criminals claim to be companies, charities and international organisations that offer medical goods, requesting prepayment, but fail to deliver the goods sold or deliver the goods of substandard quality.⁸⁶

Chart 2.2.2 - Number of fraud offences according to Section 177 of the Criminal Law in 2019-2022.



2.2.9. Number of cases related to fundraising for bogus charities also increased. In such cases, criminals acting as representatives of an international organisation or charity distribute e-mails and messages on various social networks asking for donations to deal with the Covid-19 aftermath. Recipients of these emails were subsequently requested to provide their payment card details or to make a payment using the suspect's funds.

2.2.10. The LEAs observed an overall decrease in crime in 2020, especially in relation to the import of illegal excise duties or other illegal substances into Latvia. These reductions are linked to the Covid-19 related international movement restrictions in 2020 and 2021 (Chart 2.2.3). Criminals quickly adapted to the pandemic's conditions and restrictions. Criminals specialising in the international import of illegal goods looked for ways to circumvent the restrictions. For example, while imports of illegal excise goods decreased, the production of illegal alcoholic beverages increased using alcohol that was legally imported into Latvia and declared as disinfectant.⁸⁷ Criminals also re-specialised, for example the illicit inland production and trafficking of narcotics and psychotropic substances increased in 2020 and 2021.⁸⁸

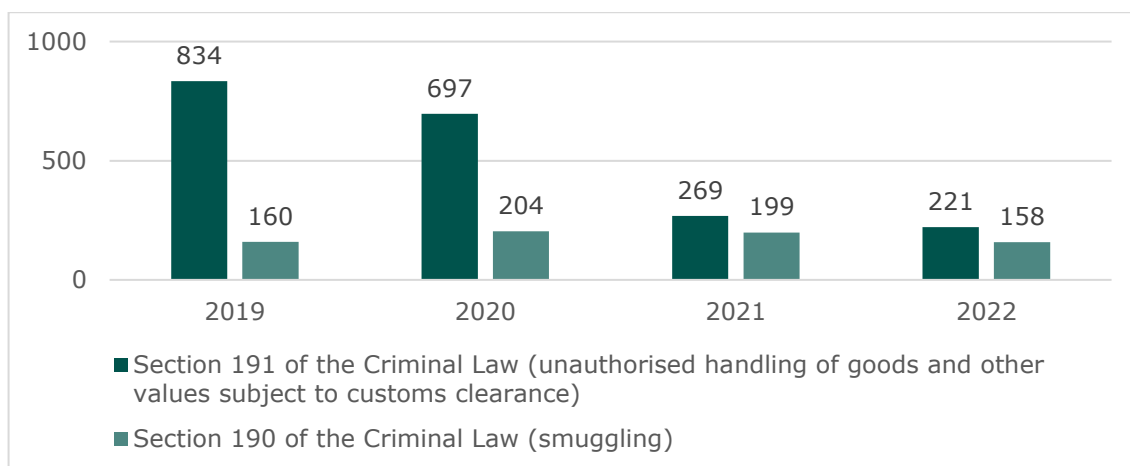
⁸⁵ Telephone fraud was carried out using the following methods: phishing - fraudulent emails are sent on behalf of the bank, inviting users to open a link provided in the email. Having clicked on the link, the recipient is redirected to a copy of the merchant's online banking website, which allegedly offers to authenticate in the internet bank. The main goal of fraudsters is to obtain internet users' names, passwords, credit card numbers, PIN codes, etc.; "fake brokers" - people receive calls from Russian-speaking people claiming to be brokers offering to earn money by investing in dubious websites (including for the purposes of purchase of cryptocurrency) or claiming to be representatives of a helpdesk offering to recover lost or transferred earned money to a bank account. Individuals are asked to install remote access software (AnyDesk, TeamViewer), which allows them to access the computer, and, consequently, the victim is defrauded of money from the bank account or a credit is taken on the victim's behalf.

⁸⁶The FIU, *Money laundering and terrorism financing risks posed by Covid-19*. Page 5. Available at: https://www.fid.gov.lv/uploads/files/Dokumenti/FID_Covid-19%20rad%C4%ABtie%20NIL%20un%20TF%20riski_.pdf

⁸⁷ The FIU data.

⁸⁸ Ibid.

Chart 2.2.3 - Number of recorded criminal offences related to smuggling and unauthorized handling of goods subject to duty.



- 2.2.11. Increased online fraud, cybercrime and other online crimes against property also increased the risk of the financial system being used for ML. In 2020 and 2021, criminals were more active in finding new ways to bypass customer due diligence measures to hide proceeds of crime generated online, which were increasingly gained in non-cash form due to movement restrictions.⁸⁹ Crypto-assets and the unregulated financial sector were used more actively. This could move money outside the regulated and transparent banking system, which in turn would create additional opportunities for criminals to carry out ML.⁹⁰
- 2.2.12. Risks of fraud and embezzlement of funds from state aid measures increased.⁹¹ The support measures created opportunities for criminals to fraudulently claim for money from the government as individuals, companies or organised crime groups. Wide variety of support programmes for the use of funds, including business loans, grants and unemployment benefits, created a range of ways in which criminals could defraud funds. Such risks were increased because procurement procedures under public procurement laws may have been ignored in relation to certain goods and services during the emergency⁹² or, due to the temporary lack of capacity, ensuing sufficient controls of the support activities was not possible.⁹³
- 2.2.13. Covid-19 also affected temporary increase in the risk of several other predicate offences between 2020 and 2021.⁹⁴ Corruption risks mainly increased together with the risks of waste of public procurements, which grew especially during the initial phase of Covid-19, when, during the emergency, certain public entities were allowed to purchase certain goods without applying the requirements of the Law on Public Procurement and the Law on Procurement of Public Service Providers. The risk of human trafficking and exploitation also increased, as criminals abused vulnerable groups who felt the aftermath of the Covid-19 pandemic more acutely.⁹⁵
- 2.2.14. During the Covid-19 period, various public institutions published several public materials and introduced various information campaigns to raise public awareness of the growing risks of crime and to take measures to mitigate the risks. The FIU, for example, published proposals to improve effectiveness of the ICS for reporting entities.⁹⁶ The document also provided guidance on the use of keywords and phasilogics that the subjects could introduce to enhance

⁸⁹The FIU, *Money laundering and terrorism financing risks posed by Covid-19*. Page 5. Available at: https://www.fid.gov.lv/uploads/files/Dokumenti/FID_Covid-19%20rad%C4%ABtie%20NILL%20un%20TF%20riski_.pdf.

⁹⁰Ibid.

⁹¹LEAs' *Criminal Intelligence Analytical Report for 2020 and 2021*.

⁹²Cabinet Order No. 103 of 12 March 2020 *On Declaration of the Emergency Situation* has expired. Available at: <https://likumi.lv/ta/id/313191-par-arkartejas-situacijas-izsludinasanu>.

⁹³The FIU, *Money laundering and terrorism financing risks posed by Covid-19*. Page 9. Available at: https://www.fid.gov.lv/uploads/files/Dokumenti/FID_Covid-19%20rad%C4%ABtie%20NILL%20un%20TF%20riski_.pdf.

⁹⁴The FIU data.

⁹⁵The FIU, *Money laundering and terrorism financing risks posed by Covid-19*. Page 8. Available at: https://www.fid.gov.lv/uploads/files/Dokumenti/FID_Covid-19%20rad%C4%ABtie%20NILL%20un%20TF%20riski_.pdf.

⁹⁶Ibid.

the supervision transactions in relation to Covid-19.⁹⁷ To further develop the understanding of the impact of Covid-19 on the effectiveness of the supervision of the reporting entities, a report on the impact of Covid-19 on reporting rates, cross-sectional reporting trends by reporting entity sectors and different types of reports was also published.⁹⁸ In order to ensure strong cooperation with subjects, supervisory and control authorities, law enforcement authorities, public prosecutor's offices and other cooperation partners during the Covid-19 period, the FIU mainly implemented online training and developed online training materials.⁹⁹

2.3. Changes to the Regulatory Framework of the ML/TF prevention and enforcement system

- 2.3.1. During the reporting period, work continued to improve the Latvian regulatory framework in the area of ML/TF, aimed at ensuring the effectiveness of the ML/TF prevention and enforcement system. To ensure the effectiveness of the ML/TF prevention and enforcement system, new laws and regulations were adopted or current ones were amended, including laws and Cabinet Regulations; as well as recommendations, explanations and guidelines were developed.
- 2.3.2. During the reporting period, the AML/CTPF Law was amended 3 times (on 15.06.2021, 23.09.2021, 13.10.2022), and several amendments entered into effect during the reporting period:
- 2.3.2.1. On 01.01.2020, amendments entered into effect which further defined administrators of insolvency proceedings as reporting entities.¹⁰⁰
- 2.3.2.2. On 01.07.2020 amendments to the AML/CTPF Law entered into effect, which require the reporting entities and the supervisory and control authorities to immediately inform the RoE in cases when the information on UBO obtained during the customer's due diligence does not correspond to the information recorded in the registers kept by the RoE.
- 2.3.2.3. On 15.06.2021, the Parliament of the Republic of Latvia adopted extensive amendments aimed at enhancing the efficiency of the ML/TF prevention and enforcement system, which, inter alia, provided for that, as of 1 October 2021, suspicious transaction or activity reports and threshold declarations are to be submitted in the new goAML system and the parallel reporting system for both the FIU and the SRS is abolished. In addition, the amendments:
- 2.3.2.3.1. extend the range of authorities to which the FIU is entitled to send information at its disposal for the purpose of carrying out the tasks set out in the regulatory enactments;
- 2.3.2.3.2. facilitate the procedure for issuing the FIU orders for the supervision of transactions (the requirement for the approval of the Prosecutor General or his specially authorised public prosecutor has been excluded);
- 2.3.2.3.3. define the role of the FIU as the responsible authority for the development of the National Risk Assessment Report and sets out the conditions for the collection and publication of the statistical data needed for the report;
- 2.3.2.3.4. introduce changes to the procedure for challenging the FIU freezing orders: from 1 October 2021, the FIU orders are reviewed by an investigating judge instead of a specially authorised public prosecutor;
- 2.3.2.3.5. determine the intermediaries of the RE transactions as reporting entities;
- 2.3.2.3.6. set out the conditions for the creation of a common customer due diligence tool from 1 January 2022 to facilitate the sharing of customer due diligence data;
- 2.3.2.3.7. complements the definition of terrorism financing contained in Section 5(3) of the AML/CTPF Law. The amendments define terrorism financing as the direct or indirect collection or transfer of funds or other property, obtained in any form, with the intention or knowledge that it will be used, in whole or in part, to carry out, inter alia, the activities referred to in Article 2 of the International Convention

⁹⁷ The keywords were both in English (e.g. *medical, mask, equipment, pill*, etc.) and in Latvian (e.g. *medicīnisk, maska, aprīkojums, tablete*, etc.). See the FIU, *Money laundering and terrorism financing risks posed by Covid-19*. Available at: https://www.fid.gov.lv/uploads/files/Dokumenti/FID_Covid-19%20rad%C4%ABtie%20NILL%20un%20TF%20riski_.pdf.

⁹⁸ *The FIU Annual Report 2021*, p. 25. Available at: <https://fid.gov.lv/uploads/files/2022/Gada%20p%C4%81rskats%202021/FID%20Gada%20p%C4%81rskats%202021.pdf>.

⁹⁹ *Ibid*, page 27.

¹⁰⁰ Section 3, Paragraph One, Clause 14 of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Ziņotājs*, 16, 28.08.2008. Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-likums>.

- for the Suppression of Acts of Nuclear Terrorism of 13 April 2005. The amendments ensure compliance with the requirements of Directive (EU) 2017/541 of the European Parliament and of the Council of 15 March 2017 on combating terrorism and replacing Council Framework Decision 2002/475/JHA and amending Council Decision 2005/671/JHA, as well as fulfils the recommendation of the UN Counter-Terrorism Committee in its September 2020 evaluation report on the implementation of Latvia's counter-terrorism measures.
- 2.3.2.4. The amendments, which entered into effect on 01.11.2021, ensured that, as a result of the merger of the FCMC with the Bank of Latvia, from 1 January 2023, the Bank of Latvia would continue to perform the tasks set out for the FCMC in the AML/CTPF Law and its subordinate laws.
- 2.3.2.5. The amendments, which entered into effect on 08.11.2022, determined the competence of the MoF in the area of coordination of cooperation between the supervisory and control bodies by convening meetings of the cooperation platform.
- 2.3.3. Based on the AML/CTPF Law or amendments thereto, the following documents have been issued during the reporting period:
- 2.3.3.1. FCMC Regulation No. 125 of 11.08.2020 "Regulatory Provisions on Provision of Human Resources and Staff Training for Money Laundering, Terrorism and Proliferation Financing Risk Management";
- 2.3.3.2. FCMC Regulation No. 148 of 01.09.2020 "Regulatory Provisions on Independent Assessment of the Internal Control System for Prevention of Money Laundering, Terrorism and Proliferation Financing"¹⁰¹;
- 2.3.3.3. FCMC Regulation No. 183 of 29.09.2020 "Regulatory Provisions for the Preparation of the Report on Payments Made by Customers of Credit Institutions through the Network of Correspondent Institutions";
- 2.3.3.4. FCMC Regulation No. 182 of 29.09.2020 "Regulatory Provisions for Research of Payment Service Providers and Transaction Monitoring"¹⁰²;
- 2.3.3.5. FCMC Regulation No. 241 of 22.12.2020 "Regulatory Provisions on the Procedure for a Person to Submit and for the Financial and Capital Market Commission to Consider a Report on Possible or Actual Violations of Regulatory Enactments Governing Financial and Capital Market";
- 2.3.3.6. FCMC Regulation No. 3 of 05.01.2021 "Regulatory Provisions on Establishment and Maintenance of Correspondent Relationships of Credit Institutions"¹⁰³;
- 2.3.3.7. FCMC Regulation No. 4 of 05.01.2021 "Regulatory Provisions on Cooperation with Third Parties and Requirements for Business Relations with Customers for Identification or Research of which Third Party Services are Used"¹⁰⁴;
- 2.3.3.8. FCMC Regulation No. 5 of 12.01.2021 "Regulatory Provisions on the Establishment of a Customer Due Diligence, Enhanced Customer Due Diligence and Numerical Risk Assessment System and Information Technology Requirements";
- 2.3.3.9. FCMC Regulation No. 82 of 06.07.2021 "Regulatory Provisions on the Collection of Information on Customers of Credit Institution and Transactions Performed by Them and Provision of such Information to the Financial and Capital Market Commission"¹⁰⁵;
- 2.3.3.10. Regulation of the Cabinet of Ministers No. 550 of 17.08.2021 "Regulations Regarding Procedures of Submission and Content of Suspicious Transaction Reports and Threshold Declaration";
- 2.3.3.11. Regulation of the Cabinet of Ministers No. 396 of 05.07.2022 "Regulations Regarding the Requirements for Updating Information in the Shared Know-Your-Customer Utility and the Licensing and Supervision of the Shared Know-Your-Customer Utility Service Provider";
- 2.3.3.12. Regulation of the Bank of Latvia No. 222 of 03.10.2022 "On Recognition of Regulation of the Bank of Latvia No. 176 of 16 July 2019 "Requirements for

¹⁰¹ FCMC Regulation No. 148 of 01.09.2020 *Regulatory Provisions on Independent Assessment of the Internal Control System for Prevention of Money Laundering, Terrorism and Proliferation Financing* will expire on 01.01.2025.

¹⁰² FCMC Regulation No. 182 of 29.09.2020 *Regulatory Provisions for Research of Payment Service Providers and Transaction Monitoring* will expire on 01.01.2025.

¹⁰³ FCMC Regulation No. 3 of 05.01.2021 *Regulatory Provisions on Establishment and Maintenance of Correspondent Relationships of Credit Institutions* will expire on 01.01.2025.

¹⁰⁴ FCMC Regulation No. 4 of 05.01.2021 *Regulatory Provisions on Cooperation with Third Parties and Requirements for Business Relations with Customers for Identification or Research of which Third Party Services are Used* will expire on 01.01.2025.

¹⁰⁵ FCMC Regulation No. 82 of 06.07.2021 *Regulatory Provisions on the Collection of Information on Customers of Credit Institution and Transactions Performed by Them and Provision of such Information to the Financial and Capital Market Commission* will expire on 01.01.2025.

- Prevention of Money Laundering and Terrorism and Proliferation Financing and Sanctions Risk Management when Purchasing and Selling Foreign Currency Cash" as null and void";
- 2.3.3.13. FCMC Regulation No. 235 of 27.12.2022 "Regulatory Provisions on Money Laundering and Terrorism and Proliferation Financing Risk Management".
- 2.3.4. The Sanctions Law was amended once during the reporting period - on 30.09.2021, and the purpose of the amendments was to ensure that, as a result of the incorporation of the FCMC, the Bank of Latvia will further perform the tasks of the FCMC set out in the Sanctions Law and its subordinate laws and regulations. The aforementioned amendments entered into effect on 01.01.2023.
- 2.3.5. Based on the amendments to the Sanctions Law, the following documents were issued during the reporting period:
- 2.3.5.1. FCMC Regulation No. 126 of 11.08.2020 "Regulatory Provisions on Sanctions Risk Management";
- 2.3.5.2. FCMC Regulation No. 127 of 11.08.2020 "Regulatory Provisions on the Development of a Methodology for the Implementation of Requirements for the Prevention of Money Laundering and the Financing of Terrorism and Proliferation of Sanctions and the Management of Sanctions Risk";
- 2.3.5.3. FCMC Regulation No. 5 of 12.01.2021 "Regulatory Provisions on the Establishment of a Customer Due Diligence, Enhanced Customer Due Diligence and Numerical Risk Assessment System and Information Technology Requirements";
- 2.3.5.4. Regulation of the Bank of Latvia No. 222 of 03.10.2022 "On Recognition of Regulation of the Bank of Latvia No. 176 of 16 July 2019 "Requirements for Prevention of Money Laundering and Terrorism and Proliferation Financing and Sanctions Risk Management when Purchasing and Selling Foreign Currency Cash" as null and void".
- 2.3.6. The Credit Institution Law has been amended 12 times (17.06.2020¹⁰⁶, 17.06.2020¹⁰⁷, 09.07.2020, 21.01.2021, 29.04.2021, 27.05.2021, 10.06.2021, 23.09.2021, 30.09.2021, 28.04.2022, 13.10.2022), and, with regard to the area of ML/TF, the following amendments were introduced to the said Law:
- 2.3.6.1. The SRS, as the superintendent of the register of accounts, also has access to information on individual safe deposit boxes used by a customer of a credit institution, and the credit institution is obliged to provide this information to the SRS, as the superintendent of the register of accounts;
- 2.3.6.2. Common action guidelines were determined for the persons directing the proceedings, subjects of operational activities and credit institutions in cases where information is exchanged between these subjects. At the same time, amendments supplemented the Credit Institutions Law with a delegation to the Cabinet of Ministers to determine the procedure by which the person directing the proceedings and the subject of operational activities request and the credit institution provides information in the case of transaction monitoring and non-disclosable information which is at the disposal of the credit institution, time limit for providing such information and the request form¹⁰⁸.
- 2.3.7. The Criminal Law has been amended nine times (11.06.2020, 03.09.2020, 17.12.2020, 07.01.2021, 06.07.2021, 11.11.2021, 07.04.2022, 16.06.2022, 27.10.2022), and, in the area of AML/CTPF, the above-mentioned law has been amended to improve the criminal sanctions system, namely, by establishing probation supervision as a basic penalty and replacing forced labour with community service. The amendments, which entered into effect on 06.07.2020, set a lower threshold for the admissibility of suspended sentences, including for the criminal offence referred to in Section 195 of the Criminal Law. The amendments to the Criminal Law, which entered into effect on 04.05.2022, clarified that criminally acquired property is any economic benefit that has come into a person's ownership or possession, directly or indirectly,

¹⁰⁶ Amendments to the Credit Institution Law, *Latvijas Vēstnesis*, 123, 30.06.2020 OP number: 2020/123.5. Entered into effect on 01.07.2020

¹⁰⁷ Amendments to the Credit Institution Law, *Latvijas Vēstnesis*, 123, 30.06.2020 OP number: 2020/123.6. Entered into effect on 14.07.2020

¹⁰⁸ Regulation of the Cabinet of Ministers No. 393 of 22 June 2021 *Procedures for Requesting and Providing the Non-disclosable Information at the Disposal of a Credit Institution, also Information in Case of Transaction Monitoring*. Available at: <https://likumi.lv/ta/id/324225-kartiba-kada-pieprasa-un-sniedz-kreditiestades-riciba-esosas-neizpauzamas-zinas-ari-zinas-darijuma-parraudzibas-gadjuma>.

as a result of commission of a criminal offence. Additional amendments defined indirectly acquired criminal property.

- 2.3.8. The Criminal Procedure Law has been amended 9 times (11.06.2020, 19.11.2020, 17.12.2020, 07.01.2021, 04.03.2021, 07.10.2021, 16.06.2022, 06.10.2022), including amendments made in order to implement the proposals included in the SAO audit aimed at enhancement of the investigation and adjudication (amendments to Sections 146, 147, 333¹, 392, 392¹, 400 of the Criminal Procedure Law), which also significantly affect the efficiency of investigation and adjudication of ML/TF cases. In the area of AML/CTPF, the following amendments were made to the Criminal Procedure Law during the reporting period:
- 2.3.8.1. The amendments, which entered into effect on 06.07.2020, increased the effectiveness of the regulation of criminal procedure with the aim of relieving the investigative authorities and the public prosecutor's office in pre-trial criminal proceedings, thus speeding up the performance of investigative actions, as well as to facilitate the organisation of court work in relation to the scheduling of hearings and the process of adjudication.
- 2.3.8.2. The amendments, which entered into effect on 01.01.2021, are aimed at making the fight against autonomous ML more effective, taking into consideration the historical risk profile of Latvia as a regional financial centre. The aforementioned amendments also introduced another ground for the termination of pre-trial criminal proceedings and prosecutions, namely, if a fair settlement of property relations has been reached (e.g. the property obtained by crime must be confiscated in accordance with Chapter 59 of the Criminal Procedure Law 59) and the guilt of the person has not been proven in the pre-trial criminal proceedings, or such guilt in the commission of a criminal offence will not ensure economical pre-trial criminal proceedings or will result in disproportionate expenses, the criminal proceedings or prosecution may be terminated.
- 2.3.8.3. On 03.11.2022, extensive amendments to the proceedings for proceeds of crime (amendments to Sections 627, 628, 629, 630, 631 of the Criminal Procedure Law) entered into effect providing for ensuring respect for the principle of equal opportunities of the parties, which is also related to the right of a person to get acquainted with the case-file of the proceedings regarding proceeds of crime, including:
- 2.3.8.3.1. Amendments to Section 628 and Section 629(2) of the Criminal Procedure Law are aimed at enhancement of the adjudication of the proceedings regarding criminally acquired property by providing for that if a suspect or defendant and a person from whom the property was seized or where the property was under seizure, if there are such persons in the relevant criminal proceedings, or another person who is entitled to the property in question in the relevant proceedings has a representative or defence counsel, decisions and notices shall be sent only to that person. The aforementioned regulation also saves resources on the translation service, taking into consideration the fact that, for example, when serving a decision to institute proceedings regarding criminally acquired property, there will be no need to translate it if the representative or defence counsel understands the national language.
- 2.3.8.3.2. Amendments to Section 629(4) of the Criminal Procedure Law provide for limit of the time within which evidence related to property may be submitted to the court.
- 2.3.8.3.3. Amendment to Section 630 of the Criminal Procedure Law, by adding a fourth paragraph, provides for the addition of another ground for termination of proceedings regarding criminally acquired property (if the criminal case from which the materials have been separated has been transferred to court, the court shall adopt a decision to terminate the proceedings regarding criminally acquired property).
- 2.3.8.3.4. Amendment to Section 631 of the Criminal Procedure Law, by adding a Paragraph Four, provides for a further action by the regional court when considering a complaint or protest, thus ensuring the right of a person to examine the matter on the merits in at least two instances, ensuring a fair trial.
- 2.3.9. The Law On the Register of Enterprises of the Republic of Latvia has been amended 5 times (08.10.2020, 07.01.2021, 15.06.2021, 06.07.2021, 02.06.2022) and, in relation to the area of AML/CTPF, amendments to the said Law came into effect on 01.11.2020 on 31.11.2020 providing for the establishment of a cooperation mechanism between the SRS and the RoE to

- restrict activities of the reporting entities - legal arrangement incorporation and operation service providers which have failed to notify the SRS of their type of activity.
- 2.3.10. On 16.01.2020, amendments to the Regulation of the Cabinet of Ministers No.64 of 29 January 2013 "Procedure for Licensing Debt Recovery Service Providers" entered into effect, which ensured that the provision of debt recovery services prevents ML/TF. The amendments provide for binding requirements for debt recovery service providers wishing to obtain a license to provide debt recovery services and for those who have already been granted such a license.
 - 2.3.11. On 21 June 2022, Regulation of the Cabinet of Ministers No. 380 "Regulations on Annual Reports of Religious Organisations and their Institutions and Keeping of Accounts in the Simple Entry System" entered into effect, which establishes the procedure for religious organisations and their institutions to keep accounts in the simple entry system, as well as the structure, scope and content of annual reports of religious organisations and their institutions, as well as the procedure for their preparation, verification and submission. The aforementioned Regulation of the Cabinet also stipulates that the annual report of religious organisations and their institutions will distinguish between cash and non-cash donations and gifts.
 - 2.3.12. From 01.07.2022, Regulation of the Cabinet of Ministers No. 439 of 14 July 2022 "Regulations on the Annual Reports of Societies, Foundations and Trade Unions and on the Account Keeping in a Single-Entry System" applies establishing the procedure by which societies, foundations and trade unions keep their accounts using a single-entry system, as well as establishing the procedures for structure, scope, content, preparation, verification and submission of the annual reports of societies, foundations, and trade unions. They also determine that the subjects of this regulation must ensure that the annual reports distinguish between cash and non-cash donations and gifts.
 - 2.3.13. On 01.01.2022, the Accountancy Law entered into effect, according to which (Section 38) the activity of an outsourced accountant is allowed if he/she holds a valid outsourced accountant's license.
 - 2.3.14. On 07.09.2021, amendments to the Insolvency Law entered into effect, which set a limit of five years to apply for the position of insolvency administrator or to be a person supervising the legal protection proceedings if a person is removed from office in connection with non-compliance with the requirements set for the AML/CTPF and that application of the sanctions for suspension and termination of activities set out in the AML/CTPF Law at the same time serve as grounds for the removal from office or suspension from the performance of activities of the administrator.

2.4. International Evaluation of the ML/TF prevention and enforcement system in Latvia

- 2.4.1. During the reporting period, several evaluations of the ML/TF prevention and enforcement system in Latvia performed by international organisations took place, or Latvia was obliged to report on progress made in the field of implementation of the set recommendations.
- 2.4.2. On 22 January 2020, Moneyval published Latvia's first Follow-up Report (FUR)¹⁰⁹ as a part of its enhanced supervision, which assessed compliance of Latvian laws with the FATF 40 Recommendations in relation to which the Round 5 Report on Latvia adopted by Moneyval in July 2018 found only partial compliance with the FATF Recommendations. Furthermore, according to the Round 5 mutual evaluation procedure¹¹⁰, the compliance of Latvian laws with the FATF recommendations that were amended since 10 November 2017, the end of the Moneyval Round 5 evaluation period, i.e. the final day of the on-site visit of Moneyval experts to Latvia, was also assessed. The report concluded that Latvia has reached compliance with

¹⁰⁹In August 2019, Moneyval Secretariat received a Technical Compliance Progress Report with detailed information of Latvia's achievements for improvement of the regulatory framework to ensure compliance with FATF 40 recommendations that form a solid ground to an effective ML/TF prevention and enforcement system in the regulatory framework of each country. The Technical Compliance Progress Report was reviewed in December 2019 at a Moneyval's plenary meeting.

¹¹⁰ Moneyval Rules of Procedure for the 5th Round of Mutual Evaluations. Available at: <https://rm.coe.int/rules-of-procedure-for-the-5th-round-of-mutual-evaluations-/1680996ccf>.

FATF Recommendations 2, 6, 7, 8, 10, 22, 26, 28, 32, 39 and 40. Latvia has thus ensured that its legislation is in line or largely in line with all 40 FATF recommendations.

- 2.4.3. Whereas, in accordance with the FATF ICRG¹¹¹ procedure, under which Latvia was subject to an observation period and required to demonstrate substantial progress within one year on the performance indicators that were rated "low" or "medium" in the Round 5 Mutual Evaluation Report (MER), the FATF plenary meeting of 21 February 2020 concluded that Latvia had made progress in addressing strategic deficiencies in its ML/TF prevention and enforcement system. However, experts stated that some shortcomings remain and further action is required.
- 2.4.4. It should be noted that, despite Latvia's progress in ensuring compliance of its AML/CTPF regulatory framework with all 40 FATF Recommendations and in relation to the effectiveness of the ML/TF prevention and enforcement system, Latvia continued to be under the enhanced monitoring of Moneyval according to the relevant procedure during the reporting period.
- 2.4.5. On 31 March 2021, Latvia submitted the 2nd Enhanced Supervisory Follow-up Report to Moneyval and, on 30 September 2022, the 3rd Enhanced Supervisory Follow-up Report was submitted. In these two comprehensive reports, Latvia provided an update on progress and results achieved in the implementation of the AML/CTPF measures, following the recommendations contained in the MER.
- 2.4.6. In these reports, Latvia provided detailed information on the implementation of all recommendations, except for Action Line 2 "International cooperation", the effectiveness was rated by Moneyval as significant. According to the information provided, the Latvian authorities ensured full implementation of all recommendations, including timely implementation of the priority recommendations identified by Moneyval.
- 2.4.7. The most important completed works and achievements of the authorities involved in the prevention of ML/TF in Latvia within the framework of each effectiveness or action line (*Immediate Outcome*):
- 2.4.7.1. "Risk, Policy and Coordination" - strengthened FIU's status as the leading authority in the field of AML/CTPF; implemented a number of targeted actions to reform and thereby streamline the national ML/TF prevention and enforcement system, including raising awareness of ML/TF risks and coordinating actions to prevent or mitigate these risks; ensured active involvement of all relevant competent authorities in the development of the NRA and developed guidelines for conducting ML/TF risk assessments and an appropriate communication strategy; a sustainable system of inter-institutional cooperation mechanisms in the field of AML/CTPF has been established, ensuring effective cooperation between competent authorities at both strategic and operational level, including through an effective public-private partnership mechanism, the FIU-led CCG, which also provides an effective platform for information exchange.
- 2.4.7.1. "Supervision" - significant improvements have been made to strengthen the capacity of the SCIs and ensure that they fully supervise and control compliance of reporting entities with the AML/CTPF requirements according to their risks; the resources of all SCIs have been increased, resulting in improved quality and frequency of on-site inspections; and a SCI cooperation and coordination platform has been established to promote a common approach to supervision and control responsibilities.
- 2.4.7.2. "Preventive measures" - awareness of reporting entities on the ML/TF risks has been significantly increased both through the implementation of the NRA 2020 communication strategy and through systematic training of reporting entities; the AML/CTPF Law strengthens the requirements for reporting entities to conduct and document an ML/TF risk assessment, as well as to conduct customer due diligence in line with the risk assessment. In addition, publicly available information on the UBO of companies registered in Latvia and on the PNP is provided. Improvements have been made to the suspicious transaction reporting system, including the development of detailed methodological guidelines for the identification of typologies, updated risk identification guidelines and risk indicator lists. Latvian

¹¹¹ *International Co-operation Review Group (ICRG)* – an expert group of FATF that leads the assessment process for the countries with identified strategic shortcomings to the ML/TF prevention and enforcement system.


- credit institutions had to review their business models and develop operational strategies to reflect changes in their target markets and customers, as well as to introduce alternative business lines and services.
- 2.4.7.3. "Legal entities and their arrangements" - transparency and accessibility of legal entities was ensured; removal of legal entities that do not actually carry out economic activity from the Commercial Register of the RoE was commenced, as well as liquidation of the LLCs that have not disclosed their UBOs was ensured.
- 2.4.7.4. "Financial Intelligence" - changed legal status of the FIU and allocated the necessary resources to strengthen the FIU's capacity for operational and strategic analysis of financial investigations, introduced significant changes to the reporting system, established a model cooperation mechanism - the CCG, which ensures effective cooperation between the FIU, LEAs, SCI and reporting entities. Methodological materials, guidelines, risk assessments and other strategic review reports have been developed, and regular training sessions of various types have been provided.
- 2.4.7.5. "Investigation and prosecution of ML" - combating of ML was prioritised and a system was put in place to ensure that ML (self-legalisation, third-party legalisation and autonomous legalisation) is systematically investigated and perpetrators are prosecuted in line with the Latvia's risk profile. Guidelines for the investigation of ML were developed and regular training was provided for LEAs, promoting a common understanding of the standard of proof of ML. The necessary resources were provided to the LEAs, the public prosecutor's office and the courts to make the fight against ML more efficient, including through the creation of a specialised court, the Economic Affairs Court. LEAs ensure systematic parallel financial investigations. All the above measures have resulted in a significant increase in the number of investigations and prosecutions in ML cases, as well as in the number of judgments of conviction.
- 2.4.7.6. "Confiscation" - confiscation of the proceeds of crime, the object of the offence and the substituted property is identified as a priority in key policy documents, and the necessary technical and personnel resources for the implementation of this task have been determined. Guidelines have been developed, as well as a handbook¹¹² which is updated on regular basis, and systematic training is provided to promote a common understanding of the application of confiscation of proceeds of crime, object of the offence and substituted property. Strengthened control over cash movement at the borders, which has resulted in significant increase in the number of initiated criminal proceedings in relation to movement of falsely declared or non-declared cash over the State border of Latvia, including in relation to possible ML.
- 2.4.7.7. "Investigation of terrorism financing and prosecution" - the Criminal Law expands the framework for TF-related offences and strengthens the mechanisms for the LEAs, the public prosecutors and the courts to fight against TF. A composition of the Counter-Terrorism Centre Expert Advisory Council has been expanded. In addition, guidelines for the TF/PF prevention were developed for reporting entities SCI with an aim to reach a common level of awareness on TF prevention. A common cooperation and information exchange platform has been established.
- 2.4.7.8. "Preventive measures and financial sanctions of terrorist financing" - the Sanctions Law has been amended to ensure that targeted financial sanctions are implemented directly, fully and without delay. Furthermore, all the SCIs have thoroughly reviewed their sanctioning criteria to ensure an appropriate approach to breaches of their AML/CTPF obligations. The Sanction Coordination Council has been established and is operating, and it is the key coordination mechanism which includes public sector, private sector, and NGOs.
- 2.4.7.9. "Financial sanctions for proliferation financing" - amendments were made to the Law on Sanctions to ensure that the Latvian legal framework fully complies with the FATF standards, including ensuring that targeted financial sanctions in accordance with the UN Security Council resolutions, including related to the PF, are implemented directly, fully and without delay. All persons shall immediately and without a prior notice freeze the funds or other assets of the specified persons and organisations. The SCIs have developed guidelines ensuring that targeted financial sanctions with relation to PF are duly considered in the ICS. Sanctions for non-compliance with the ICS requirements related to the management of risk of

¹¹² "Handbook for an Action with the Property in Criminal Proceedings. Available at: <https://www.tm.gov.lv/lv/media/12570/download?attachment>.

sanctions violation and circumvention are proportionate and dissuasive for both natural persons and legal entities. Establishment of the Sanctions Coordination Council as the leading coordination mechanism and the establishment of the Sanctions Task Force to effectively share intelligence on the investigation in targeted violations of financial sanctions.

- 2.4.8. At the December 2022 Moneyval plenary meeting, amendments to the Moneyval Round 5 evaluation procedure were approved. The amendments provide for that Moneyval member states whose regulatory framework is found to be compliant or mostly compliant with all 40 FATF recommendations are no longer required to submit a follow-up report within the framework of the enhanced supervision. In view of the above, and the fact that Latvia already received such an assessment in 2019, the Moneyval enhanced surveillance process has ended for Latvia and there are no further reports that Latvia is required to submit under the procedure.
- 2.4.9. In November 2021, an evaluation of the implementation/effectiveness of Directive 2015/849 in Latvia for the period 2017-2019 was finalised (restricted information). On 2 November 2022, Latvia received a request from the EC to provide information on specific measures taken following the assessment that have contributed to the improvement of the system for prevention and combating of ML/TF and its effectiveness. In response to the EC's request, the necessary information was provided, indicating the progress made by Latvia since 2019 in alignment and enhancement of the ML/TF prevention and enforcement system in Latvia.
- 2.4.10. During the reporting period, the UN Counter-Terrorism Committee Executive Directorate (CTED) evaluated Latvia's progress in implementing Security Council's resolutions related to the prevention of terrorism and terrorism financing. From 28 June to 2 July 2021, video consultations were held with the experts of the Evaluation Commission, during which expert recommendations were made on what Latvia should do to fully implement the relevant Security Council resolutions; examples of good practice were identified; areas where Latvia could benefit from or provide technical assistance were identified. Whereas, an on-site visit by experts took place in Riga from 13 to 17 October 2022. During the visit, the experts evaluated Latvia's progress in combating the terrorism financing and the effectiveness of the ML/TF prevention and enforcement system. The initial summary of conclusions of the UN CTED experts highlights that Latvia has made significant efforts to improve the legal framework in a very short period since the 2018 Moneyval-approved Round 5 Management Evaluation Report. The measures taken have significantly reduced the vulnerability of the Latvian financial system to abuse for terrorism financing. The UN CTED experts greatly appreciated the ML/TF prevention and enforcement system of Latvia and its effectiveness. In particular, the UN CTED experts highlight the set-up cooperation platforms (CCG, Platform of Supervisors, Sanctions Coordination Board, AMLIH), complimenting inter-institutional cooperation and cooperation with the private sector. The feedback mechanisms put in place by the FIU, both in international cooperation, and in cooperation with the supervisory and control authorities and reporting entities, and in cooperation with the LEAs, were also greatly appreciated. The UN CTED experts consider all of the above to be good practice, which they recommend other UN Member States to adopt.
- 2.4.11. In the above-mentioned summary of their preliminary findings, the UN CTED experts particularly stress that Latvia has implemented a national asset-freezing mechanism in accordance with the requirements of the UN Security Council Resolution 1373 (2001), ensuring good practice. At the same time, the sanctions finder developed and maintained by the FIU is greatly appreciated and mentioned as a good practice - <https://sankcijas.fid.gov.lv/en>.
- 2.4.12. In October 2021, the OECD Working Group on Bribery in International Business Transactions approved of the Latvia's two-year 3rd Phase Follow-up Report¹¹³, which provides an overview of progress made in implementing the recommendations and evaluation of the OECD Working Group on Bribery in International Business Transactions. The OECD acknowledged that Latvia has made significant efforts to improve prevention and combating of ML, including through institutional reforms, increasing the number of FIU staff, expanding the reporting requirements

¹¹³ IMPLEMENTING THE OECD ANTI-BRIBERY CONVENTION. PHASE 3 TWO-YEAR FOLLOW-UP REPORT: Latvia. Available at: <https://www.oecd.org/corruption/Latvia-phase-3-follow-up-report-en.pdf>.



and regularly updating its ML risk assessments. The OECD also greatly appreciated the increase in the number of ML investigations, as well as the rising number of convictions in ML cases.

- 2.4.13. The International Monetary Fund (IMF) conducts annual reviews of countries' macroeconomic and financial stability, including an evaluation of the AML/CTPF (IMF Article IV consultations). In the Article IV consultation documents, the IMF experts evaluated very positively the measures taken by Latvia to improve its ML/TF prevention and enforcement system. The following mechanisms of the ML/TF prevention and enforcement system are particularly appreciated: functioning of the public-private partnership mechanism, regularity of on-site inspections by the supervisory and control bodies, the training provided to the reporting entities in the field of AML/CTPF, fully operational register of UBOs.
- 2.4.14. On 28 July 2022, during the Egmont Group plenary meeting, the FIU received an international award for outstanding work in the field of financial intelligence (BECA - *Best Egmont Case Award*). The case submitted by Latvia was complimented for its volume, complexity, innovative intelligence methods and advanced international cooperation. The award is an international recognition of Latvia's analysing capabilities of ML/TF cases, which confirms Latvia's international reputation in the field of AML/CTPF.

TRANSLATION

3. Threat at the National Level

3.1. General Characteristics

- 3.1.1. ML threat caused by domestic criminal offences has been assessed based on the data collected on the types of predicate offences registered, the proceeds of crime generated by such offences, and latent (unrecorded) crime. The cross-border threat caused by foreign predicate offences has been determined by assessing cross-border financial flows, available information on foreign predicate offences, the level of corruption in countries Latvia has significant financial flows with, as well as based on the assessment of ML cases where no specific predicate offence was identified.
- 3.1.2. The reforms of the financial sector which have taken place at the end of the NRA 2020 reporting period have remained effective also in the current reporting period. According to SWIFT system data, during the period 2013-2017, monthly flows of funds between Latvia's financial sector and the CIS countries averaged USD 13.5 billion, flows with offshore financial centres¹¹⁴ - averaged USD 9.8 billion. During the reporting period, flows with the CIS countries decreased by 89% compared to the aforementioned period, while flows with offshore financial centres decreased by 93%.¹¹⁵
- 3.1.3. Geography of the flow of funds of customers of the Latvian banking sector has changed significantly in the reporting period compared to the NRA 2020 reporting period. Number of payments with Russia and Belarus is reducing significantly, while number of payments with Lithuania increases by more than two and a half times higher. Lithuania is one of Latvia's largest foreign trade partners and a significant number of Latvian natural persons and legal entities have opened accounts with Lithuanian financial institutions, while there is a risk that the growing ML risks in the Lithuanian financial sector could have negative spill-over risks in Latvia.¹¹⁶
- 3.1.4. Most of the criminal proceedings initiated and investigated during the reporting period with regard to ML with a foreign predicate offence are related to transactions carried out before the reporting period. In the criminal proceedings concerning ML with foreign predicate offences, where at least a part of the transactions has taken place during the reporting period, flows from the CIS countries still continue to be identified, while the number of criminal proceedings where the funds originated from EU countries (France, Germany) and third countries is proportionally increasing.
- 3.1.5. Cross-border cash flows have been significantly affected by global events during the reporting period - the Covid-19 pandemic and related restrictions, the 2020 post-election crisis in Belarus, as well as the Russian war in Ukraine and the related EU sanctions, including the suspension of air traffic with Belarus¹¹⁷ and Russia.¹¹⁸ During the reporting period, cash controls at the external land border as well as at the internal borders were significantly strengthened, resulting in an increase in the identification of criminal offences¹¹⁹ both in cash movements across the land border with Russia and within the Baltic States.
- 3.1.6. When assessing the threat of a national predicate offence, it should be noted that, during the reporting period, several studies have calculated different shares of the shadow economy in relation to GDP, but, similarly as in other countries, studies in Latvia commonly point to an increase in the shadow economy during the years of the Covid-19 pandemic.¹²⁰ According to data of the study "Shadow Economy Index in the Baltic States", presented on 30 May 2023,

¹¹⁴ According to the IMF definition provided in the document *Past IMF Staff Assessments on Offshore Financial Centres (OFCs)*. Available at: <https://www.imf.org/external/np/ofca/ofca.aspx>.

¹¹⁵ IMF, IMF Nordic Baltic Technical Assistance Project.

¹¹⁶ IMF, IMF Nordic Baltic Technical Assistance Project. ML risks are also reflected in the critically low number of suspicious transaction reports, which, according to the data on Latvian customers available to the FIU are provided by certain Lithuanian financial institutions with a significant number of Latvian customers.

¹¹⁷ The State Agency "Civilās aviācijas aģentūra" ("Civil Aviation Agency"), *The government of Latvia imposes restrictions on air traffic with Belarus*. Available at: https://www.caa.gov.lv/lv/jaunums/latvijas-valdiba-nosaka-ierobezojumus-aviosatiksmes-ar-baltkrieviju?utm_source=https%3A%2F%2Fwww.google.com%2F.

¹¹⁸ The State Agency "Civilās aviācijas aģentūra" ("Civil Aviation Agency"), *Latvian airspace closed to all flights involving Russia and its citizens*. Available at: <https://www.caa.gov.lv/lv/jaunums/latvijas-gaisa-telpa-slegta-visiem-lidojumiem-kas-saistiti-ar-krieviju-un-tas-pilsoniem>.

¹¹⁹ Section 195 of the Criminal Law *Money Laundering* and Section 195² *Evasion of cash declaration*. *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

¹²⁰ Increase can be observed in 2020 and 2021 compared to the previous years before the Covid-19 pandemic.

the size of the shadow economy in 2022 was 26.5% of GDP.¹²¹ It should be noted that in 2022, for the first time since 2019, the size of the shadow economy in Latvia has not increased compared to the previous year.

- 3.1.7. The number of recorded criminal offences in Latvia has been gradually decreasing since 2008 and the decrease in the number of recorded criminal offences continued during the reporting period, decreasing by 17.0% compared to the NRA 2020 reporting period and by 25.7% compared to the period 2013-2016. At the same time, the number of recorded criminal offences in certain groups of predicate offences is on the rise, with the most significant increase in digital fraud.
- 3.1.8. Tax related crimes pose a high ML threat of national predicate offence, while fraud, illegal movement of excise goods, illegal movement of narcotics and psychotropic substances, and corruption related criminal offences pose a medium-high ML threat.
- 3.1.9. In relation to the Russian war in Ukraine, the number of criminal proceedings initiated by the SRS TCPD regarding the criminal offence under Section 84 of the Criminal Law - violation of sanctions imposed by international organisations and the Republic of Latvia - has significantly increased (Clause 5.4.24). Given that the SRS TCPD is an institution investigating tax related crimes, illegal movement of smuggled goods or other valuables, illegal movement of excise goods, as well as criminal offences related to cross-border cash flows (i.e., the offence poses a high or medium ML risk), one of the main challenges in the next reporting period will be to allocate adequate resources to the investigation of these criminal offences.
- 3.1.10. Taking into consideration the Latvian legal framework and the growing awareness of the investigative authorities, public prosecutor's office and courts about ML, more and more ML cases are being detected without the identification of a specific predicate offence. However, the threat assessment mainly considers these cases according to the potential country of origin of the proceeds of crime, by including it in the chapter on foreign predicate offence or cross-border threat.
- 3.1.11. It should be concluded that, compared to the NRA 2020 reporting period, the national predicate offence posed a significantly higher ML threat than foreign predicate offences, which, in addition to reforms of the financial sector at the end of the NRA 2020 reporting period, was also driven by global events during the reporting period - the Covid-19 pandemic and associated travel restrictions, as well as the Russian war in Ukraine and the associated EU sanctions. At the end of the reporting period, cross-border flows of proceeds of crime in non-cash form pose medium-high ML threat, while cross-border flows of proceeds of crime in cash pose medium ML threat.
- 3.1.12. Latvia's ML risk profile over the reporting period can be divided into three parts.
 - 3.1.12.1. First, there is the ML risk arising from its historic status of a regional financial centre, which continues to take a significant amount of the resources of the FIU, LEAs, public prosecutor's office and the courts during the reporting period. At the same time, it is important to stress that this risk profile no longer poses a current ML threat, and a current threat remains only to the extent that it concerns the share of funds in credit institutions under liquidation that has been criminally acquired.
 - 3.1.12.2. Secondly, the risk of money laundering generated by criminal offences committed in Latvia, which remained at the same level with a slight downward trend during the reporting period.
 - 3.1.12.3. Thirdly, the proceeds of crime generated by offences committed abroad, brought into Latvia or transferred to the Latvian financial system during the reporting period. This risk has significantly decreased compared to previous reporting periods.

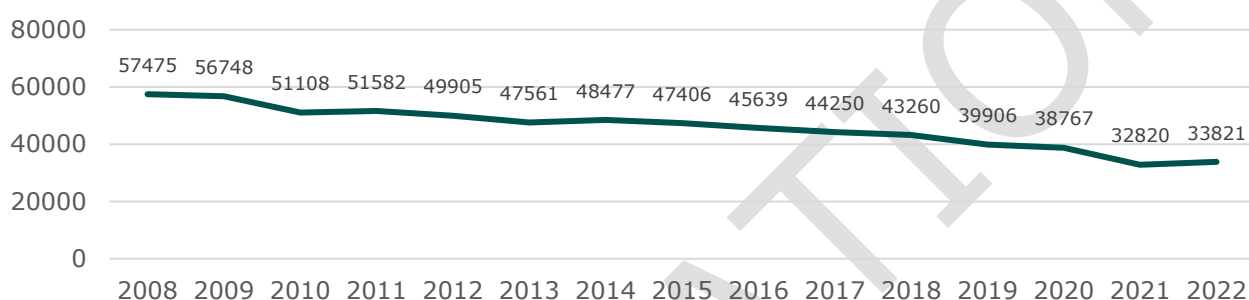
¹²¹ A. Sauka, T. Putniņš. *Shadow Economy Index in the Baltic States 2009-2022*. Available at: <https://www.sseriga.edu/shadow-economy-index-2022-shadow-economy-latvia-almost-high-previous-year>. Study conducted by Dr. F. Schneider, Professor at the University of Linz, *Development of the Shadow Economy of 36 OECD Countries over 2003-2021: Due to the Corona Pandemic a Strong Increase in 2020 and a Modest Decline in 2021*. Available at: <https://www.fm.gov.lv/lv/media/11125/download?attachment>.

3.2. Threat of National Predicate Offences

3.2.1. Threat of a national predicate offence is to be linked to criminal offences committed in Latvia, proceeds of crime resulting therefrom, and their subsequent laundering. In order to assess the threat, the general crime level in Latvia and recorded and latent criminal offences committed in Latvia that generate significant amounts of proceeds of crime are evaluated.

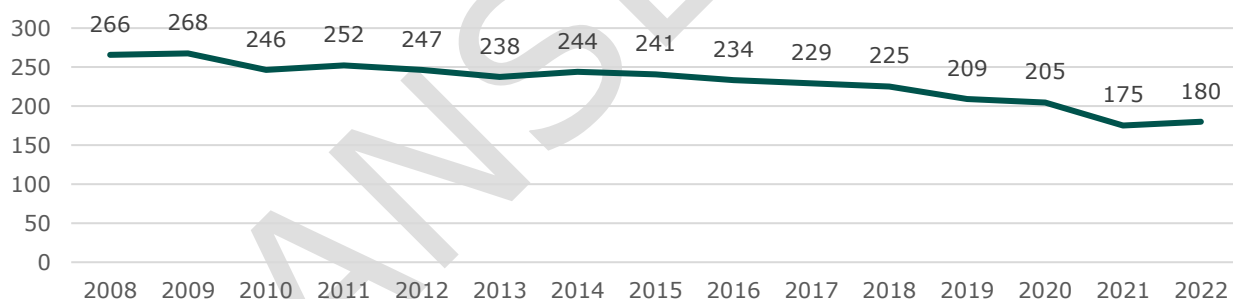
3.2.2. According to the statistics of the Information Centre of the Ministry of the Interior, 33,820 criminal offences were recorded in Latvia in 2022. The number of recorded criminal offences in Latvia has been decreasing since 2008. During the reporting period, the number of criminal offences decreased by 17.3% in comparison to the NRA 2020 reporting period, while the annual average number of offences decreased by 25.7% during the reporting period if compared to the annual average number of offences during the period 2013-2016. The recorded crime rate is also decreasing significantly, reaching 209.1 crimes per 10,000 inhabitants in 2019 (Chart 3.2.1).

Chart 3.2.1 - Criminal offences recorded in Latvia, number



3.2.3. This includes a significant reduction in recorded crime, reaching 180 crimes per 10,000 inhabitants in 2022.

Chart 3.2.2 - Crime rate per 10,000 inhabitants



3.2.4. Taking into consideration the fact that, in Latvia, any criminal offence can be a predicate offence for ML, the following criminal offences, which generate the most significant amounts of proceeds of crime during the reporting period, were assessed as a part of the threat assessment:

- 3.2.4.1. offences against property;
- 3.2.4.2. offences in national economy;
- 3.2.4.3. illicit trafficking of narcotics and psychotropic substances;
- 3.2.4.4. corruption related criminal offences (including bribery);
- 3.2.4.5. human trafficking;
- 3.2.4.6. illicit trafficking in firearms;
- 3.2.4.7. offences related to illegal immigration;
- 3.2.4.8. cyber-crime;
- 3.2.4.9. criminal offences against the environment.

3.2.5. Tax related crimes as national predicate offences pose a high threat of ML. Whereas, fraud, illegal movement of excise goods, illegal movement of narcotics and psychotropic substances, corruption related criminal offences as national predicate offences pose a medium-high ML threat. Human trafficking and environmental crime, which have not been assessed in depth in

the previous reporting periods, pose a medium-low ML threat as national predicate offences, with an increasing trend.

- 3.2.6. Overall, given the declining crime rates and the increasing capacity of the LEAs, the public prosecutor's office and the courts to effectively combat ML, threat of the national predicate offence for ML is slightly decreasing compared to the NRA 2020 reporting period. At the same time, the crime-generated ML threat grows in certain areas of crime during the reporting period, such as trafficking in narcotics and psychotropic substances, digital fraud, trafficking in human beings and criminal offences against the environment.

Tax related crimes¹²²

- 3.2.7. Evasion of tax payments and payments equivalent thereto is still an issue in Latvia and one of the key priorities in the fight against financial and economic crime in Latvia.
- 3.2.8. In order to continue the targeted national policy to tackle the shadow economy, the "Plan for Restraining the Shadow Economy for 2021-2022" was developed during the reporting period. As a result of the work to implement the joint measures, a target has been set for 2022 - to reach the average ratio of the shadow economy of the European countries in Latvia.¹²³
- 3.2.9. Different studies provide different estimates of the size of the shadow economy in Latvia. At the same time, there is a consensus across studies on the growth of the shadow economy during the reporting period, which is closely linked to the Covid-19 pandemic, the restraining measures and their impact on the economy. For example, according to the SSE study (2009-2022), the share of the shadow economy in Latvia was 23.9% in 2019, rising to 25.5% in 2020, 26.6% of GDP in 2021, and 26.5% of GDP in 2022.¹²⁴ According to the study, the share of the shadow economy in of GDP has increased also in the Baltic neighbouring countries during the reporting period. Whereas, according to the study conducted by Dr. F. Schneider, Austrian professor of economics, the share of the shadow economy in Latvia amounted to 19.8% of GDP in 2019, rising to 20.9% in 2020 and falling slightly to 20.2% of GDP in 2021.¹²⁵ According to this study, the average share of the shadow economy in European countries grown to a similar extent, from 16.3% of GDP in 2019 to 17.9% in 2020 and 17.4% in 2021.
- 3.2.10. Accordingly, during the reporting period, the size of the shadow economy is likely to be within the range of EUR 6-10.4 billion.¹²⁶ The size of the shadow economy is growing in absolute terms over the reporting period, mostly due to high inflation and GDP growth in 2022.¹²⁷ At the same time, it should be noted that the shadow economy is not only the result of criminal behaviour, but also of behaviour subject to administrative liability, as well as of such economic activity that is not recorded and accounted. Accordingly, the share of the shadow economy other than not proceeds of crime does not pose a direct ML threat. But the shadow economy makes financial data opaque and difficult to trace, which significantly increases the vulnerability to ML and creates an environment in which fighting financial crime is difficult.
- 3.2.11. In accordance with the SSE study (2009-2020)¹²⁸, in 2020, similarly as in the previous periods, almost a half of the Latvia's shadow economy consists of "envelope wages" - 46.2%. The "envelope wage" gap is one of the most important components of the shadow economy. At the same time, paying "envelope wages" does not mean that an individual does not always declare all his/her income. Part of it consists also of income falsely declared as other forms of income, subject to a lower tax rate. Results of the most recent study (SSE study 2009-2022)¹²⁹ also

¹²² Sections 217¹, 218 and 218¹ of the Criminal Law. *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

¹²³ Cabinet of Ministers Order No. 201 of 23 March 2022 *Plan for Restraining the Shadow Economy for 2021-2022*. Available at: <https://www.fm.gov.lv/enu-ekonomikas-ierobezosanas-plans#enu-ekonomikas-ierobezosanas-plans-2021-2022gadad>.

¹²⁴ A. Sauka, T. Putniņš. *Shadow Economy Index in the Baltic States 2009-2022*. Available at: <https://www.sseriga.edu/shadow-economy-index-2022-shadow-economy-latvia-almost-high-previous-year>.

¹²⁵ Study of Dr. F. Schneider, Professor of Economics at the University of Linz *Development of the Shadow Economy of 36 OECD Countries over 2003-2021: Due to the Corona Pandemic a Strong Increase in 2020 and a Modest Decline in 2021*. Available at: <https://www.fm.gov.lv/lv/media/11125/download?attachment>.

¹²⁶ Central Statistical Bureau, *GDP and added value - annual data*. Available at: <https://stat.gov.lv/lv/statistikas-temas/valsts-ekonomika/ikp-gada>.

¹²⁷ Ibid.

¹²⁸ Sauka A., Putniņš T. *Shadow Economy Index in the Baltic States 2009-2020*. Page 13. Available at: https://www.sseriga.edu/sites/default/files/2022-05/SSERiga_Enu_ekonomikas_indeks_2009_2021_brosura_0.pdf.

¹²⁹ Sauka A., Putniņš T. *Shadow Economy Index in the Baltic States 2009-2022*. Available at: https://www.sseriga.edu/sites/default/files/2023-05/Enu_ekonomikas_indeks_2009_2022_0.pdf.

show that "envelope wages" remain the most important component of the shadow economy in 2022, accounting for 46.7% of the total amount of shadow economy.

- 3.2.12. The SRS measures the gaps between personal income tax and mandatory social insurance contributions, and the data published in these studies show that, in 2020, the amount not declared to the SRS was equal to 17.1% of wages, totalling EUR 903.73 million. During the NRA 2020 reporting period, sizes of these gaps ranged from EUR 722.91 million in 2017 to EUR 878.74 million in 2019. In the SRS, the "envelope wage" gap only describes legal forms and types of employment and is calculated only for employees working under the general tax regime.
- 3.2.13. The SSE study 2009-2020¹³⁰ concludes that, in 2021, companies failed to declare on average 18.6% of their profits, which imply the use of fictitious payments to artificially reduce income, as well as unregistered production and trade. This includes being used as a source of funding for both the wages of undeclared workers and the informal part of wages paid to workers, as well as for the purchase of raw materials to meet undeclared production volumes. A specific EU-wide method has been developed to measure VAT revenue and revenue foregone - the VAT gap measurements, which allows a more accurate measurement of the amount of uncollected VAT.
- 3.2.14. Meanwhile, according to the SSE 2009-2022 study, the rate of non-declaration of income has fallen to 16.3% in 2022, the lowest since 2009.¹³¹
- 3.2.15. In 2020-2021, both the SRS and TAXUD¹³² calculations generally point to a reduction of the VAT gap in Latvia. Part of the VAT gap reduction in 2020 and 2021 could be temporary due to the impact of the Covid-19 pandemic.
- 3.2.16. According to TAXUD, the VAT gap has narrowed from 15.7% in 2017 to 3.4% in 2020. According to the SRS, the VAT gap has decreased from 16.8% in 2017 to 6.8% in 2020 and 4.9% in 2021.¹³³
- 3.2.17. The size of the shadow economy can be a guide to the size of the VAT gap at the stage of declaration, while bearing in mind that not all shadow economy transactions are subject to VAT and that small businesses that are not registered for VAT purposes try to evade tax. Some traders deliberately change the stage of tax collection at which they do not comply with the tax obligations from declaring to paying, e.g. the "phoenix" phenomenon".¹³⁴
- 3.2.18. At the same time, it should be stressed that the VAT gap is not an indicator to measure the level of crime, as the VAT gap is based on real consumption of goods and does not reflect artificially created cash flows without any coverage of goods/services, and a significant part of criminal transactions are not VAT-taxable.
- 3.2.19. During the reporting period, 334 criminal offences were registered and 326 criminal proceedings were initiated regarding criminal offences provided for in Section 217¹ (violation of work remuneration provisions), Section 218 (evasion of tax payments and payments equivalent thereto) and Section 218¹ (tax fraud) of the Criminal Law, and 357 persons were charged in 239 criminal proceedings. Majority of criminal proceedings, both recorded and initiated, concern the criminal offence provided for in Section 218 of the Criminal Law (evasion of tax payments and payments equivalent thereto).
- 3.2.20. At the same time, it should be noted that, on 5 August 2021, amendments to the Criminal Law entered into force, adding a new Section 218¹ to the Criminal Law, which criminalises the declaration of a VAT-taxable transaction that has not actually taken place. From the moment

¹³⁰ Sauka A., Putniņš T. *Shadow Economy Index in the Baltic States 2009-2020*. Page 13. Available at: https://www.sseriga.edu/sites/default/files/2022-05/SSERiga_Enu_ekonomikas_indeks_2009_2021_brosura_0.pdf.

¹³¹ Sauka A., Putniņš T. *Shadow Economy Index in the Baltic States 2009-2022*. Available at: https://www.sseriga.edu/sites/default/files/2023-05/Enu_ekonomikas_indeks_2009_2022_0.pdf.

¹³² EC Directorate-General Taxation and Customs Union.

¹³³ SRS data: <https://www.vid.gov.lv/lv/nozaru-statistikas-katalogs/nodoklu-plaisu-apmeri-par-2021-gadu>.

¹³⁴ "Phoenix phenomenon" - a legal entity that has accumulated tax debt or other kind of indebtedness, formally terminates its economic activity (thereby causing losses to the State in the form of unpaid taxes and losses to other creditors), but in fact continues its economic activity through another legal entity that has taken over the business model, resources and employees of the previous legal entity (which owes money to the State and other creditors).

of entry of the aforementioned Section into force and until 31 December 2022, 8 criminal proceedings were initiated regarding the criminal offence provided for in Section 218¹ of the Criminal Law.

- 3.2.21. Comparing the number of criminal offences provided for in Sections 217¹ and 218 of the Criminal Law recorded during the NRA 2020 reporting period, it can be concluded that the number of criminal offences recorded during current reporting period has slightly decreased (-84).
- 3.2.22. In 2020-2022, judgements of conviction were rendered in 136 criminal cases, and public prosecutor's penal orders were prepared in 10 criminal proceedings finding 166 natural persons guilty and imposing criminal sanctions, as well as criminal sanctions (coercive measures) were imposed on 22 legal entities in 22 criminal cases, as well as coercive measures were imposed on 3 legal entities according to 3 public prosecutor's penal orders. Overall, during the reporting period, in criminal proceedings regarding evasion of tax payments and payments equivalent thereto, property in the total value of EUR 14.2 million was seized, while recognised as proceeds of crime and confiscated in favour of the State or returned to the victims were EUR 2.2 million, including EUR 1.1 million in criminal proceedings involving parallel investigations into tax related crimes and ML.
- 3.2.23. During the reporting period, 41 criminal proceedings were initiated regarding tax related ML, 67 persons were charged in 27 criminal proceedings, and one decision was taken to refer to the court proceedings on the imposition of a coercive measure on a legal entity. Whereas, in 13 criminal cases, people have been found guilty of tax evasion and related ML activities. When comparing the number of predicate offences and ML-related criminal proceedings in this area, as well as the amount of alleged proceeds of crime in this area, the number still remains low, with no significant increase during the reporting period.
- 3.2.24. NRA 2020 found that these types of criminal proceedings were complex and involve the assessment of a large amount of information, making both the investigation and trial significantly longer than for other criminal offences. During the reporting period, while assessing the duration of pre-trial investigations in criminal proceedings referred to the court in 2020-2021, it can be concluded that 77% of all the criminal proceedings related to tax evasion had a pre-trial investigation time of up to 3 years. Whereas, the average duration of investigation of tax offences in 2020 was 1 year and 6 months.¹³⁵ In 2021, this indicator was studied separately by sections of the Criminal Law. For example, the average duration of investigation of criminal offences provided for in Section 218(2) of the Criminal Law is 2 years and 2 months, but of criminal offences provided for in Section and for Article 195(3) (laundering of the proceeds from crime) of the Criminal Law - 1 year and 11 months.
- 3.2.25. At the same time, it should be emphasised that in criminal proceedings classified under the same Section of the Criminal Law, a shorter period of time is required for the pre-trial investigation until the proceedings are sent to the public prosecutor's office for commencement of prosecution compared to cases where the criminal acts of persons are classified under several Sections of the Criminal Law within the framework of the same criminal proceedings.
- 3.2.26. As regards tax offences, during the reporting period, it was found that VAT offences were more often aimed at reducing the tax due to the State than at recovering illegally obtained tax overpayments. The typical VAT schemes where no transactions are actually carried out with other Latvian companies, false documents are prepared regarding transactions that have not actually taken place and then declared to the SRS, illegally using the right to deduct input VAT.

Case Analysis No. 3.2.1:

On 22 August 2022, the Judgment of the Economic Affairs Court entered into effect, finding 2 persons guilty of the offences provided for in Section 218(2) and Section 195(3) of the Criminal Law, and deciding on sanctioning the legal entity in whose interests the criminal offence was committed.

¹³⁵ Overall indicator for several tax-related Sections of the Criminal Law.

In the course of management of a company's economic activity related to purchase of fuel abroad from foreign traders and not conferring the right to deduct input tax, persons organised the creation of a fictitious chain of transactions among interrelated companies to create the appearance of such transactions actually taking place, with a view to obtaining such a right unjustifiably. This resulted in an unjustified right to deduct input tax and reduce the amount of VAT payable to the State budget. As a result of the above criminal activities, the company evaded VAT, causing losses to the State in the amount of EUR 442,495.36. The criminally obtained funds were then transferred to the current account of a fictitious company in Estonia, from which they were further transferred to accounts of other fictitious companies in Poland, Turkey and China, thus laundering EUR 400,720.

- 3.2.27. Whereas, in relation to evasion of CIT, a trend has been detected that companies registered in Latvia declare purchase operations from EU-based shell companies that have not actually occurred, which are not related to ensuring taxable transactions and are wrongly considered operating expenses. Such EU-registered companies serve as fictitious "trade partners" and "serve" many Latvian companies with completely different types of economic activity, helping them avoid paying taxes.
- 3.2.28. During the reporting period, the LEAs have found that, when committing tax offences, current accounts are opened remotely on various foreign payment system platforms. Criminal activities are often carried out with the involvement of a person with knowledge in the field of accounting, who keeps the books and submits returns to the SRS.
- 3.2.29. Section 218 of the Criminal Law (evasion of tax payments and payments equivalent thereto) provides, inter alia, for liability for evasion of payments of CIT, PIT and other taxes and payments equivalent thereto. At the same time, it is important to take into consideration that liability for the criminal offence is provided for and, consequently, funds are to be recognised as criminally acquired if the tax evasion has caused losses to the State or local government in a large amount¹³⁶ or reaching the amount of at least 50 national minimum monthly salaries.¹³⁷ Accordingly, in 2023, this amounts to at least EUR 31,000 of unpaid taxes, but from 2024 - to at least EUR 35,000.¹³⁸ Theoretically, when modelling a situation where tax evasion takes place, at a tax rate of 20%, in order to reach the threshold of the offence and for the funds to be considered as criminally (rather than illegally) acquired, the total amount of the transaction would have to be at least EUR 175,000 and at a rate of 31% - EUR 112,903.
- 3.2.30. In the case of "envelope wages", it has been found that companies in sectors where there is no cash flow are carrying out fictitious transactions with companies in sectors where there is typical cash flow in order to obtain the cash needed to pay "envelope wages".

Case Analysis No. 3.2.2:

Several construction companies have transactions (construction work, machinery rental) with a company that wholesales flowers and sells them in cash. Payments are based on payment for a transaction that has not actually occurred, such as construction works or the machinery rental, as a result of which the company fictitiously increases its expenses, and the funds moved within the fictitious transactions are eventually converted into cash.

- 3.2.31. With regard to the ML threat posed by "envelope wages", it is important to note that Section 217¹ of the Criminal Law, "Violation of Work Remuneration Provisions", provides for liability for the offence if the disbursement of wages not shown in the accounting records is made in a significant amount¹³⁹ or up to at least 10 national minimum monthly wages.¹⁴⁰ Accordingly, in 2023 it is at least EUR 6,200 paid in "envelope wages", but from 2024 at least EUR 7,000¹⁴¹

¹³⁶ Section 218 of the Criminal Law. *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

¹³⁷ Section 20 of the Law On the Procedures for the Coming into Force and Application of the Criminal Law. *Latvijas Vēstnesis*, 331/332, 04.11.1998; *Latvijas Republikas Saeimas un MK Ziņotājs*, 23, 03.12.1998 Available at: <https://likumi.lv/ta/id/50539-par-kriminallikuma-speka-stanas-un-piemerosanas-kartibu>.

¹³⁸ LV portāls, The Labour Law provision on a minimum wage of €620 in 2023 enters into effect. Available at: <https://lvportals.lv/skaidrojumi/346773-stajas-speka-darba-likuma-norma-par-minimalo-algu-620-eiro-2023-gada-2022>.

¹³⁹ Based on Section 217¹ of the Criminal Law. Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

¹⁴⁰Section 23¹ of the Law On the Procedures for the Coming into Force and Application of the Criminal Law. *Latvijas Vēstnesis*, 331/332, 04.11.1998; *Latvijas Republikas Saeimas un MK Ziņotājs*, 23, 03.12.1998 Available at: <https://likumi.lv/ta/id/50539-par-kriminallikuma-speka-stanas-un-piemerosanas-kartibu>.

¹⁴¹ LV portāls, The Labour Law provision on a minimum wage of €620 in 2023 enters into effect. Available at: <https://lvportals.lv/skaidrojumi/346773-stajas-speka-darba-likuma-norma-par-minimalo-algu-620-eiro-2023-gada-2022>.

to reach the threshold of a criminal offence and for the funds to be considered proceeds of crime.

- 3.2.32. The study "Shadow Economy Index in the Baltic States 2009-2022" estimates that the component of envelope wages in the reporting period totals more than 45% of the shadow economy.¹⁴² Given the relatively low threshold for Section 217¹ of the Criminal Law, it is likely that a significant proportion of the companies in the country paying envelope wages eventually reach a significant amount, i.e., 10 minimum monthly salaries, and that the funds are to be considered proceeds of crime. At the same time, in most cases, the recipient of envelope wages is not expected to carry out targeted ML activities with the funds, most often the funds in the form of cash will be used for self-consumption. To effectively tackle the problem of "envelope wages", the reporting entities should, as a matter of priority, investigate and report on companies that pay "envelope wages", including the schemes set up and the criminal offences committed within them, in order to regularly provide funds for the payment of envelope wages.
- 3.2.33. With regard to the illicit trafficking in cash, it has been concluded that, in 2020-2021, impact of the Covid-19 pandemic crisis on OCG activities diminished while at the same time the difficulty of transporting criminal cash between EU countries such as Estonia, Lithuania Poland etc. to Latvia, as well as to third countries (Russia and Belarus) remained. This observation of the LEAs is also confirmed by the positive trend in cash balance issuance from 2020 onwards (Paragraph [3.3.27](#)).
- 3.2.34. Whereas, in 2022, organised crime groups (OCG) no longer faced the burden of transporting criminal cash between EU countries, e.g. from Estonia, Lithuania, Poland, etc. to Latvia, which was an issue due to the increased control of the EU's internal borders and other restrictive measures due to the protracted crisis of the Covid-19 pandemic. However, Russia's aggression in Ukraine and increased border controls on sanctioned goods have made transportation of criminal cash to Russia and Belarus more difficult.
- 3.2.35. In 2022, the SRS TCPD identified a number of OCGs and put an end to their activities. OCGs evaded taxes and committed ML, thus causing significant losses to the State. 10 OCGs were found to have provided fictitious business services and were active in the following areas: wholesale of various goods and catering; trade in vehicles; logistics services; provision of taxi services; construction, installation of pipelines, heating and air conditioning and engineering systems; purchase of scrap metal, non-ferrous metal. Several bank accounts of individuals were used not only in Latvia, but also in other European countries to conceal and disguise the criminal origin of funds. One of these OCGs provided professional ML services to at least 100 Latvian companies over several years.

Case Analysis No. 3.2.3:

During the reporting period, the SRS TCPD, in cooperation with the SP, detained an organised group of persons for alleged ML in the amount of at least EUR 5,000,000 and initiated criminal proceedings according to the constituent elements of a criminal offence referred to in Section 195, Paragraph Three of the Criminal Law.

An organised criminal group, actually operating in the territory of the Republic of Latvia, controlled no less than fifteen foreign companies registered in the names of citizens of third-countries. The group also controlled the bank accounts of these companies opened with banks in the EU and other (non-EU) countries and with PIs, providing ML services to foreign entrepreneurs.

Within the framework of the criminal proceedings, 26 searches were conducted at the homes, offices and vehicles of the persons involved. During the searches, evidence relevant to the criminal proceedings was found and seized, including mobile phones, computers, data carriers, servers, documents of foreign companies, foreign bank calculators, narcotics and cash totalling around EUR 100,000.

Seven persons were detained, and four became suspects within the criminal proceedings. Immovable properties of the persons involved in the criminal proceedings were seized.

¹⁴² A. Sauka, T. Putniņš. *Shadow Economy Index in the Baltic States 2009-2022*. Page 13. Available at: <https://www.sseriga.edu/shadow-economy-index-2022-shadow-economy-latvia-almost-high-previous-year>.

3.2.36. Importance of the ML threat through tax evasion is demonstrated during the reporting period by the significant size of the shadow economy and amount of the unpaid taxes, the significant number of suspicious transaction reports identifying suspected tax offences,¹⁴³ and the amount of funds identified in cases, recovered both as proceeds of crime and as compensation for unpaid taxes during the reporting period.

3.2.37. The ML threat in relation to tax evasion is considered to be consistently high.

Illicit Trafficking in Excise Goods, Including Smuggling¹⁴⁴

3.2.38. During the reporting period, 1,380 criminal offences related to illegal movement of excise goods, including smuggling, were identified, representing 4.6% below the indicator of the NRA 2020 reporting period. During the reporting period, 1,632 criminal proceedings were initiated in relation to the illegal movement of excise goods, including smuggling. Like the number of criminal offences, the number of criminal proceedings is slightly down compared to the previous reporting period. At the same time, in 2022, upon reduction of the impact of Covid-19 pandemic and the restrictive measures, return of the number of initiated criminal proceedings to its previous level can be observed with 582 criminal proceedings initiated in 2022, representing 8% above the indicator of 2021 (539 criminal proceedings) and 14% above the indicator of 2020 (511 criminal proceedings).¹⁴⁵

3.2.39. In the cases opened during the reporting period, where, in addition to the illegal movement of excise goods, ML has also been identified, in most cases the amount of seized proceeds of crime has been relatively small - up to EUR 1,000 in 37% of cases, between EUR 1,000 and EUR 10,000 in 41% of cases. In 20% of cases, funds in the amount exceeding EUR 10,000 were seized, and in some cases - also exceeding EUR 50,000 and EUR 100,000. In cases where criminally acquired assets worth more than EUR 50,000 were seized, 6 immovable properties and 1 vehicle were seized, while in 4 cases cash assets worth more than EUR 50,000 were seized.

3.2.40. Demand for illegal excise goods is driven by the price difference between excise goods in the illegal market and those in the legal market. This includes price differences and, consequently, demand, is influenced by changes in excise duty rates and the resulting changes in the prices of excise goods on the legal market. Excise duty rates on various tobacco products were increased each year within the reporting period, whereas on fuel and alcoholic beverages - in 2020 and 2021.¹⁴⁶

3.2.41. The geography of illicit trafficking in tobacco and tobacco products remains similar to previous periods, with goods arriving by rail and freight from Russia and Belarus, both for consumption on the domestic illicit market and for transit to other European countries where the prices of illicit excise goods are significantly higher than in Latvia (Scandinavian countries, Finland, the United Kingdom, Germany, France). It is important for the reporting entities to take into consideration the geographic context, both with regard to the geography of non-cash payments and in particular with regard to cash, including in foreign currency.

3.2.42. At the same time, the Covid-19 pandemic and restrictions related thereto, including restrictions on movement and border crossing, as well as the Russian war in Ukraine, the EU sanctions imposed against Russia and Belarus and the resulting increased controls on the movement of goods have had an impact on the cross-border activities of OCG in the illegal movement of excise goods during the reporting period. This impact has resulted in a several-fold reduction in the volume of illegal goods seized at the border compared to the previous reporting period.

3.2.43. During the reporting period, more activities were focused on domestic rather than cross-border offences, including with regard to illegal production of excise goods, illegal online trade becomes more active. The EU's so called sectoral sanctions against Russia and Belarus have

¹⁴³ Such suspicious transaction reports show an upward trend during the reporting period and account for more than half of all the suspicious transaction reports in 2022.

¹⁴⁴ Sections 220¹, 221, 221¹ and 221² of the Criminal Law. *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un MK Ziņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

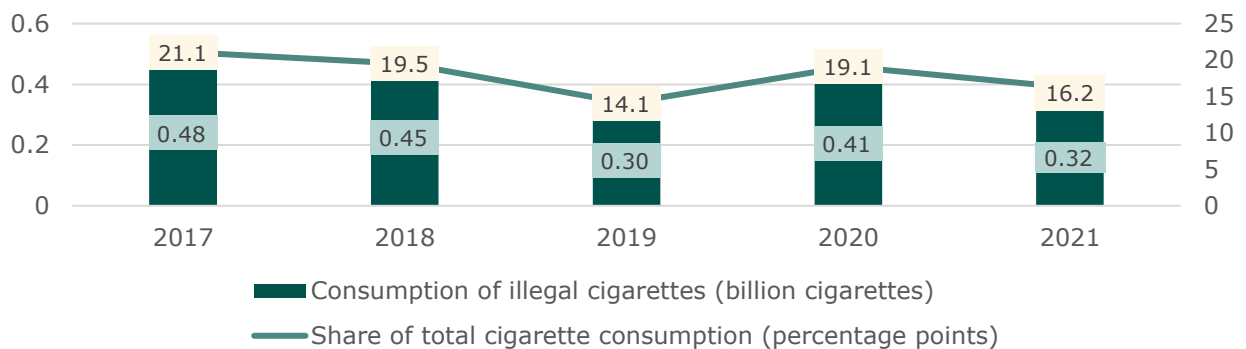
¹⁴⁵ Ibid.

¹⁴⁶ SRS, *Excise duty rates*. Available at: <https://www.vid.gov.lv/lv/akcizes-nodokla-likmes>.

forced criminals to change covering goods of their smuggling products, besides, attempts to smuggle across the so-called "green border" intensifies.

- 3.2.44. Monitoring of illicit cigarette trafficking shows that the share of illicit market of cigarettes continues to decrease, and, in 2021, it was 16.2% of total cigarette consumption. Consumption of smuggled and counterfeit cigarettes in Latvia was 320 million cigarettes per year in 2021 and 410 million cigarettes per year in 2020.¹⁴⁷ Taking into consideration the average price of a pack of cigarettes in Belarus¹⁴⁸ and the approximate price of a pack of illicit cigarettes in Latvia,¹⁴⁹ it can be estimated that the potential proceeds of crime from the sale of cigarettes in 2020 amounted to EUR 30.0-40.2 million, but in 2021 – EUR 23.4-31.4 million. It should be noted that the proceeds from cigarette sales do not represent a profit for criminals, and some of these funds will be used to cover expenses and to commit other criminal offences.

Chart 3.2.3 - Indicators of illicit cigarette trafficking¹⁵⁰



- 3.2.45. Monitoring of illicit cigarette trafficking in other countries shows that the transit of cigarettes through Latvia to other countries is increasing from an average of 120 million cigarettes per year during the NRA 2020 reporting period to 180 million cigarettes in 2021. Depending on the country of sale, the price of a pack of cigarettes on the legal market will be around 2 (Sweden, Finland, Denmark) or even 4 (Norway) times higher than in Latvia. Accordingly, although information on the exact price of cigarettes on the illicit market abroad is not available, it is expected that the proceeds of crime could be similar to or even exceed domestic figures, even at a lower number of cigarettes. It is not known whether and to what extent the proceeds of crime from the transit of excise goods are laundered in Latvia, but it is expected that part of the proceeds of crime are deposited in Latvia as remuneration to local persons who have participated in the commission of the criminal offence. It should be assumed that, similarly like goods, cash obtained from the sale of cigarettes may also be transported in the opposite direction through Latvia.
- 3.2.46. With regard to the illicit trafficking in cigarettes, it should also be pointed at increase in the threat of illicit trafficking of electronic cigarettes and their components during the reporting period, which requires adaptation both on the regulatory side and in the work of the LEAs.
- 3.2.47. The OECD estimates that alcohol consumption per capita in Latvia will reach 12.9 litres in 2021, the highest among all OECD countries.¹⁵¹ Whereas, the World Health Organisation estimates in 2021 that the average alcohol consumption per person aged at least 15 is 13.2 litres.¹⁵² The SRS has estimated that the domestic illicit alcohol market accounts for 4-6% of the total market.¹⁵³ Consequently, the total amount of unrecorded domestic consumption of absolute

¹⁴⁷ KPMG, *Illicit cigarette consumption in the EU, UK, Norway and Switzerland*. Available at: https://www.pmi.com/resources/docs/default-source/itp/kpmg-eu-illicit-cigarette-consumption-report-2021-results.pdf?sfvrsn=5fe773b6_6.

¹⁴⁸ Ibid, page 105.

¹⁴⁹ According to the SRS data, the price of a pack of illicit cigarettes varied between €2.00 and €2.50 depending on the brand during the reporting period.

¹⁵⁰ KPMG, *Illicit cigarette consumption in the EU, UK, Norway and Switzerland*. Available at: https://www.pmi.com/resources/docs/default-source/itp/kpmg-eu-illicit-cigarette-consumption-report-2021-results.pdf?sfvrsn=5fe773b6_6.

¹⁵¹ OECD, *Latvia: National Health Report 2021*. Available at: <https://doi.org/10.1787/11bb880a-lv>.

¹⁵² World Health Organisation, *Total per capita (15+) consumption (in liters of pure alcohol) by country*. Available at: <https://apps.who.int/gho/data/view.main.A1029SDG3v?lang=en>.

¹⁵³ Dienas Bizness, *SRS: The illegal market of excise goods generates around €100 million in uncollected taxes*. Available at: <https://www.db.lv/zinas/vid-akcizes-precu-nelegalais-tirgus-rada-aptuveni-100-miljonus-eiro-neiekasetu-nodoklu-512250>.

alcohol varies between 0.8 and 1.3 million litres per year.¹⁵⁴ The selling price of legal alcohol has increased by around 8% during the reporting period compared to the NRA 2020 reporting period and continues to increase in the reporting period.¹⁵⁵ Although precise data on the price of alcohol on the illicit market is not available, conservative estimates of the potential proceeds of crime suggest¹⁵⁶ that proceeds of crime from illicit alcohol trade in 2022 range from EUR 8.3 million to EUR 13.0 million.

- 3.2.48. Publicly available data on fuel sales nationwide, as well as on the mileage of registered vehicles do not indicate a significant amount of unregistered fuel on the internal market. At the same time, the limitations of this method, in particular the approximation of the data in terms of mileage recording, must be taken into consideration¹⁵⁷. In relation to the Russian-led war in Ukraine, fuel commodities rose more sharply than most commodity groups during the reporting period: natural vehicle gas rose by 52%, diesel by 42% and petrol by 28%.¹⁵⁸ LEAs also identify an increase in the illegal sale of petroleum products during the reporting period. The SRS has estimated that the illegal fuel market accounts for 4-7% of the total market, while the amount of uncollected taxes from illegal fuel trade is around EUR 30 million per year.
- 3.2.49. During the reporting period, the LEAs referred for the commencement of prosecution more than 300 criminal proceedings related to the illegal movement of excise goods annually. As a result, the LEAs identify and investigate a large number of criminal offences related to the illicit trafficking in tobacco and alcohol. The LEAs are able to refer to the public prosecutor's office criminal proceedings related to illicit tobacco and alcohol movement, and prosecution and adjudication in this area are also sufficiently effective. Whereas, as regards the illegal movement of fuel, the low level of identification of these offences should be mentioned: fewer than 20 criminal proceedings annually are initiated regarding illegal storage, movement (transport) and sale of petroleum products, and an even smaller number of these criminal proceedings are referred for prosecution.¹⁵⁹ Overall, the illicit trafficking in excise goods continues to have a high level of latency. At the same time, the Covid-19 pandemic and Russia's war in Ukraine and the related restrictions and EU sanctions have complicated OCGs' activities, in particular with regard to cross-border scale.
- 3.2.50. During the reporting period, of the criminal proceedings initiated for illegal movement of excise goods and ML, proceeds of crime in large amount (over 50 minimum monthly wages) were most frequently seized in cases where persons were involved in illegal trade in cigarettes (47% of cases), illegal trade in alcohol (33% of cases) or both illegal cigarettes and illegal alcohol, while only one such case involved illegal trade in fuel. Taking into consideration both the estimates of latent crime and the recorded crime, the most significant ML threat from the illicit trafficking in excise goods in the reporting period comes from the illicit trafficking in cigarettes, while illicit alcohol and illicit fuel also pose a significant threat.
- 3.2.51. ML threat with regard to the illicit trafficking in excise goods is considered to be medium-high and on a downward trend.

Illicit Movement in Narcotic Drugs and Psychotropic Substances, Including Smuggling¹⁶⁰

¹⁵⁴ According to the Central Statistical Bureau, the number of people aged 15 and over during the reporting period fell from 1.60 million in 2020 to 1.57 million in 2022. Accordingly, the lowest value of 0.8 million litres is calculated per 1.57 million residents who consume an average of 12.9 litres of alcohol, 4% of which is illegal, while the highest value of 1.3 million litres is calculated per 1.60 million residents who consume an average of 13.2 litres of alcohol, 6% of which is illegal. CSB, *Population by age and sex*. Available at: <https://stat.gov.lv/lv/statistikas-temas/iedzivotaji/iedzivotaju-skaits/2323-iedzivotaji-pec-dzimuma-un-vecuma?themeCode=IR>.

¹⁵⁵ Central Statistical Bureau, *Average retail prices of selected goods and services*. Available at: https://data.stat.gov.lv/pxweb/lv/OSP_PUB/START_VEK_PC_PCC/PCC010/table/tableViewLayout1/.

¹⁵⁶ Assuming that the selling price of alcohol on the illegal market is four times lower than the price of the cheapest retail form of alcohol, vodka, per litre of absolute alcohol.

¹⁵⁷ Not all the vehicles pass their technical inspection annually, the date of inspection varies by vehicle, there is an increasing number of hybrid cars where fuel consumption by fuel type and other factors are unknown.

¹⁵⁸ During the period between December 2019 and December 2022, the average natural vehicle gas price nationwide increased from EUR 0.55/litre to EUR 0.84/litre, diesel price - from EUR 1.18/litre to EUR 1.66/litre and petrol price - from EUR 1.26/litre to EUR 1.61/litre. Auto ABC, *Fuel price history in Latvia*. Available at: <https://www.auto-abc.lv/degvielas-cenu-vesture/visas/>.

¹⁵⁹ Criminal liability for illicit trafficking in fuel has been imposed for a significant amount, €6,200 or about 4,000 litres of fuel in 2022, but a more severe penalty is imposable upon excess of large amount, €31,000 or about 20,000 litres of fuel in 2022. The most frequent quantities recorded in the illicit movement, both in transportation and trade, are below 4,000 litres.

¹⁶⁰ Criminal Law, Section 190.¹, Section 248.¹ - 256 *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un MK Ziņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

- 3.2.52. With regard to both the NRA 2020 reporting period and the NRA 2023 reporting period, there has been a significant decrease in the number of offences related to the illicit trafficking in narcotic drugs and psychotropic substances. If close to 10,000 of such criminal offences were identified during the NRA 2020 reporting period, this indicator during current reporting period is 5,901, furthermore, number of criminal offences kept decreasing also during the reporting period - 2,677 criminal offences in 2020, 1,733 in 2021, and 1,491 in 2022, which was related to illicit trafficking in narcotic drugs, including smuggling.¹⁶¹
- 3.2.53. The number of offences under Section 253 of the Criminal Law (illicit manufacture, acquisition, possession, transport and transfer of narcotic drugs and psychotropic substances) remains consistently high, while the number of identified offences under Section 253¹ (unauthorised manufacture, acquisition, storage, transportation and forwarding of narcotic drugs and psychotropic substances) and Article 253² (unauthorised manufacture, acquisition, storage, transportation and forwarding of narcotic drugs and psychotropic substances for the purpose of disposal and unauthorised disposal) of the Criminal Law has fallen significantly.
- 3.2.54. At the same time, the volume of seized narcotic drugs remained constantly high during the reporting period and also increased for certain groups of narcotic drugs, which indicates on effective work of the LEAs in combating illicit trafficking in narcotic drugs and psychotropic substances, including in the fight against transnational OCG activities. The largest seizures in the reporting period were for cannabis, hashish and cocaine. Dried cannabis seizures during the reporting period amounted to 448 kg (146 kg in the NRA 2020 reporting period), undried cannabis seizures amounted to 631 kg (310 kg in the NRA 2020 reporting period), hashish seizures amounted to 1,939 kg (707 kg in the NRA 2020 reporting period) and cocaine seizures amounted to 246 kg (227 kg in the NRA 2020 reporting period). Whereas, in terms of seizures, on average 54% of the total number of seizures of narcotic drugs/psychotropic substances are seizures of marijuana, thus confirming the continued leading position of this narcotic drug in domestic illicit movement.
- 3.2.55. During the reporting period, there has been a growing interest of international criminal groups in the political-geographical situation of Latvia in organising smuggling of narcotic drugs/psychotropic substances. Criminal groups are organised involving Latvian nationals as couriers for the smuggling of narcotic drugs/psychotropic substances into Latvia, as well as for the transportation of narcotic drugs/psychotropic substances outside Latvia to other EU countries. Facts have been established confirming that narcotic drugs were moved and sent from Western Europe to Latvia and transited through Latvia to Scandinavia and Russia, as well as from the East to Latvia and transited through Latvia to Western Europe. The Baltic countries, including Latvia, have served as a "hashish" smuggling route from North Africa (via Spain) to Russia. Synthetic drugs were trafficked to Western Europe, China and India (Latvia was both transit and destination country), cocaine - transited from South America via Latvia to the EU countries controlled by transnational organised criminal groups.
- 3.2.56. Experts rate drug movement as one of the most latent forms of crime, with a latency rate of at least 85%.¹⁶² Although the amount and value of narcotic drugs seized domestically is significant, according to the LEAs, a substantial part of the seized substances, including hashish and cocaine in significant quantities, have crossed Latvia in transit with the intention of being trafficked abroad. It is not known whether and how much of the proceeds of crime from the transit of narcotic drugs are laundered in Latvia, but it is expected that part of the proceeds of crime are used in Latvia as remuneration for local people who have participated in the commission of the criminal offence. It should be assumed that, like narcotic drugs, cash obtained from the sale of narcotics may also be transported in the opposite direction through Latvia.
- 3.2.57. The study on the prevalence of use of addictive substances among the population in 2020, commissioned by the CDPC¹⁶³ indicates that 16.8% of respondents have tried any illicit drug in their lifetime, and, in total, around 54,000 people have used drugs in the last year, with marijuana and cocaine being the most commonly used drugs.

¹⁶¹ Law enforcement criminal intelligence analytical reports for 2017-2022.

¹⁶² Opinion of a representative of the SP.

¹⁶³ CDPC, *Prevalence of substance use in the population in 2020*. Available at: <https://www.spkc.gov.lv/lv/media/15536/download>.

- 3.2.58. A survey on tolerance towards smuggling, which serves as an indirect indicator of latent crime, conducted by the research centre SKDS, shows that the tolerance of the residents of Latvia towards the purchase of smuggled goods has slightly increased in recent years - in the survey conducted in 2021, 30% of the residents of Latvia surveyed do not consider the purchase of smuggled goods reprehensible, which is a 2 percentage point increase compared to 2020, and a 4 percentage point increase compared to 2019.¹⁶⁴ At the same time, opinion of the residents on the smuggling of excise goods and narcotic drugs differed sharply in the survey conducted by "Latvijas Fakti" - 32% indicated that they could buy illegally imported excise goods, while only 7% indicated that they had no objections to buying and selling narcotic drugs in small quantities.¹⁶⁵ Respondents aged 18-24 (18%) and 25-34 (10%) have a comparatively higher tolerance of illicit trafficking in narcotic drugs.¹⁶⁶ In 2022, 98% of the persons against whom the SRS TCPD requested commencement of prosecution for illicit trafficking of narcotic drugs and psychotropic substances were men aged 18-45 (most often aged 26-35).
- 3.2.59. The number of criminal proceedings referred for the commencement of prosecution for illicit trafficking in narcotic drugs exceeds 1,000 annually, including 250 for trafficking in narcotic drugs. As a result, the LEAs identify a large number of criminal offences related to the illicit trafficking in narcotic drugs. The LEAs are able to refer criminal proceedings related to drug trafficking to the public prosecutor's office, and prosecution and trials in this area are sufficiently effective. LEAs also succeeding in withdrawing gradually growing amount of narcotic drugs from illegal movement. At the same time, the criminal offence in question has a very high latency rate, furthermore, latency is increasing as criminal offences increasingly move online. Narcotic drugs are ordered over the internet without identifying the buyer or the seller, and payment is made by VC, which severely limits the ability of the LEAs to identify these offences. During the reporting period, 980 criminal proceedings for drug trafficking resulted in judgements of conviction.
- 3.2.60. During the reporting period, technologies facilitating the anonymisation of contact data activities, such as WhatsApp, Telegram, other mobile applications, one-off subscription cards, etc., have been increasingly used to facilitate the illicit trafficking of narcotic drugs. Further growing trends in use of online (incl. "Darknet") resources, as well as the crypto-assets are forecast for the next reporting period.
- 3.2.61. During the reporting period, 61 criminal proceedings were initiated regarding illicit trafficking in narcotic drugs and subsequent ML, or an average of 20 proceedings annually, representing just over 1% of the proceedings initiated regarding illicit trafficking in narcotic substances during the reporting period. At the same time, it is important to note that a significant number of processes are linked to the self-consumption of narcotic drugs, where narcotic drugs are ordered from abroad. In all cases where criminal proceedings have been initiated for illicit trafficking in narcotic drugs and subsequent ML, the proceedings have been initiated in relation to illicit disposal of narcotic drugs or the intention to dispose of narcotic drugs,¹⁶⁷ often in a group of persons. In most cases, seizure is applied to movable and immovable property - vehicles and real estate.
- 3.2.62. Given the increasing volume of seized narcotic drugs, as well as the significant latency of this type of criminal offence, the ML risk should be still considered medium-high with an upward trend.

Corruption related Criminal Offences

- 3.2.63. In 2020, the number of recorded corruptions related criminal offences was 202 or 0.52% of the total number of criminal offences recorded nationwide, in 2021 - 208 or 0.63% of the total number of criminal offences recorded nationwide, and in 2022 - 299 or 0.88% of the total number of criminal offences recorded nationwide. The 2022 increase in the number of criminal offences largely consists of explicit increase in the number of disclosures of non-disclosable information (13 in 2020, 23 in 2021 and 117 in 2022).

¹⁶⁴ SKDS, *Attitudes of Latvian residents towards smuggling, 2021*.

¹⁶⁵ Latvijas Fakti, *Public opinion poll on financial crime and money laundering*.

¹⁶⁶ Ibid.

¹⁶⁷ Section 253¹ of the Criminal Law. *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 15, 04.08.1998
Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

- 3.2.64. In 2020, 42.4% of the recorded criminal offences committed in state authority service were related to bribery and 18.8% for bribe-taking. In 2021, 52.1% of the recorded criminal offences committed in state authority service were related to bribery and 11.8% for bribe-taking. In 2022, 33% of the recorded criminal offences committed in state authority service were related to bribery and 9% for bribe-taking. In particular, during the reporting period, on average 42.5% of the number the recorded criminal offences committed in state authority service were related to bribery, while a comparatively lower average of 13.2% were related to bribe-taking.
- 3.2.65. The number of criminal proceedings initiated regarding bribery and the number of criminal proceedings referred for prosecution remained consistently high during the reporting period, while the number of criminal proceedings regarding bribery referred to court, the number of persons within the criminal proceedings regarding bribery referred to court and the number of persons with whom a public prosecutor's penal order for a bribery was concluded increased during the reporting period. From the recorded offences, it was identified that, on average, one person committed bribery during the reporting period.

Table 3.2.1 - Criminal proceedings regarding bribery and their progress¹⁶⁸

	2020	2021	2022
Criminal proceedings initiated	81	105	96
Criminal proceedings referred for the commencement of prosecution	79	95	91
Criminal proceedings referred to court	52	50	95
Number of persons in criminal proceedings referred to court	57	52	108
Number of convicted persons	47	51	45
Number of persons subject to a public prosecutor's penalty order	16	34	48

- 3.2.66. During the reporting period, amount of the bribe given (offered) varied from EUR 10 to more than EUR 2 million, while some cases in 2020 and 2021 were related to offers of bribes in excess of EUR 2 million. Relatively small bribes (from EUR 10 to EUR 5,000) are given (offered) to police officers in the field of road traffic monitoring. Larger amounts of bribes were given (offered) to public officials for taking decisions favourable to the bribers. In 2020, a case was recorded in which the alleged bribe to a foreign official given by a representative of a commercial company registered in Latvia exceeded EUR 2 million. In 2021, a case was recorded where a bribe offered to a public official amounted to EUR 2.1 million.

Case Analysis No. 3.2.4

A citizen of Latvia, representing the interests of a legal entity registered in Latvia, bribed officials of a JSC (AS) registered in the Republic of Belarus to have them acting in the interests of the legal entity, paying a total of EUR 2.2 million in bribes through fictitious transactions. Officials of a joint-stock company registered in the Republic of Belarus carried out ML by purchasing real estate and vehicles. At the same time, the legal entity included expenses related to fictitious transactions in the profit and loss statements, reducing the amount of CIT by EUR 0.5 million. In 2020, the CPCB initiated criminal proceedings regarding bribery and proposed to refer them to the PGO for further imposition of coercive measure proceedings against a legal entity for committed large-scale bribery in the interests of the legal entity and as a result of inadequate supervision.

- 3.2.67. During the reporting period, the number of criminal proceedings initiated for bribery, the number of criminal proceedings referred to court and the number of persons convicted for bribery has remained stable. In 2021, the number of persons within the criminal proceedings regarding bribery referred to court increases, while in 2022, the number of criminal

¹⁶⁸ Data from the LEAs, the public prosecutor's office and CA.

proceedings regarding bribery referred for the commencement of prosecution decreases. From the recorded criminal offences, it was identified that, on average, more than one person implemented bribetaking during the reporting period.

Table 3.2.2 - Criminal proceedings for bribetaking and their progress¹⁶⁹

	2020	2021	2022
Criminal proceedings initiated	31	19	19
Criminal proceedings referred for the commencement of criminal prosecution	18	18	8
Criminal proceedings referred to court	14	18	12
Number of persons within the criminal proceedings referred to court	32	53	18
Number of convicted persons	10	18	17

- 3.2.68. Both in this and the NRA 2020 reporting period, 5 criminal proceedings were initiated in relation to corruptive ML offences. The low number of ML proceedings where the criminal offence is committed in state authority service is affected both by the timing of the identification of the offence,¹⁷⁰ and by the relatively small amount of the proceeds of crime.
- 3.2.69. In total, 709 criminal offences were recorded nationwide and 529 criminal cases were investigated in the reporting period. Most of the corruption crimes take place at the level of administrative corruption.¹⁷¹ Due to the latency of administrative corruption, the amount of proceeds of crime in monetary terms is not clearly identifiable. In ML-related criminal proceedings where the predicate offence is committed in state authority service, amount of the benefit identified in the crimes in monetary terms during the reporting period amounts to EUR 271 thousand, and only a few cases have been identified where the amount exceeds EUR 5 000 per episode.
- 3.2.70. In cases where the proceeds of crime are small (up to one minimum monthly wage), no targeted laundering actions are conducted, or such actions are conducted involving only small amounts.¹⁷² If the amount of the benefit is relatively small, there is no objective need for officials to launder these funds. The need for an ML in cases of administrative corruption is either in case of a significant amount of the benefit gained from a single bribe or where the same official is regularly engaged in criminal offences in state authority service and receives small, but regular bribe payments. Overall, the ML threat caused by administrative corruption can be assessed as medium.

Case Analysis No. 3.2.5

A person obtains cash as a bribe. A person withdraws his or her legitimate income in cash and pays all his or her daily expenses in cash to disguise, to the extent possible, the initial origin of cash and the true spending. The criminal cash proceeds are declared (legalised) as cash savings, the origin of which is based on supposedly legitimate income withdrawn from accounts. The proceeds of crime are then used to make a down payment on a property, pay off early debts. To reduce suspicions of bribery and spending above legitimate income, the person purchases relatively cheap real estate and uses foreign financial service providers.

¹⁶⁹ Data from the LEAs, the public prosecutor's office and CA.

¹⁷⁰ Several anti-corruption LEAs point out that operational activities result in identification before a person has a practical opportunity to commit ML.

¹⁷¹ Administrative corruption is an act of a public official aimed at taking undeserved benefit for himself or herself, or at providing advantages for another person or group of persons, by using his or her official position, his or her powers or exceeding them. Administrative corruption is most often found in situations related to the day-to-day issues and problems of residents. For example, providing a patient with a state-funded medical procedure organised by a medical institution in exchange for a "gratitude" enables circumvention of the procedure laid down in the laws and regulations and creates advantages. Administrative corruption is characterised by a typical feature - particular favourability of an official towards a specific person whose interests are affected by the decision, furthermore with the official acting beyond or in breach of the established procedures.

¹⁷² Mainly self-consumption - everyday spending on food and fuel, travel, etc.

¹⁷³ For example, buying a second-hand car in cash and the transaction amount does not exceed €7,000, or buying a property with a small cash payment [up to €7,000].

- 3.2.71. Similar to administrative corruption, corruption in the field of public procurement¹⁷⁴ is a high-latency offence. The Procurement Monitoring Bureau analyses public procurements against defined risk indicators. The most frequently identified risk indicator is that only one tenderer has participated in the procurement.
- 3.2.72. The SSE study¹⁷⁵ indicates that the % of the contractual amount to secure the NRA 2020 public contract during the reporting period was: 5.1% in 2017, 5.3% in 2018 and 5.9% in 2019, while in the current risk assessment reporting period: 6.9% in 2020 and 8% in 2021, data for 2022 not yet available at the time of the NRA development.
- 3.2.73. During the NRA 2020 reporting period, the total value of the contracts with identified risk indicators amounted to EUR 2.6 billion. Assuming that % of bribes were paid according to the SSE study, it can be concluded that the amount obtained through corruption in monetary terms could be up to EUR 141 million or on average EUR 47 million per year.
- 3.2.74. During the current reporting period, the total contractual amounts of the procurements with identified risk indicators amounted to EUR 3 billion. Assuming that % of bribes were paid according to the SSE study, it can be concluded that the amount obtained through corruption in monetary terms could be up to EUR 233 million or on average EUR 78 million per year.
- 3.2.75. Compared to the NRA 2020 reporting period, the maximum amount of potential proceeds of crime generated by corruption in public procurement has increased during current reporting period, but it does not exceed EUR 80 million per year. At the same time, it should be noted that not all procurements where risk indicators have been identified are related to corruption. Moreover, not in all the cases of corruption ML has been necessary. These amounts should therefore be seen as a possible maximum amount provided for laundering, and it is expected that the actual amount generated from corruption in public procurement and subsequently laundered is significantly lower.
- 3.2.76. Political corruption is perhaps the most latent form of corruption. It is a phenomenon which manifests as influencing of the decisions of public administration institutions, including local governments, for personal gain and redistribution of state- or local government-owned financial resources to benefit a small number of individuals.

Case Analysis No. 3.2.6

During the reporting period, the CPCB investigated within criminal proceedings a criminal offence provided for in Section 318(3) (using official position in bad faith), Section 320(4) (accepting bribes) and Section 323(2) (giving of bribes) of the Criminal Law, which were committed by the Chairman and Deputy Chairman of the Riga City Council, agreeing on the necessary actions to demand a large bribe from a natural person by using their official position as the leading officials in the local government. The agreement provided for changes in the regulatory enactments so that a legal entity could receive payments from the Riga City Council through its capital company and pay 30% of this income in cash as a bribe to the Chairman of the Riga City Council and his deputy on monthly basis, thus causing material damage to the Riga municipality and its capital company in excess of EUR 10 million.

- 3.2.77. During the reporting period, observed was also illegal financing of political parties through large donations made by a narrow circle of individuals and contributions of membership dues of unknown origin (most often cash contributions to an account), which may imply the possible use of criminal proceeds for party financing.
- 3.2.78. During the reporting period, bribery of foreign officials by Latvian citizens for the benefit of legal entities registered in Latvia, as well as laundering of proceeds generated through the

¹⁷⁴ It is characterised by situations in which a public official takes a decision in favour of a person or the company he or she represents in exchange for an unlawful material or immaterial benefit. For example, the contracting authority regularly organises sub-threshold procurements, simulating price surveys, with the aim of concluding a service contract with a particular supplier at the highest possible price. The supplier, as a gratitude for the concluded service contract, gives material values to the customer's representative, his or her relative or a related natural person or legal entity.

¹⁷⁵ A. Sauka, T. Putniņš. *Shadow Economy Index in the Baltic States 2009-2021*. Available at: https://www.sseriga.edu/sites/default/files/2022-05/SSERiga_Enu_ekonomikas_indeks_2009_2021_brosura_0.pdf.

bribing of foreign officials in Latvia were also detected, pointing at the ML risks caused as a result of bribery of foreign officials in Latvia.

- 3.2.79. Given that large-scale domestic ML is difficult without the use of reporting entities, the number of suspicious transaction reports of corruption-related ML is an important indicator. The total number of suspicious transaction reports from reporting entities during the reporting period is 127. The total amount of money involved in the reports amounts to EUR 97.7 million.
- 3.2.80. Compared to the NRA 2020 reporting period, the number of reports has increased, which can be attributed to the increased ability of the reporting entities to identify suspicious transactions in the field of corruption and related ML,¹⁷⁶ the increased cooperation of the reporting entities with the FIU and the CPCB, as well as the proactive activity of the CPCB aimed at identifying corruption cases in cooperation with the reporting entities.
- 3.2.81. The proceeds generated from domestic corruption offences may be laundered abroad. Given that, at the level of recorded crime, a small proportion of corruption and related ML is identified at the level of reports received by the FIU and the CPCB, it is likely that a significant part of this money is laundered abroad. Changes in the business strategies of financial and capital market operators at the end of the NRA 2020 reporting period, high standards of customer due diligence in the ICSs of the reporting entities, an increase in seizures of the proceeds of crime and other factors have contributed to the restructuring of the ways of commission of ML.
- 3.2.82. Corruption-related money laundering abroad can involve both financial services in other jurisdictions, mainly at the placement and structuring stages of ML, and traders in movable and immovable property, mainly at the integration stage of ML. The changing geography of ML is driven by the different quality of implementation of the FATF standards in different jurisdictions and even different enforcement practices within the EU. Another important factor contributing to this trend is the ability of the LEAs to trace financial transactions and obtain information on the assets of officials in other jurisdictions. The legal procedures for requesting information from foreign countries have not changed in the last 30 years, while financial technology, the EU Single Market, the absence of internal borders in the EU and a range of other factors give criminals the opportunity to move funds quickly across borders and integrate laundered funds in other jurisdictions.
- 3.2.83. ML threat related to criminal offences in in state authority service is moderately high during the reporting period.

Criminal Offences Against Property¹⁷⁷

- 3.2.84. Similar to the NRA 2020, criminal offences against property continue to account for the largest number of recorded criminal offences nationwide during the reporting period, at 48,170 offences or approximately 46% of all the recorded criminal offences. Theft, fraud and embezzlement on a small scale (Section 180 of the Criminal Law) account for more than 50% of these offences - 25,146 recorded criminal offences.
- 3.2.85. When assessing criminal offences against property and the latency of these offences, it should be noted that the most recent study conducted on latent crime is survey of the residents of Latvia "Latent crime and re-victimisation in various criminal offences", conducted by the research centre SKDS for the period August-October 2017.¹⁷⁸ The study concludes that criminal offences against property entail very different levels of latency. Offences that cause significant losses to the victim have a relatively low latency rate, for example, robbery (6.5%), vehicle theft (9.6%), theft from home (18.2%), while offences with a low loss rate have a high latency rate, such as pickpocketing (61%).

¹⁷⁶ During the reporting period, the CCG developed a document *Indicators of Corrupt Offences and Case Studies* in a working group format. The working group brought together experts from the FIU, the CPCB, the public prosecutor's office, as well as from the four largest Latvian credit institutions: "Swedbank" JSC (AS), "Luminor Bank" JSC (AS) Latvian Branch, JSC (AS) "SEB banka" and JSC (AS) "Citadele banka". Available at: <https://fid.gov.lv/uploads/files/2021/korupcijas%20materijals%2081s/Korupt%C4%ABvu%20noziedz%C4%ABgu%20nodar%C4%ABjumu%20indikatoru%20n%20gad%C4%ABjumu%20anal%C4%ABze.pdf>.

¹⁷⁷ Sections 175, 176, 177, 177¹, 178, 179 and 180 of the Criminal Law. *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

¹⁷⁸ Survey of the residents of Latvia *Latent crime and re-victimisation in various criminal offences*, conducted by the research centre SKDS. Available at: http://petijumi.mk.gov.lv/sites/default/files/title_file/SKDS_2017_Latenta_noziedziba_un_atkartota_viktimizacija.pdf.

- 3.2.86. Within the context of the ML threat, it should be noted that a criminal offence that causes significant loss to the victim and has a low level of latency is followed by immediate and frequently professional ML activities to make traceability and recovery of funds difficult.
- 3.2.87. When assessing the criminal offences against property committed in Latvia, it can be concluded that the greatest ML threat is posed by fraud, which is growing in number and volume in the digital environment.
- 3.2.88. Theft is on a downward trend, both in relation to home burglaries and car thefts. Robberies also showed a downward trend during the reporting period.
- 3.2.89. With regard to frauds aimed against the EU's financial interests, there has been an increase in both the number of criminal offences recorded and the number of criminal proceedings initiated. This increase is due to the increased efficiency of competent authorities in identifying fraud cases. One of the main factors contributing to this is the creation and launch of the European Public Prosecutor's Office. In addition, it should be noted that, in 2022, AFCOS Latvia, in cooperation with the authorities administering the EU funds, the European Public Prosecutor's Office and the investigative authorities, developed an Information Methodology for the identification of signs and typologies of fraud.

Case Analysis No. 3.2.7:

On 26 September 2022, the Riga District Court, in a criminal case tried by a plea bargain, found 4 people guilty of organised fraudulent procurement resulting in gain amounting to EUR 780,000 in EU funds. The pre-trial investigation was conducted by the European Public Prosecutor's Office.

In order to ensure that the contract for the construction of a new industrial building was awarded to a pre-selected company, which was also involved in the fraud, the 4 individuals colluded to submit forged documents in a procurement organised by a Latvian company that manufactures water heating radiators. With the help of an EU fund consultant, legal representatives and an employee of both companies forged documents, including fictitious bids with a higher price, to give the impression that the company chosen by the fraudsters was the most advantageous.

Thus, the company organising the procurement obtained EUR 1,775,000 in project funding, EUR 780,000 of which was received from the European Regional Development Fund. Thanks to a successful investigation, the EU funds were recovered in full.

Thefts¹⁷⁹

- 3.2.90. During the reporting period, 15,882 thefts were recorded, or approximately 15% of all the recorded offences, and this remains the most common criminal offence.
- 3.2.91. Theft exceeding the minimum monthly wage or skilled theft (e.g. burglary) has a low latency rate.¹⁸⁰ Given that, in the case of theft, the victim is informed of the crime, a significant number of thefts are recorded, especially in cases where the loss incurred by the victim is significant.
- 3.2.92. During the reporting period, 15,152 criminal proceedings regarding theft were initiated, seizing property worth EUR 236,033. Comparing the number of criminal proceedings initiated in 2022 with 2020, there is a significant 25% decrease in the number of criminal proceedings. In 2,349 criminal proceedings, 2540 persons were charged, and 1,793 criminal proceedings regarding theft resulted in convictions, convicting 2,301 persons, as well as recognising property worth EUR 4,247, as well as 6 cars as criminally acquired property, including recognition of 4 cars as presumed criminally acquired property under Section 70¹¹, Paragraphs Two and Three of the Criminal Law (confiscation of criminally acquired property).

¹⁷⁹ Section 175 of the Criminal Law. *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un MK Zīpotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

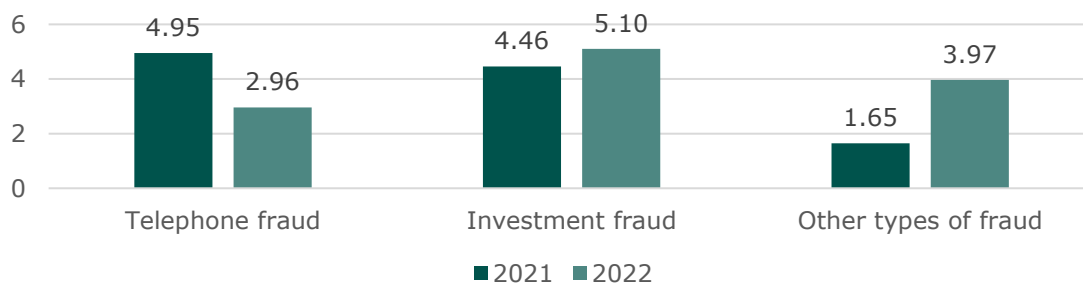
¹⁸⁰ Survey of the residents of Latvia *Latent crime and re-victimisation in various criminal offences*, conducted by the research centre SKDS. Available at: http://petijumi.mk.gov.lv/sites/default/files/title_file/SKDS_2017_Latenta_noziedziba_un_atkartota_viktimizacija.pdf.

- 3.2.93. It can be concluded that, despite the fact that the number of recorded thefts, the number of criminal proceedings initiated and the number of convicted persons are the highest compared to other criminal offences, the amount of proceeds generated from these criminal offences is relatively small and does not pose a significant ML threat.
- 3.2.94. Similarly to the NRA 2020 reporting period, the ML threat in relation to thefts is considered to be medium-low. The most significant ML threat is caused by thefts committed on a large scale.

Fraud¹⁸¹

- 3.2.95. During the reporting period, 4,956 frauds were recorded (4,791 frauds, 142 frauds in automated data processing systems and 23 insurance frauds). The number of frauds in 2022 decreased by 37% compared to the previous year, including a significant decrease in the number of recorded frauds according to Section 177(3) of the Criminal Law (fraud). The decrease is related to the registration of 517 additional episodes in 2021 according to Section 177(3) of the Criminal Law in the criminal proceedings initiated in 2020 regarding large-scale fraud by an online shop, where some companies carried out economic activity when goods were ordered from online shops but not delivered.¹⁸²
- 3.2.96. LEAs indicate that the most common types of fraud during the reporting period were various forms of telephone fraud, investment fraud, as well as courier and undelivered goods fraud.¹⁸³
- 3.2.97. A review of fraud cases in 4 major Latvian credit institutions in 2021 and 2022 found 5,406 telephone frauds in the amount of EUR 7.91 million, 3,268 investment frauds in the amount of EUR 9.56 million, and 1,926 other types of fraud in the amount of EUR 5.62 million. In 2022, compared to 2021, the number and amount of phone frauds is decreasing, but number of other forms of fraud are increasing, such as business email compromise, fake websites, including fake online banking websites, as well as courier and undelivered goods fraud.

Chart 3.2.4 - Fraud cases identified by the 4 largest Latvian commercial banks, by type of fraud, amount of funds defrauded (mEUR)



- 3.2.98. During the reporting period, 3,821 criminal proceedings regarding fraud (3,659 for fraud, 139 for fraud in automated data processing system and 23 regarding insurance fraud) were initiated, seizing assets worth at least EUR 7,898,768. It should be noted that only 17 criminal proceedings in conjunction with ML were investigated. 389 criminal proceedings resulted in the indictment of 575 persons and 210 criminal proceedings related to fraud resulted in judgements of convictions against 284 persons, as well as property worth EUR 23,319,026 and more than 10 immovable properties were recognised as criminally acquired.
- 3.2.99. Given the significant amounts of both seized funds and those recognised as proceeds of crime, it can be concluded that fraud poses a medium-high ML threat. The most significant ML threat is caused by large-scale digital fraud, RE fraud and fraud against the EU's financial interests.

¹⁸¹ Sections 177, 177¹ and 178 of the Criminal Law. *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un MK Ziņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

¹⁸² *Law Enforcement Authorities' Criminal Intelligence Analytical Report for 2022*, page 31.

¹⁸³ More detailed information on forms of fraud is given in the FIU material *Top forms of fraud*. Available at: <https://fid.gov.lv/lv/aktualitates/aktualakie-krapsanu-veidi>.

Embezzlement¹⁸⁴

- 3.2.100. During the reporting period, 1,194 cases of embezzlement were recorded.
- 3.2.101. In 2022, there has been a slight increase in the overall number of reported cases of embezzlement nationwide. Increase is related to the criminal offences of cattle embezzlement recorded in early 2022 and occurred in 2021, and they are being investigated in two criminal proceedings. One criminal proceeding currently has at least 56 victims, and the total loss reaches approximately EUR 300,000, while the other criminal proceedings are currently expected to have at least 24 victims with the total loss of no less than EUR 200,000.¹⁸⁵
- 3.2.102. During the reporting period, 951 criminal proceedings were initiated regarding the criminal offence provided for in Section 179 of the Criminal Law (embezzlement). 437 people are charged in 410 criminal proceedings. 260 criminal proceedings related to embezzlement resulted in judgements of conviction finding 278 persons guilty and recognising EUR 179,974 criminally acquired.
- 3.2.103. During the reporting period, 5 criminal proceedings were initiated in relation to embezzlement-related ML resulting in the seizure of EUR 34,715. When comparing the volume of predicate offences and the volume of ML - related criminal proceedings in this area, this number is still to be considered low.
- 3.2.104. Mostly, when committing criminal offences against property, which cause significant losses to the victim, criminals are forced to set up complex, hard-to-trace ML schemes to move the proceeds of crime away from their place of origin as quickly as possible and in a way that is difficult to trace. Overall, criminal offences against property pose a medium-high ML threat, with the most significant risks being large-scale digital fraud, large-scale RE fraud and other large-scale criminal offences against property, including fraud against the EU's financial interests.

Human Trafficking

- 3.2.105. During the reporting period, 135 victims of human trafficking were identified. According to the Report on Preventing and Combating Trafficking in Human Beings, 61 victims of trafficking in human beings were identified in Latvia in 2021, which is slightly more than in 2020, when 48 victims were identified.¹⁸⁶ Increase in the number of victims identified in 2021 is largely attributable to the activities of the SP and the cases of trafficking in human beings with a significant number of victims.¹⁸⁷ According to the data on victims of trafficking in human beings provided by the Ministry of the Interior, in 2022 there was a sharp decrease in the number of identified victims of trafficking in human beings - 26 victims of trafficking in human beings were identified.
- 3.2.106. The number of identified victims of trafficking in human beings who suffered from labour force exploitation continued to increase rapidly during the reporting period, reaching 53 victims in 2021. Whereas, in 2022, the number of identified victims of trafficking in human beings who suffered from labour force exploitation fell sharply. The second largest group of victims of trafficking in human beings are those who suffered from sexual exploitation. Other forms of exploitation include forced marriages of convenience, coercion to commit criminal offences, domestic servitude and other forms of exploitation.

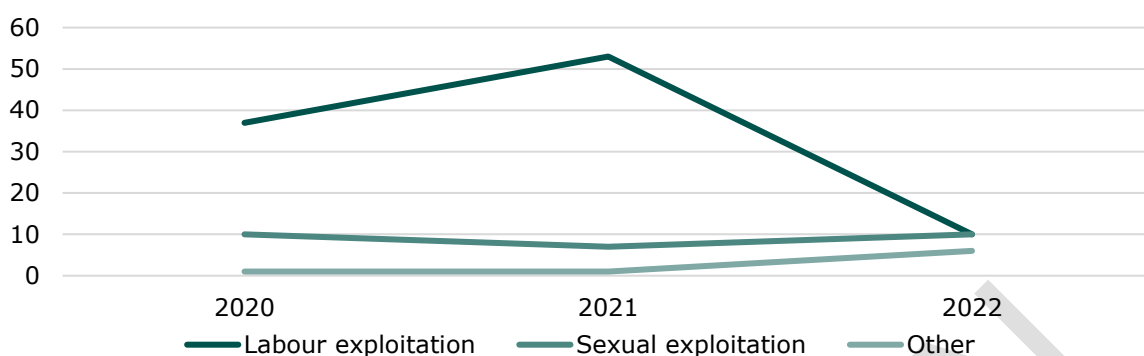
¹⁸⁴ Section 179 of the Criminal Law *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un MK Zīņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

¹⁸⁵ *Law Enforcement Authorities' Criminal Intelligence Analytical Report for 2022*. Page 34.

¹⁸⁶ Report on preventing and combating trafficking in human beings in Latvia in 2020. Available at: <https://www.iem.gov.lv/iv/media/3823/download>.

¹⁸⁷ Report on the situation of trafficking in human beings in Latvia in 2021. Riga, 2022 Available at: http://www.cilvektirdznieciba.lv/uploads/files/ct_parskats_2021.pdf.

Chart 3.2.5 - Formally identified victims of trafficking in human beings by type of exploitation¹⁸⁸



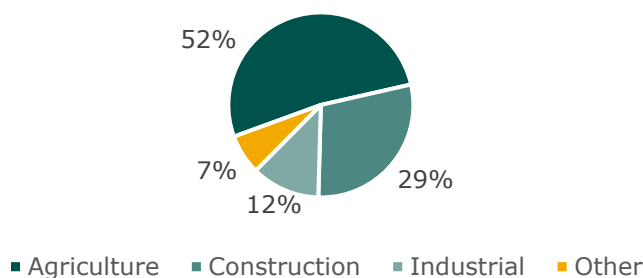
- 3.2.107. Although the total number of cases is relatively small, they identify Latvia as a country of origin, destination, and transit of victims of trafficking in human beings, and as a country in which domestic trafficking in human beings is widespread without crossing the State borders.¹⁸⁹ At the same time, the Report on the situation of trafficking in human beings in Latvia in 2021 points out that, in recent years there has been a tendency to identify more and more third-country nationals, for example, from Uzbekistan, Tajikistan and India, among the identified victims. However, this trend stopped in 2021, and mainly exploitation of Latvian nationals were found to have become victims of domestic trafficking in human beings. The increasing number of domestic cases could be explained by both the growing awareness of law enforcement authorities and the public about trafficking in human beings, and by economic growth, making Latvia not only a country of origin of the victims of trafficking, but also a destination country for trafficking in human beings operations.
- 3.2.108. In cases of labour force exploitation where Latvia is the country of destination, the most frequent countries of origin of the victims are Tajikistan, Uzbekistan and India, with Russia and China also identified in some cases. The countries of origin of the victims of labour force exploitation are characterised by lower average and minimum wage levels, with the majority (85%) of victims coming from the former CIS countries. In general, the CIS countries, India, as well as other countries with significantly lower income levels than in Latvia are to be considered countries at risk of trafficking in human beings (in terms of possible countries of origin of the victims).
- 3.2.109. In cases of labour force exploitation abroad, where Latvia is the country of origin of the victims, the most frequent target countries are the United Kingdom, France, Germany and Spain.
- 3.2.110. Analysis of the cases of labour force exploitation shows that this part of trafficking in human beings is closely linked to the shadow economy. Most frequently, the companies where exploitation of labour force exploitation is detected practice double bookkeeping records, wage payments in cash, but organisers of the criminal scheme operate huge amounts of cash, including the integration of proceeds of crime.
- 3.2.111. As outlined in the Anti-Trafficking in Human Beings Plan for 2021-2023, in the recent years, cases of labour force exploitation and trafficking in human beings have been detected in such labour-intensive sectors as construction, catering, cleaning, manufacturing and agriculture - sectors that require low-skilled labour - all over the world, as well as in Europe. Labour force exploitation and trafficking in human beings are often related to the shadow economy and financial crime.¹⁹⁰
- 3.2.112. When assessing labour force exploitation by sector, the sectors with the highest number of identified victims of labour force exploitation during the reporting period were agriculture, construction and industry. Labour force exploitation is most common in low-skilled, low-wage jobs.

¹⁸⁸ Data provided by the Ministry of the Interior.

¹⁸⁹ Report on preventing and combating trafficking in human beings in Latvia in 2020. Available at: <https://www.iem.gov.lv/lv/media/3823/download>.

¹⁹⁰ Anti-Trafficking in Human Beings Plan for 2021-2023. Available at: <https://www.iem.gov.lv/lv/cilveku-tirdzniecibas-noversana>.

Chart 3.2.6 -Formally identified victims of labour exploitation by economic sector in 2021 and 2020¹⁹¹



- 3.2.113. According to the experts' assessment, the Covid-19 pandemic and the related restrictions have not had a significant impact on the level of local labour force exploitation, but a slight decrease is estimated with regard to sexual exploitation. The decrease is related to both travel restrictions and general public caution during the pandemic.
- 3.2.114. According to the UN Global Report on Trafficking in Persons 2022¹⁹², for the first time in 20 years, 2020 saw a decrease in the number of recorded victims of trafficking in human beings. According to UN experts, pandemic-related restrictions on movement and business may have reduced, at least temporarily, trafficking in human beings for the purposes of sexual exploitation, as well as cross-border trafficking.
- 3.2.115. With regard to potential cases of trafficking in human beings in relation to the Russian-led war in Ukraine, increased risks of trafficking in human beings with regard to asylum seekers from war zones and the following forms of trafficking in human beings should be highlighted: (1) sexual exploitation of women; (2) labour force exploitation; (3) involvement of natural persons in the commission of criminal offences. It should be noted that these risks are exacerbated by the possible rise of recruiters who, taking advantage of the existing chaos in Ukraine and at its borders, the weakened and desperate population and their effort to seek profit outside Ukraine, could seek to exploit the vulnerability of asylum seekers.
- 3.2.116. Attention should also be drawn to the fact that the refugees arriving in Latvia are initially likely able to accept only offers of low-skilled jobs, which are likely to be in sectors of seasonal nature and that have long complained of labour force shortages, such as agriculture, harvesting, etc. The same applies also to the construction sector, which has already lost labour force due to Covid-19 and is experiencing an increase in material and energy prices, which increases the risks of exploitation for asylum seekers from Ukraine.
- 3.2.117. During the reporting period, a total of 19 criminal proceedings for trafficking in human beings according to Section 154¹ of the Criminal Law were initiated nationwide. Mostly, all the criminal proceedings are related to trafficking in human beings for the purposes of labour force exploitation. Within these criminal proceedings, seizure of real estate, vehicles, and funds in the total amount of more than EUR 2 million was imposed.
- 3.2.118. During the reporting period, 6 criminal cases initiated according to Section 154 of the Criminal Law were sent for trial, and 3 persons were convicted of trafficking in human beings. During the reporting period, the court recognised funds in the amount of EUR 11 thousand, as well as several items of real estate and cars obtained as a result of trafficking in human beings as proceeds of crime.
- 3.2.119. During the reporting period, 3 criminal proceedings regarding trafficking in human beings in association with ML were initiated, within the framework of which, seizure was imposed on property worth EUR 606 thousand.

¹⁹¹ Data provided by the Ministry of the Interior.

¹⁹² UNODC 2022 Global Report on Trafficking in Persons. Available at: https://www.unodc.org/documents/data-and-analysis/glotip/2022/GLOTIP_2022_web.pdf.

- 3.2.120. The ML threat in relation to trafficking in human beings is considered to be medium-low, with an upward trend.

Criminal Offences Against the Environment¹⁹³

- 3.2.121. Globally, crimes against the environment are one of the fastest growing ML threats. Described by the FATF as "low-risk, high-reward" crime, it is among the most profitable forms of crime in the world. Their annual global profits are around EUR 110-280 billion - equalling other financial crimes.¹⁹⁴ These profits come mainly from illegal deforestation and violations of waste management provisions.
- 3.2.122. The ML threat from criminal offences against the environment in Latvia is linked to a number of sectors important to the Latvian economy. The forest sector, which includes forestry, wood processing and furniture manufacturing, together accounts for around 5% of Latvia's GDP,¹⁹⁵ as well as around 20% of exports of goods.¹⁹⁶ Whereas, waste generation and the turnover of waste management services, according to the classification of NACE codes 38 and 39¹⁹⁷, was almost EUR 200 million in 2020, involving more than 150 enterprises.¹⁹⁸ This turnover does not exclude thousands of other operators that generate waste and are licensed to generate, treat and manage it.
- 3.2.123. Criminal offences against the environment are committed both by individuals and organised groups, which hide both criminally acquired and managed goods and the benefits from such goods in hard-to-trace international trade and supply chains. The frequent confusion of goods and services of criminal origin with those of legitimate origin makes the identification of environmental crime particularly difficult and requires cooperation with the leading authorities in the environmental sector to prevent, identify, and investigate ML and prosecute the perpetrators.¹⁹⁹ Criminal offences against the environment are also closely related to the shadow economy, where waste from legitimate activities can be illegally managed to save money. Because of these complexities, and because there are often no direct victims, criminal offences against the environment have a high degree of latency.
- 3.2.124. The total number of recorded criminal offences against the environment during the reporting period was 848, which is less than one per cent of all the criminal offences. During the reporting period, there has been a decrease in the number of recorded criminal offences against the environment, while the dynamics of criminal offences has remained relatively stable in the reporting period. Largest share of the criminal offences against the environment is constituted by arbitrary felling and damaging of trees, while the most topical offences were related to violations of hazardous waste management provisions. Although significant environmental offences concern also pollution of the environment by untreated waste water, the proportion of institutions of criminal proceedings in this area is low due to the difficulties in promptly detecting the violation and obtaining evidence. Similarly, the illegal extraction of minerals as non-renewable natural assets damages the environment and increases the illicit profit from economic activity. In this area, lack of a methodology (approach) for assessing significant harm makes criminal investigations difficult.
- 3.2.125. Of the recorded criminal offences, 754 criminal proceedings were initiated during the reporting period. Of these, 12 were for violations of waste management provisions, and 685 were for arbitrary felling and damaging of trees.²⁰⁰ 4 criminal proceedings in total were initiated regarding illegal felling of trees and illegal hunting followed by ML. Although criminal proceedings related to waste management did not have an independent ML element during the reporting period, their relevance is related to their potential to cause material damage to

¹⁹³ Sections 175, 176, 177, 177¹, 178, 179 and 180 of the Criminal Law. *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un MK Zīņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

¹⁹⁴ FATF, *Money Laundering from Environmental Crime*. Available at: <https://www.fatf-gafi.org/en/publications/Environmentalcrime/Money-laundering-from-environmental-crime.html>.

¹⁹⁵ Central Statistical Bureau, *GDP and added value - annual data*. Available at: <https://stat.gov.lv/lv/statistikas-temas/valsts-ekonomika/ikp-gada>.

¹⁹⁶ Central Statistical Bureau, *Foreign trade in goods (imports, exports)*. Available at: <https://stat.gov.lv/lv/statistikas-temas/tirdznieciba-pakalpojumi/areja-tirdznieciba>.

¹⁹⁷ NACE Rev.2 code 38 - 38 | Waste collection, treatment and disposal activities; material treatment, NACE Rev.2 code 29 - Remediation activities and other waste management services.

¹⁹⁸ Lursoft data.

¹⁹⁹ FATF, *Money Laundering from Environmental Crime*. Available at: <https://www.fatf-gafi.org/en/publications/Environmentalcrime/Money-laundering-from-environmental-crime.html>.

²⁰⁰ *Law Enforcement Authorities' Criminal Intelligence Analytical Reports for 2020-2022*.

the natural environment from the high abstract benefits they provide, such as non-payment of statutory taxes and non-compliance with statutory requirements.²⁰¹ For example, in 2022, in one episode involving hazardous waste, the amount of damage identified was EUR 5,040,000 (natural resources tax). Due to the high latency, damage and ML risk of criminal offences against the environment, the LEAs have made criminal offences against the environment priority crime enforcement area after the reporting period.²⁰²

- 3.2.126. When assessing the criminal offences committed in Latvia against the natural environment, it can be concluded that the greatest ML threat is posed by predicate criminal offences related to arbitrary felling and damaging of trees and violation of waste management regulations. Such threat is also linked to other risks, such as corruption.²⁰³
- 3.2.127. Both waste management violations and criminal offences related to the illegal felling of trees are linked to the economic situation, and individuals are more likely to be financially motivated when engaging in related criminal activities. Crimes against the natural environment cover a wide range of offences, including illegal fishing, hunting, use of pesticides in agriculture and the illegal trade in exotic animals. The apparent increase in overall imports and exports of various raw materials over the reporting period is also likely to increase the risks associated with criminal offences against the environment.²⁰⁴

Violation of Waste Management Provisions

- 3.2.128. More than 40 laws and regulations govern the generation and management of waste. The State Environmental Service supervises and controls compliance with most of these laws and regulations, along with other environmental institutions such as the State Environmental Bureau, the Nature Conservation Agency. The State Environmental Service issues permits for waste management activities,²⁰⁵ cancels permits and imposes administrative fines.²⁰⁶ The State Environmental Service also registers waste traders or waste management intermediaries.²⁰⁷ When significant damage is caused to the interests, criminal penalty can increase to imprisonment for a period of up to 20 years.²⁰⁸ The State Environmental Service is also entitled to request and receive from state and local government institutions, as well as - in the cases stipulated by laws and regulations - from private individuals, the information and documents necessary for the fulfilment of the official duties.²⁰⁹
- 3.2.129. Generation and management of waste requires special waste management permits issued by the State Environmental Service.²¹⁰ 166 waste management permits were issued during the reporting period. As at 31 December 2022, there were 104 active waste traders and waste management brokers in total. Of these, 78 legal entities were involved in both waste management brokering and waste trading. During the reporting period, 26 legal entities were removed from the list of waste traders and waste management brokers.²¹¹ Whereas, contracts for the management of producer systems were signed in 2021 and 13 contracts - in 2022.²¹²
- 3.2.130. During the reporting period, criminal offences related to the violation of hazardous waste management provisions became more frequent. Such violations include violation of the

²⁰¹ See the DECISION of the Senate of the Republic of Latvia, Department of Criminal Cases dated 1 February 2023, Case No. 12507000710, SKK 1/2023, page 8.

²⁰² Particular priority is given to Section 99 of the Criminal Law (violation of provisions regarding waste management) and Section 102 of the Criminal Law (pollution and littering of the earth, forests and waters). *Law enforcement criminal intelligence analytical reports for 2022*.

²⁰³ For example, in 2021, Latvian law enforcement authorities found out during an investigation that a Lithuanian company was bringing hazardous untreated waste to Latvia, with the intention of recycling it in Latvia and taking it back to Lithuania. It was ascertained that the recycling was fictitious and that the Lithuanian authorities had issued fake recycling certificates. Latvian law enforcement passed this information on to Lithuanian law enforcement.

²⁰⁴ See Official statistics of Latvia. Available at: <https://stat.gov.lv/lv/statistikas-temas/tirdznieciba-pakalpojumi/areja-tirdznieciba/tabulas/atn010-eksports-un-imports>

²⁰⁵ Waste management activities include collection, transportation, handling, sorting, storage, excavation of closed or reclaimed landfill sites and re-sorting of waste. See Section 12 of the Waste Management Law. Available at: <https://likumi.lv/ta/id/221378>.

²⁰⁶ Regulation of the Cabinet of Ministers No. 113 *Procedure for Accounting of Waste and its Transportation*. *Latvijas Vēstnesis*, 37, 23.02.2021 Available at: <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=NIM:202101550>.

²⁰⁷ Section 12(1), Paragraph One, of the Waste Management Law. Available at: <https://likumi.lv/ta/id/221378>.

²⁰⁸ Chapter 11 of the Criminal Law. *Latvijas Vēstnesis*, 199/200, 08.07.1998; *Latvijas Republikas Saeimas un MK Zīpotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

²⁰⁹ See the Regulation of the Cabinet of Ministers No. 962 *Regulations of the State Environmental Service, Paragraph 5.2*. *Latvijas Vēstnesis*, 189, 30.11.2004 Available at: <https://likumi.lv/ta/id/97132-valsts-vides-dienesta-nolikums>

²¹⁰ The State Environmental Service issues a permit for waste management activities (collection, transportation, handling, sorting, storage, excavation of a closed or recovered landfill site and waste re-sorting). *Section 12 of the Waste Management Law*. Available at: <https://likumi.lv/ta/id/221378>.

²¹¹ *Ibid*.

²¹² State Environmental Service, Waste permits. Available at: <https://registri.vvd.gov.lv/izsniegtas-atlaujas-un-licences/atkritumu-apsaimniekosanas-atlaujas/izsniegtas-atkritumu-apsaimniekosanas-atlaujas/>.

provisions governing the management or use of land, its entrails, waters or forests, where this causes substantial damage. Their relevance also stems from a number of significant violations detected during the reporting period, in particular in relation to the unscrupulous management of construction waste.²¹³

- 3.2.131. Increase in the ML threat with regard to waste management is also indicated by the violations detected by the State Environmental Service during the reporting period. Although they did not change significantly in terms of numbers, amounts of administrative fines increased. The number of fines imposed for violations of waste management provisions and management without a permit²¹⁴ in 159 cases in 2021 totalled EUR 83,810, and in 156 cases in 2022 – EUR 101,725.²¹⁵ It can be concluded that, in 2021 and 2022, the number of cases has remained almost constant but the total amount of fines has increased by EUR 17,915. Waste-related violations accounted for about a quarter of the total fines during the reporting period, with the remainder related to various types of pollution or violations of the provisions of fisheries.
- 3.2.132. Overall, waste-related criminal offences are financially motivated. Profit-earning processes involve both deliberate falsification of a company's waste records, and illegal transportation, treatment, disposal, recycling or re-use of various types of waste. Waste materials include both hazardous and non-hazardous waste, including chemical, construction, oil and electronic waste. There is therefore a high likelihood that waste-related criminal offences may also give rise to the need to carry out an ML.
- 3.2.133. One of the key principles underlying the EU environmental policy is "polluter pays".²¹⁶ Under this principle, polluters bear the costs related to their pollution, including the costs of prevention, control and clean-up measures, as well as the costs caused to the society because of the pollution. Given the rising waste management costs, natural resource taxes and the financial security required during the reporting period, the sensitivity of operators to economic conditions that increase the risk of non-compliance with waste management provisions is also increasing.
- 3.2.134. Against this background, the ML threat arises from a number of ways of concealing or disguising activities involving obtained waste. Violating waste management provisions and the necessary requirements for collection, transportation, handling, sorting or storage of waste can lead to profit from further illegal management thereof. They may also fail to register waste generated by their own activities, thereby profiting from unpaid natural resource tax or other related state duties and payments. Both options allow for different complexities of ML schemes, including domestic and foreign elements and fictitious activities.
- 3.2.135. Waste-related criminal offences have a high latency rate. Majority of economic activities generate waste, and there is no systematic centralised management of its generate and management. Beyond the informative indicators received from operators who have obtained waste generation and management permits, information on criminal offences can only be obtained through control measures or independent reports. For example, in 2022, the State Environmental Service concluded within its activities that 25% of garages (out of 2,588 registered garages) may be operating without the required registration of polluting activities, which opens the vulnerability to profit from illegally managed tyres, used oils, batteries and other environmentally hazardous waste.²¹⁷
- 3.2.136. Latency is increased also by the free cross-border movement of waste. In accordance with the Waste Shipment Inspection Plan, the State Environmental Service has started enhanced supervision of cross-border waste shipments from 2020. Of 66 cross-border shipment inspections in 2020, 20 non-compliances were detected, including 2 illegal consignments. Of 81 cross-border inspections of waste

²¹³ State Environmental Service, *The number of detected violations related to illegal construction waste management is increasing*. Available at: <https://www.vvd.gov.lv/lv/jaunums/pieaug-atklato-parkapumu-skaitis-kas-saistiti-ar-nelikumigu-buvniecibas-atkritumu-apsaimniekosanu>.

²¹⁴ Section 43 (2) and (6) of the Waste Management Law. Available at: <https://likumi.lv/ta/id/221378-atkritumu-apsaimniekosanas-likums>.

²¹⁵ State Environmental Service, *The number of detected violations related to illegal construction waste management is increasing*. Available at: <https://www.vvd.gov.lv/lv/jaunums/pieaug-atklato-parkapumu-skaitis-kas-saistiti-ar-nelikumigu-buvniecibas-atkritumu-apsaimniekosanu>.

²¹⁶ *Law enforcement criminal intelligence analytical reports for 2021*.

²¹⁷ State Environmental Service, *State Environmental Service launches a garage control campaign across Latvia; 25% of garages have not registered their activities with the SES*. Available at: <https://www.vvd.gov.lv/lv/jaunums/valsts-vides-dienests-visa-latvija-uzsak-autoservisu-kontroles-kampanu-25-autoservisu-nav-registrejusi-savu-darbibu-vvd>.

shipments in 2021, 22 revealed non-compliance, including 11 illegal waste shipments.²¹⁸ During the reporting period, the overall risk of illegal waste shipments has been raised by the State Environmental Service from low to medium.

- 3.2.137. Close and continuous cooperation is required between the LEAs, the State Environmental Service and other stakeholders to develop understanding, identify and assess waste-related criminal offences. During the reporting period, national and local authorities did not sufficiently control waste management service providers.²¹⁹ Quality of expert-examination and provision of resources are equally important. For example, in 2022, the SP found forged documents in the operation of a soil analysis and testing laboratory accredited in Latvia.²²⁰
- 3.2.138. ML threat in relation to violations of waste management is considered to be medium-low.

Arbitrary Felling and Damaging of Trees

- 3.2.139. Competence of the State Forest Service includes monitoring of compliance with the laws and regulations governing forest management and use, including detecting violations of these regulatory enactments, initiating administrative violations and other procedural actions.²²¹
- 3.2.140. During the reporting period, 631 criminal offences of arbitrary felling and damaging of trees were recorded. The number of criminal offences identified in 2020 is higher (275 offences), while, in 2021 and 2022, the number of criminal offences remains unchanged at 178. Since the criminal offences related to the illegal felling and damaging of trees are essentially financially motivated crimes, changes in dynamics of criminal offences can probably be linked to changes in market demand.
- 3.2.141. During the reporting period, demand for both sawn timber and other wood products grew significantly with companies in all subsectors enjoying increased turnovers, while demand declined and the price of energy wood peaked in 2022.²²² The increased value of and demand for wood is a possible justification for increased illegal logging in the first year of the reporting period.
- 3.2.142. These dynamics are complemented by the total number of violations of laws and regulations governing forest management and use during the reporting period. Between 2020 and 2021, the number of violations increased from 606 to 765.²²³ It is also important to mention the increase in wood prices during the reporting period.²²⁴
- 3.2.143. It is estimated that around 15-30% of all timber harvested worldwide is illegal.²²⁵ In order to restrict trade in illegally harvested timber and timber products, Regulation (EU) No. 995/2010 of the European Parliament and of the Council laying down the obligations of operators who place timber and timber products on the market²²⁶ creates an obligation to ascertain, before importing products, whether the harvesting, trade and export of timber has been legal in the country of origin. So far, no illegal imports of timber and timber products have been recorded in Latvia.
- 3.2.144. ML threat with regard to arbitrary felling and damaging of trees is low.

²¹⁸ Public annual report of the State Environmental Service for 2021. Available at: <https://www.vvd.gov.lv/lv/media/9092/download?attachment>

²¹⁹ State Environmental Service, The number of detected violations related to illegal construction waste management is increasing. Available at: <https://www.vvd.gov.lv/lv/jaunums/pieaug-atklato-parkapumu-skaits-kas-saistiti-ar-nelikumigu-buvniecibas-atkritumu-apsaimniekosanu>.

²²⁰ Internal document of the LEA Management and Expert Working Group (NCIM).

²²¹ Regulation of the Cabinet of Ministers No. 935 Regulations on tree felling in forests. Latvijas Vēstnesis, 203, 28.12.2012 Available at: <https://likumi.lv/ta/id/253760-noteikumi-par-koku-cirsanu-meza>.

²²² Finance Latvia Association. Latvia's forest sector - high potential, needs to adapt to the age. Available at: <https://www.financelatvia.eu/news/meza-nozare-latvija-augsts-potencials-japielagojas-laikmetam/>.

²²³ State Forest Service, State Forest Service Public Report for 2021. Available at: <https://www.vmd.gov.lv/lv/media/1478/download?attachment>.

²²⁴ Ibid.

²²⁵ National Forest Service, Illegal logging in the world, high-risk countries, timber and wood products imports and the EU Timber Regulation. Available at: <https://www.vmd.gov.lv/lv/nelegala-mezistrade-pasaule-augsta-riska-valstis-kokmaterialu-un-koka-izstradajumu-imports-un-es-kokmaterialu-regula>

²²⁶ Regulation (EU) No. 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market. Available at: <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32010R0995>

3.3. Threat of Foreign Predicate Offences

- 3.3.1. Latvia's geographical location means that it is on a transit route between the East and the West. Latvia's border with Russia and Belarus is an external border of the EU, so there is a risk that financial resources in the form of cash, precious metals or other assets, including goods for consumption in Latvia and elsewhere in the EU, could be moved across the border.
- 3.3.2. Latvia is a transit route for smuggled excise goods from Russia and Belarus to Scandinavia and the UK, as well as for smuggled narcotic drugs both from Europe to Russia and on other routes, which creates a need to launder the funds acquired through the sale of these illicit substances, including by moving them through Latvia.
- 3.3.3. Latvia has historically positioned itself as a regional financial centre, both by attracting deposits from non-residents and providing financial services through non-cash money remittances between the CIS and EU member states and the rest of the world. A gradual decline of a role of the financial centre is indicated also by a significant drop of Latvian rating at the Global Financial Centres Index – in September 2017, Riga took the 53rd position, while in September 2019, it was ranked the 85th among the global financial centres, but in September 2022 - the 107th place.²²⁷
- 3.3.4. Changes in the financial sector at the end of the NRA 2020 period have remained effective also in the current reporting period. According to SWIFT system data, during the period 2013-2017, monthly flows of funds between Latvia's financial sector and the CIS countries averaged 13.5 billion USD, but flows with offshore financial centres²²⁸ – 9.8 billion. During the reporting period, flows with the CIS countries decreased by 89% year-on-year, while flows with offshore financial centres decreased by 93%.²²⁹
- 3.3.5. According to the global civil society organisation's Transparency International Corruption Perceptions Index, Latvia ranked 38 in 2022, while the neighbouring Russia and Belarus - 137th and 91st, respectively. Other CIS countries that appear in the historical²³⁰ ML criminal proceedings during the reporting period should also be specified - Uzbekistan (126th), Azerbaijan (157th), and Kazakhstan (101st). Such indicators point to a high level of corruption in these countries, and, consequently, a high likelihood of the generation of criminal proceeds and the need to launder them, including through Latvia's financial and non-financial sectors.
- 3.3.6. With regard to cross-border flows of proceeds of crime, both in cash and non-cash form, at the end of the reporting period, a significant increase in the threat should be linked to the origin of funds generated abroad as a result of sanctions violations and laundered through Latvia. The risks of sanctions violation and circumvention are assessed and described in more detail in [Chapter 6 of the NRA 2023](#), it is important for reporting entities to assess and manage the impact of risks of sanctions violation and circumvention also in relation to ML risks, especially within the context of cross-border flows.

Cross-Border Non-Cash Flows

- 3.3.7. The decline in foreign currency payments in the Latvian financial sector, which was fixed at the end of the NRA 2020 reporting period, has preserved also in the current reporting period. Compared to 2015, when payments in foreign currencies (such as USD, GBP, RUB) accounted for 79% of all payments in the Latvian financial sector, in 2022, payments in foreign currencies account for mere 8%.²³¹ The period from 2013 to 2017 also shows a strong correlation between outgoing and incoming flows, with a Pearson correlation coefficient between outgoing and incoming flows of 0.99, strongly indicating on transit payments. Since the financial sector reforms commenced in 2018, this coefficient has decreased to 0.86 by July 2022,²³² which, combined with the flow data, in proportional and absolute figures, indicates on significant

²²⁷ Long Finance & Financial Centre Futures, *The Global Financial Centres Index 32*. Available at: <https://www.longfinance.net/publications/long-finance-reports/the-global-financial-centres-index-32/>.

²²⁸ According to the IMF definition provided in the document *Past IMF Staff Assessments on Offshore Financial Centres (OFCs)*. Available at: <https://www.imf.org/external/np/ofca/ofca.aspx>.

²²⁹ IMF, IMF Nordic Baltic Technical Assistance Project.

²³⁰ In relation to possible criminal transactions carried out before the reporting period, mainly in 2013-2018.

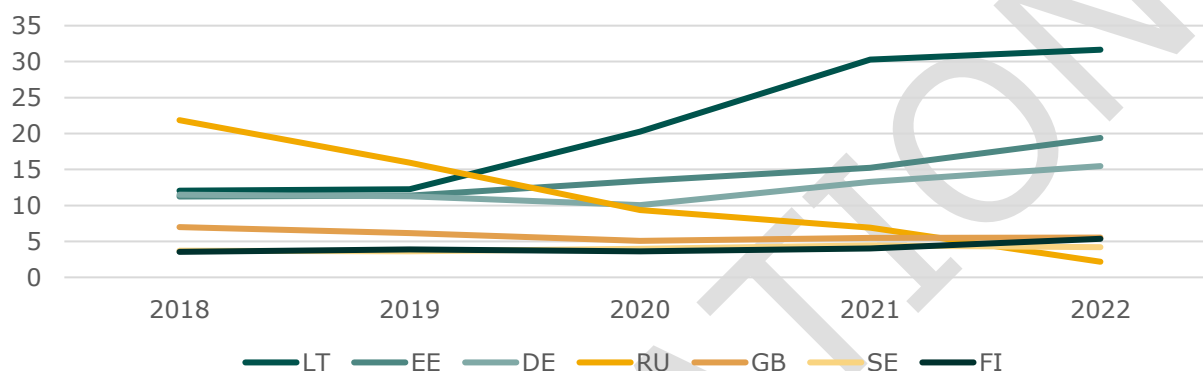
²³¹ IMF data, Bank of Latvia data.

²³² IMF, IMF Nordic Baltic Technical Assistance Project.

reduction in the risk of Latvia and its financial sector being used as a transit country for criminal financial flows.

- 3.3.8. The geography of customer flows in the Latvian banking sector has changed significantly over the reporting period compared to the previous reporting period. In absolute terms, the highest increase in total flows (incoming + outgoing payments) in 2022 compared to 2019 is with the neighbouring countries Lithuania (EUR +19.4 billion, +158%) and Estonia (EUR +8.0 billion, +71%), while the highest decrease - with Russia (EUR -13.8 billion, -86%). Payments with Poland also increased significantly in proportion to the previous reporting period (EUR +1.9 billion, +68%) and Norway (EUR +1.7 billion, +107%), but a significant decrease was with Belarus (EUR -1.1 billion, -70%).

Chart 3.3.1 – Total cross-border payment flows made by the customers of Latvian banks, billion EUR²³³



- 3.3.9. The decrease in payment flows with Russia and Belarus is mainly attributable to a decrease in the risk “appetite” of credit institutions at the end of the NRA 2020 reporting period and during the reporting period, as well as to the EU sanctions imposed on Russia and Belarus. When assessing growth during the reporting period, it is an important to take into consideration inflation, especially in 2022. Likewise, with regard to Lithuania, it is important to note that the Lithuanian EMI sector has developed significantly during the reporting period, with Latvian legal entities accounting for at least 20% of the total number of the Latvian legal entities, while number of Latvian natural persons is conservatively estimated to account for at least 15%, and possibly twice as many.²³⁴
- 3.3.10. When assessing payment flows within the context with foreign trade, foreign financial investments and other economic indicators, cross-border payments are based on economic activity for most partner countries during the reporting period, including most of the 10 countries with which customers of Latvian banks have the largest number of cross-border payments. For both incoming and outgoing payment flows with Lithuania, economic activity justifies less than a third of the payment flows.²³⁵ Factors explaining a significant part of the difference are payments to accounts held by Latvian natural persons and legal entities, opened with Lithuanian financial institutions, intra-group payments related to a service group account,²³⁶ payments related to the provision of an e-commerce service and other factors.
- 3.3.11. Other countries whose payment flows with Latvia are not fully supported by economic activity indicators have outgoing payments to the UK and both outgoing and incoming payments with Switzerland. From jurisdictions with which Latvia has a lower payment flow, some offshore financial centre jurisdictions (outgoing payments to Hong Kong, Singapore, outgoing payments

²³³ Data of the Bank of Latvia.

²³⁴ Data on the largest operators, compiled by the FIU.

²³⁵ IMF, IMF Nordic Baltic Technical Assistance Project. Within the framework of the project, the IMF assessed cross-border economic cooperation indicators (foreign trade, foreign direct investment, foreign indirect investment (including portfolio flows)) within the context of incoming and outgoing payment flows with the financial sector of the countries concerned, in order to identify countries where economic cooperation indicators support financial flows only partially or do not support at all.

²³⁶ Under the group account or cash consolidation service, group accounts of companies opened with the same credit institution in different countries are managed within the framework of a common solution to balance each individual company's balance, make intra-group loans, etc.

to the United Arab Emirates) and the CIS countries (Kazakhstan, Armenia, incoming payments from Uzbekistan), payment flows are not fully supported by economic activity indicators.²³⁷

- 3.3.12. During the reporting period, a total of 1,075 criminal proceedings were initiated regarding ML. More than 60% of these criminal proceedings were initiated for allegedly criminal transactions carried out before the reporting period, mainly between 2013 and 2018, and most often related to transactions carried out in credit institutions currently under liquidation. The amount of funds seized in these criminal proceedings during the reporting period exceeds EUR 2 billion. The vast majority of them relate to the historical threat of a foreign predicate offence. Although the number of identified criminal offences and the amount of funds, as well as the number of criminal proceedings initiated, have increased several-fold compared to the previous reporting period, in most cases, the transactions identified were carried out in previous reporting periods. This confirms the conclusion drawn from the analysis of financial flows: the threat of foreign predicate offences is decreasing significantly during the reporting period. At the same time, the experience and skills of the FIU, the LEAs (in particular, the SP and the CPCB), the public prosecutor's office and the courts, including the Economic Affairs Court established during the reporting period, in dealing with cases of foreign predicate offences for ML, developed when dealing with cases related to historical foreign predicate offences for ML, grew substantially during the reporting period.
- 3.3.13. During the reporting period, 191 criminal proceedings regarding ML were initiated where the criminal offence was committed abroad, cross-border cashless payments were made and at least part of the transactions took place during the reporting period. The number of such criminal proceedings is on a slight downward trend during the reporting period, with proportionally fewer such proceedings being initiated in 2022 (28% of those initiated during the reporting period). Within the framework of these criminal proceedings, the following items were seized: allegedly criminally acquired non-cash funds amounting to EUR 19.5 million, more than 90 immovable properties, 35 vehicles, securities and capital shares in companies.
- 3.3.14. Although the CIS countries still continue to prevail as the countries of origin of the proceeds of crime during the current reporting period, the proportion of European countries is increasing, in particular Germany and France, and less frequently of other third countries – the US, the UK, China. The main ML methods remain similar to the previous reporting periods – use of offshore companies, nominee directors to hide UBOs, making and receiving fictitious loans, use of money mules, assignment of debts to make it difficult to trace the funds, etc. The number of criminal proceedings involving the VC is on the rise.

Case Analysis No. 3.3.1:

Public Prosecutor of the Specialised Public Prosecutor's Office for Organised Crime and Other Branches has prosecuted an organised group of 14 persons, one of them a citizen of the Federal Republic of Germany, the rest – Latvian nationals, for ML through the so-called "money mule" network.

The organised group ensured laundering of proceeds of crime generated abroad in Latvia through an extensive network of "money mules" which consisted of more than 90 individuals. These individuals ("money mules") have been prosecuted in the past (in the period 2020-2022) and have been imposed the sanctions provided for by law.

The ML scheme set up by the members of the organised group of persons ensured the transfer of funds defrauded abroad to the bank accounts of Latvian nationals in the form of instant payments, after which the incoming funds were immediately withdrawn in cash, converted into cryptocurrency and transferred into cryptocurrency wallets controlled by the organisers of the group.

- 3.3.15. Fraud is identified as the main foreign predicate criminal offence. At the same time, given that the regulatory enactments of Latvia stipulate that it is not necessary to prove the specific criminal offence from which the proceeds were laundered, cross-border ML is most often identified without a specific predicate offence.

²³⁷ Ibid.

Case Analysis No. 3.3.2:

In 2022, 2 persons were prosecuted for laundering proceeds of crime and other property on a large scale in a group of persons according to a prior agreement. They were also charged with concealing statutory accounting documents stipulated for business by law motivated by greed, thus causing substantial damage. As it was ascertained during the investigation, both defendants agreed to launder in the jurisdiction of the Latvian state funds generated by a criminal offence in foreign jurisdictions (including the United Kingdom and Estonia), which was not precisely ascertained during the criminal proceedings in the amount of at least EUR 2 million. For this purpose, the persons used companies established in Latvia by further engaging them in investment transactions, as well as established a new company to hide the origin of the proceeds of crime and convert them into other material assets.

The defendants, being board members of the companies, i.e., persons who are responsible for keeping the accounts in accordance with the law, agreed to open bank accounts outside the Republic of Latvia, motivated by greed, in order to conceal and facilitate ML, concealing it from the SRS. The defendants also did not provide information on the opening of accounts, account statements or supporting documents for transactions made therein to the accounting firm which provided accounting services to the companies, being aware that such information would not be included in the relevant accounting records.

- 3.3.16. Along with the Russia's war in Ukraine and the subsequent sanctions, controls on non-cash and goods flows with Russia, Belarus and other CIS countries are increasing significantly to ensure control of the sanction's regime. Accordingly, the ML threat caused by the criminal offences committed in these countries and non-cash flow from them decreases in 2022. At the same time, criminals in these countries will continue to look for opportunities and new ways to carry out ML.
- 3.3.17. During the reporting period, the threat posed by cross-border cashless flows is significantly reduced compared to previous reporting periods, in particular to the period 2013-2017, which is additionally influenced by the global events in 2022. At the same time, a shift in the geography of cross-border ML threat was identified during the reporting period and cross-border non-cash ML threat from EU countries and other third non-CIS countries, as well as the use of crypto-assets for ML purposes are expected to continue to grow during the next reporting period.
- 3.3.18. ML threat caused by cross-border cashless flow is assessed as medium-high with a downward trend during the reporting period.

Cross-Border Cash Flow

- 3.3.19. The Law on Declaration of Cash at the State Border stipulates that a person is obliged to declare cash exceeding EUR 10,000 when crossing the external (EU external) State border.²³⁸ From 1 July 2019, the same amount of cash must also be declared when crossing an internal EU border, if requested by the competent authority.
- 3.3.20. According to the customs data, amount of upon entry into Latvia during the reporting period was EUR 58.0 million, and upon departure – in the amount of EUR 135.9 million. Compared to the NRA 2020 reporting period, the amount of cash declared upon entry has decreased by almost EUR 200 million, while upon departure – by just over EUR 300 million.
- 3.3.21. Similarly, as with non-cash flows, cross-border cash flows have been significantly affected by Russia's war in Ukraine and the related EU sanctions, including the suspension of air traffic with Russia and Belarus. The number and volume of declarations during the reporting period was also significantly affected by the Covid-19 pandemic and the related restrictive measures, in particular with regard to movement and travel restrictions.
- 3.3.22. Individuals declared cash in the amount of EUR 40.8 million when entering Latvia and EUR 10.50 million upon departure, thus, as in the NRA 2020 reporting period, natural persons

²³⁸ External border means the EU's external border. Section 5 of the Law on Declaration of Cash at the State Border. *Latvijas Vēstnesis*, 62, 17.04.2007; *Latvijas Republikas Saeimas un MK Zīņotājs*, 10, 24.05.2007 Available at: <https://likumi.lv/doc.php?id=155879>.

declare several times higher amounts of money when entering Latvia than when leaving. Whereas, legal entities, upon entry into Latvia, declared cash in the amount of EUR 17.3 million, but upon departure – EUR 125.4 million which is in line with the findings made during the reporting period NRA 2020. The trend that the legal entities declaring money upon departure are frequently financial institutions, including FCT.

- 3.3.23. In cash declarations upon arrival, a similar amount is declared on roads and at the airport, while most of the amount declared on departure is carried by air. The most frequent countries from which funds enter the EU across the Latvian border are Russia (EUR 14.8 million), Switzerland (EUR 12.4 million), Ukraine (EUR 5.3 million), Kazakhstan (EUR 4.0 million) and Georgia (EUR 3.7 million). The most frequent countries of export of funds²³⁹ are Russia, Switzerland, the United Kingdom and Armenia.
- 3.3.24. In 2020, 5 criminal proceedings regarding evasion of cash declaration were initiated, in 2021 – 3, and in 2022 – 10.²⁴⁰ During the reporting period, the SRS TCPD initiated 50 criminal proceedings regarding ML, based on undeclared or falsely declared movement of cash across the border of Latvia.²⁴¹ The amounts seized range from EUR 5 to 20 thousand in smaller scale cases up to several hundreds of thousands of EUR, including 2 cases exceeding EUR 700 thousand. Unlike in the NRA 2020 reporting period, when almost all criminal offences were related to border crossings via air traffic from Russia and Ukraine, in current reporting period, more than two thirds of the identified cases were recorded at land borders, including a similar number at the EU external border (Russia - 16, Belarus – 4) and internal border (Estonia – 10, Lithuania – 4). As regards cases involving air travel, 5 cases involved funds coming from Russia and 1 case involved an attempt to export funds to Russia; other countries were mentioned once during the reporting period. Changes in the number of cases recorded at the land border during the reporting period is related to increased capacity for surveillance and control by the SRS, but not necessarily to an increase in the threat.
- 3.3.25. Majority of the 50 criminal proceedings regarding ML, based on undeclared or falsely declared cash movements across the State border of Latvia, were related to the entry into Latvia, while 5 cases were initiated in connection with the movement of allegedly criminally obtained cash upon departure from Latvia. The total amount of the alleged proceeds of crime in these criminal proceedings amounts to equivalent of EUR 4.3 million, with the major share being constituted by cases where the country of origin or destination is Russia (EUR 1.36 million) and Lithuania (EUR 1.57 million). The most frequent offenders are citizens of Russia (15 cases), Lithuania (6 cases) and Latvia (5 cases). In cases where a criminal offence is identified at the internal border, citizens of the Baltic States are involved, while, at the external border, the vast majority of cases involve third-country nationals.
- 3.3.26. An important source of data for estimating cash trends is data of central bank on cash issuance. In Latvia, since joining the eurozone in 2014, the cash issuance rate has been negative year on year until 2020, which, in a positive economic environment, indicates on significant cross-border cash flows, which is related to both legitimate and, in relation to part of the funds, also to criminal purposes, such as funds for the payment of “envelope wages”.²⁴²
- 3.3.27. During the Covid-19 pandemic and the related movement restrictions, the *EUR* issuance balance of the Bank of Latvia rose from EUR -285 million in Q1 2020, to EUR +187 million in Q1 2022. It can be concluded that, during the reporting period, compared to previous reporting periods, external factors have led to a decrease in overall cross-border cash flows, including reduction in ML threat posed by cross-border cash flows.²⁴³ The impact of Russia’s war against Ukraine should also be taken into consideration, with the general insecurity leading to increased cash withdrawals in February and March 2022.

²³⁹ This includes both declarations upon departure and final state declarations upon entry, if they differ from Latvia.

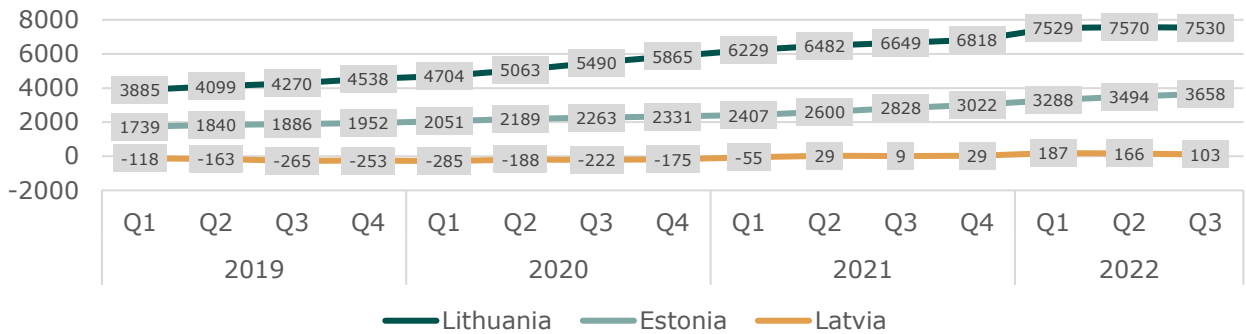
²⁴⁰ Law Enforcement Authorities’ Criminal Intelligence Analytical Report for 2020, 2021, and 2022.

²⁴¹ SRS data, table of ML cases.

²⁴² Cash issuance is the difference between the cash put into circulation by the Bank of Latvia and the cash withdrawn from circulation by the Bank of Latvia. In the event of negative issuance, the amount of cash withdrawn from circulation exceeds the amount of cash put into circulation.

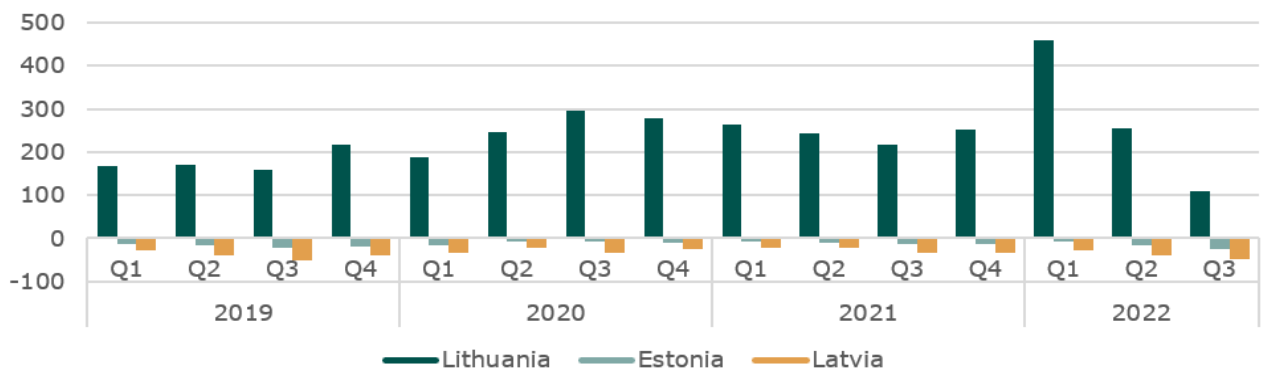
²⁴³ The significant jump in the balance of cash issuance in Q1 2022 is probably related to Russia’s war in Ukraine and the increased activity of the residents in generating cash provisions. Whereas, the drop in Q3 2022 in all 3 Baltic States correlates with the EU aggregates, attributable to rising credit interest rates, thus reducing the economic advantage of cash provisions in relation to non-cash reserves.

Chart 3.3.2 - Total balance sheet of EUR issue in the Baltic States (since joining the eurozone in 2011, 2014 and 2015), million EUR²⁴⁴



3.3.28. An analysis look of the banknote emissions highlights a potential problem with the EUR 100 banknotes in the Baltic States. The Bank of Lithuania issued significantly larger number of EUR 100 banknotes than the euro area on average during the reporting period (in line with the role of the Lithuanian economy among eurozone countries), while in Latvia and Estonia, despite overall positive balances, issuance of EUR 100 banknotes was negative. During the reporting period, funds in EUR 100 banknotes were disbursed in Lithuania and transferred to Latvia and Estonia.

Chart 3.3.3 - Net issue of the EUR 100 banknotes in the Baltic States, million EUR²⁴⁵



3.3.29. Cross-border cash flows pose a significant ML threat, in particular between Russia and the Baltic States. At the same time, the threat has significantly decreased in the reporting period compared to previous reporting periods. This threat could be expected to increase in the next reporting period as cross-border non-cash flows with these countries are restricted (made more difficult).

3.3.30. The ML threat caused by cross-border cash flows is assessed as medium with a downward trend during the reporting period.

²⁴⁴ Data from the Bank of Latvia, the Bank of Lithuania and the Bank of Estonia.

²⁴⁵ Data from the Bank of Latvia, the Bank of Lithuania and the Bank of Estonia.

4. National Vulnerabilities

4.1. Quality of ML/TPF Prevention Policy and Strategy

- 4.1.1. During the reporting period, the Government led by A.K. Karins (23 January 2019 - 13 December 2022) continued to improve Latvia's ML/TPF prevention system in line with the Government's declaration and action plan²⁴⁶ on financial sector reform, ensuring transparent, sustainable and safe operation of the financial sector in Latvia.
- 4.1.2. In addition, at the end of the reporting period, the second government led by A.K. Karins, approved on 14 December 2022, included the prevention of financial crime and the flow of proceeds of crime through Latvia as a priority in the Declaration of the Intended Activities of the Cabinet of Ministers²⁴⁷ ensuring the security and stability of Latvia and the financial system.
- 4.1.3. In order to ensure the implementation of the priorities included in the Declaration of the Intended Activities of the Cabinet of Ministers of the first government headed by A.K. Karins and to further improve the AML/CTPF system, the Government approved the Plan of Measures for the Prevention of Money Laundering, Terrorism and Proliferation Financing for the period from 2020 to 2022 by Cabinet Order No. 576 of 29 September 2020.
- 4.1.4. The Plan was developed by updating the Plan of Measures for the Prevention of Money Laundering, Terrorism and Proliferation Financing for the period from 2020 to 2022, approved by Cabinet Order No. 653 of 23 December 2019. Update of the Plan was made following the publication of the Moneyval Latvia follow-up report on 22 January 2020 and the assessment of Latvia's effectiveness in preventing ML/TPF, approved by the FATF plenary meeting in February 2020.
- 4.1.5. The Plan was based on international, national and sectoral risk assessments, recommendations of²⁴⁸ international organisations²⁴⁹ and the results of the implementation of the plan of measures for the prevention of money laundering, terrorism and proliferation financing for the period up to 31 December 2019.
- 4.1.6. The measures included in the Plan were aimed at strengthening of Latvia's capacity to tackle ML/TPF and the ML/TPF prevention system, reducing the overall risks of ML/TPF. To implement the measures included in the plan, funds in the amount of EUR 10 million were Allocated in line with the Law on the State Budget for 2020.
- 4.1.7. At the end of 2020, work on development of the NRA 2020²⁵⁰ was finalised. Its conclusions and risk mitigation measures were approved at the FIU Advisory Board and the FSDB meetings. In view of this, it was necessary to update the Plan of Measures (2020-2022) by including risk mitigation measures in line with the conclusions of the NRA 2020.
- 4.1.8. Taking into consideration the number of amendments, a new version of the plan was prepared and, on 22 February 2022, the plan of measures for the prevention of money laundering, terrorism and proliferation financing for 2022 was approved by Cabinet Order No. 122.
- 4.1.9. The Plan also integrated measures of the "Plan of Measures to Strengthen Proportionate Approach by Complying With the ML/TPF Prevention Requirements" approved at the sitting of the FSDB of 27 November 2020 to ensure a coherent ML/TPF prevention policy and its planning.

²⁴⁶ Cabinet Order No. 210 of 7 May 2019 *On Action Plan of the Government for the Implementation of the Declaration of the Intended Activities of the Cabinet of Ministers headed by Arturs Krišjānis Kariņš*. *Latvijas Vēstnesis*, 91, 09.05.2019 Available at: <https://likumi.lv/ta/id/306691>.

²⁴⁷ *Declaration of the Intended Activities of the Cabinet of Ministers 14.12.2022* Available at: <https://www.mk.gov.lv/lv/media/14490/download?attachment>.

²⁴⁸ *Sectoral ML/TPF Assessment Summary Report (2017-2018); National Terrorism and Proliferation Financing Risk Report 2017-2018* (updated in July 2019); *ML/TPF Risks of Legal Entities and Non-Governmental Organisations; Updated Latvian National ML/TPF Risk Assessment Report (22 June 2018); Money Laundering and Terrorism Financing Risk Report of Professional Service Providers 2017-2018; VV. Money Laundering and Terrorism Financing Risks, 2021; SNRA, 2019.*

²⁴⁹ Moneyval 5th Round Evaluation Report, 3rd Phase Evaluation of Latvia issued by the OECD Working Group on Bribery in International Business Transactions, IMF Article IV Evaluation Report.

²⁵⁰ *National ML/TPF Risk Assessment Report 2017-2019*. Available at:

<https://www.fid.gov.lv/uploads/files/NEW%20WEB/Nacion%C4%81%C4%81%20NILLTPF%20risku%20nov%C4%93rt%C4%93juma%20zi%C5%86ojuma%20kopsavilkums.pdf>.

- 4.1.10. According to Cabinet Order No. 122 of 22 February 2022 on the action lines of the plan, the responsible institutions developed proposals for measures to prevent ML/TPF for the period after 31 December 2022. The proposals developed were summarised and included in the Plan of Measures for AML/CTPF 2023-2025, which was approved by the Cabinet of Ministers on 13 December 2022 by Order No. 940.²⁵¹
- 4.1.11. The plan has been developed based on the conclusions of the NRA 2020, the recommendations of international organisations and the results of the implementation of the Plan of Measures for AML/CTPF 2022, approved by Cabinet Order No. 122 of 22 February 2022.
- 4.1.12. During the development of the Plan, risks stemming from the rapid and massive increase in EU sanctions against Russia, linked to Russia's war against Ukraine, were taken into consideration. The measures in the Plan have been developed in light of the fact that these circumstances require substantial resources from the Latvian public and private sectors to ensure compliance with the sanctions.
- 4.1.13. The aim of the Plan is to further strengthen Latvia's capacity to combat ML/TPF and to monitor the implementation of ML/TPF requirements, to reduce overall ML/TPF risks, thereby ensuring compliance with international obligations and standards in the area of AML/CTPF and promoting public safety, economic competitiveness and confidence in Latvian jurisdiction. The necessary funding has been earmarked for the implementation of the actions of the Plan: in 2023 – EUR 2,424,059, in 2024 – EUR 1,919,406, in 2025 and every year thereafter – EUR 1,900,566.
- 4.1.14. Implementation of other policy planning documents addressing economic crime also continued during the reporting period. For example, the public authorities' Work Plan to Combat the Shadow Economy 2016-2020²⁵², the Guidelines for Preventing and Combating Corruption 2015-2020²⁵³, the Plan to Prevent and Combat Organised Crime 2018-2020²⁵⁴, the Plan to Restrict Drug Use and Proliferation 2019-2020²⁵⁵, the Guidelines for Preventing Trafficking in Human Beings 2014-2020²⁵⁶, and the Counter-Terrorist Financing Strategy 2019-2021.²⁵⁷
- 4.1.15. In addition, a number of other policy planning documents aimed at strengthening the ML/TPF prevention system and effective combating of economic crimes were approved during the reporting period.
- 4.1.16. On 27 November 2020, the FSDB approved a plan of measures (2020-2022) to strengthen a proportionate approach, thus complying with the requirements for the prevention of money laundering and terrorism and proliferation financing²⁵⁸. The objective of the measures included in the plan approved by the FSDB was to ensure effective and risk-based implementation of the requirements for AML/CTPF, which would ensure further sustainable development of the sector and its ability to finance national economy.
- 4.1.17. Cabinet Order No. 201 of 23 March 2022 approved the Shadow Economy Restriction Plan 2021-2022²⁵⁹ including measures to reduce the shadow economy in sectors where the share of the shadow economy is significantly high. It also includes measures to reduce the circulation of cash of criminal origin across the State borders.

²⁵¹ Cabinet Order No. 940 of 13 December 2022 *Regarding Plan of Measures for the Prevention of Money Laundering and Terrorism and Proliferation Financing 2023-2025*. Available at: <https://likumi.lv/ta/id/338012-par-pasakumu-planu-noziedzīgi-iegutu-līdzekļu-legalizācijas-terorisma-un-prolifēracijas-finansēšanas-novērsēnai-20232025-gadam>.

²⁵² *Public authorities' work plan to restrict the shadow economy 2016-2020*. Available at: https://www.fm.gov.lv/sites/fm/files/eejp_2016_2020_update_0604171.pdf.

²⁵³ Cabinet Order No. 393 of 16.07.2015 *On the Guidelines for Preventing and Combating Corruption 2015-2020*. Available at: <https://likumi.lv/ta/id/275394-par-korupcijas-novērsēnas-un-apkarosanas-pamatnostādņem-2015-2020-gadam>.

²⁵⁴ Cabinet Order No. 90 of 28.02.2018 *On the Organised Crime Prevention and Combating Plan 2018-2020*. Available at: <https://likumi.lv/ta/id/297481-par-organizētas-noziedzības-novērsēnas-un-apkarosanas-planu-20182020-gadam>.

²⁵⁵ Cabinet Order No. 348 of 17.07.2019 *On the Drug Use and Proliferation Restriction Plan 2019-2020*. Available at: <https://likumi.lv/ta/id/308315-par-narkotiku-lietošanas-un-izplatības-ierobežosanas-planu-2019-2020-gadam>.

²⁵⁶ Cabinet Order No. 29 of 21.01.2014 *On Guidelines for the Prevention of Trafficking in Human Beings 2014-2020*. Available at: <https://likumi.lv/ta/id/263902-par-cilvēku-tirdzniecības-novērsēnas-pamatnostādņem-20142020-gadam>.

²⁵⁷ *Terrorism Financing Prevention Strategy 2019-2021*. Available at: <https://vdd.gov.lv/noderigi/terorisma-finansēšanas-novērsēnas-strategija-2019-2021-gadam>.

²⁵⁸ For the purposes of strengthening proportionate approach of the plan or measures, complying with the requirements for AML/CTPF, measures were included in the Plan of Measures for AML/CTPF 2022, approved by Cabinet Order No. 122 of 22 February 2022.

²⁵⁹ *Shadow Economy Restriction Plan 2021-2022*. Available at: <https://likumi.lv/ta/id/331018-enu-ekonomikas-ierobežosanas-plans-20212022-gadam>.

- 4.1.18. On 3 June 2021, the Crime Prevention Council approved the Crime Prevention Council Action Plan²⁶⁰, which is a strategic action plan for the period 2021-2026, including a measure to ensure effective prevention and combating of money laundering, based on the national ML/TPF risk assessment and plan of measures (2020-2022).
- 4.1.19. On 28 September 2021, the Cabinet of Ministers approved the "Anti-Trafficking Plan 2021–2023"²⁶¹, which aims to effectively combat trafficking in human beings in Latvia. The Plan also includes measures to strengthen cooperation and information exchange in Latvia and abroad to promote coordinated and joint inter-institutional action to combat trafficking in human beings, including by developing and improving cooperation and information exchange between the LEA and the financial sector.

Quality assessment of the political commitment and strategy to prevent ML/TPF: 1.0 (high), unchanged.

4.2. Effectiveness of ML Definition

ML Definition

- 4.2.1. During the reporting period, no amendments were made to the ML definition as set out in Section 5(1) of the AML/CTPF Law, and no amendments were made to the dispositions of the Sections of the Criminal Law providing for criminalisation of ML (Section 195 – money laundering and Section 314 – acquisition, possession and disposal of criminally acquired property).

Sanctions for ML

- 4.2.2. On 1 January 2022, amendments to the Criminal Law introducing changes to sanctions for ML offences provided for in Sections 195 and 314 of the Criminal Law:
- 4.2.2.1. In the sanction of the first and second paragraph of Section 195, the words "forced labour" were replaced by "probationary supervision or community service";
- 4.2.2.2. In the sanction of the first paragraph of Section 314, the words "forced labour" were replaced by "probationary supervision or community service".²⁶²
- 4.2.3. These amendments to the sanctions of both Sections are related to the improvement of the criminal sanctions system as a whole, including the introduction of probationary supervision as a basic penalty and the replacement of forced labour with community service.²⁶³
- 4.2.4. In addition, it should be stated that, on 6 July 2020, Section 55 of the Criminal Law was amended to provide for a lower threshold for the imposition of suspended sentence for particularly serious crimes (i.e., 3 years). These amendments follow a recommendation by Moneyval MER to review the impact of Section 55 of the Criminal Law on the effectiveness of AML sanctions, which allows for suspended sentences of up to 5 years.
- 4.2.5. With regard to the coercive measures to be imposed on legal entities, amendments were introduced to the Criminal Law, which entered into effect on 4 May 2022, to exclude from Section 70⁶, Paragraph 1² the reference to the fact that the public prosecutor, when issuing a prescription on a coercive measure to be imposed on a legal entity, may impose no more than a half of the maximum amount of the coercive measure provided for in the Criminal Law, i.e.,

²⁶⁰ Crime Prevention Council Action Plan 2021-2026. Available at: <https://www.tm.gov.lv/lv/media/7695/download>.

²⁶¹ Cabinet Order No. 690 of 28.09.2021 On the Anti-Trafficking Plan 2021-2023. Available at: <https://likumi.lv/ta/id/326420-par-cilveku-tirdzniecibas-noversanas-planu-2021-2023-gadam>.

²⁶² Amendments to the Criminal Law. *Latvijas Vēstnesis*, 250, 29.12.2020 Available at: <https://likumi.lv/ta/id/319860-grozijumi-kriminallikuma>.

²⁶³ Paragraph 25 of the Transitional Provisions was added to the Criminal Law, which stipulates that the basic penalty - probationary supervision - shall be imposed as of 1 January 2022 only on adults who have committed a criminal offence provided for in Sections 126, 130, 130¹, 174, 248², 253² and 340 of the Criminal Law after 31 December 2021 and on minors who have committed any of the criminal offences provided for in Section of the Special Part of the Criminal Law after 31 December 2021. Such a transitional provision has been determined to ensure that, when the amendments to the Criminal Law enter into effect, probationary supervision as a basic penalty can be imposed from the outset on minors for all types of criminal offences, and on adults - for criminal offences involving violence and substance abuse. Amendments to the Criminal Law with relation to probationary supervision as a basic penalty could not initially be fully attributed to all adults, as this would require additional funding from the state budget for the State Probation Service in the amount exceeding EUR 3.5 million per year. Annotation of the amendments to the Criminal Law stated that, after a certain period (at least 3 years), it would be possible to make precise calculations of the load caused to the State Probation Service by the individual criminal offences for which probationary supervision as a basic penalty would be imposed on adults from the moment of entry of the law into effect on 1 January 2022. This will allow us to accurately predict the amount of budgetary resources required in the future to impose probationary supervision as a basic penalty on adults for any type of criminal offences.

half of the maximum amount of the money to be recovered. The public prosecutor can thus impose full amount of the fine. Whereas, the reference to the fact that the public prosecutor, when drawing up a prescription on a coercive measure to be imposed on a legal entity, may not set the total amount or period of the coercive measure higher than the maximum amount or period of the coercive measure provided for the most serious of the criminal offences committed, was excluded from Section 70⁸, Paragraph Seven.

- 4.2.6. It follows that the criminal sanctions policy, including for ML, was strengthened during the reporting period, continuing to ensure that proportionate and dissuasive sanctions or coercive measures could be imposed in each case, in line with the nature of the offence and the harm caused.

Effectiveness of ML Definition and Imposition of Sanctions

- 4.2.7. During the reporting period, the number of criminal proceedings initiated regarding ML, the number of persons charged with ML-related offences and the number of ML cases referred to court and convicted persons continued to increase significantly.
- 4.2.8. The increasing number of adjudicated ML cases and convicted persons (32 persons convicted in 12 criminal cases in 2020; 41 persons convicted in 35 criminal cases in 2021 and 46 persons convicted for ML offences in 41 criminal cases in 2022) indicates the consolidation of a common perception of the ML definition among investigators, public prosecutors and judges. It can be concluded that a consistent practice is under the development in ML cases and that no significant shortcomings can be detected that would affect Latvia's ability to effectively combat ML.
- 4.2.9. In relation to the above, it should be noted that the Supreme Court has enshrined in several decisions case-law on the application of Section 195 of the Criminal Law. On 30 August 2022, the Department of Criminal Cases of the Supreme Court stated in its decision in Case No. SKK-267/2022 that, when deciding on the existence of constituent elements of a criminal offence Section 195 of the Criminal Law, it is irrelevant whether the predicate offence has been completed where it is necessary to establish it.²⁶⁴ Whereas, on 16 June 2022, the Department of Criminal Cases of the Supreme Court ruled in its decision in Case No. SKK-35/2022 that, when holding a person liable for the commission of a criminal offence provided for in Section 195 of the Criminal Law, if no specific predicate offence has been established, the criminal origin of the property with which the laundering activities were carried out must be established.²⁶⁵
- 4.2.10. During the reporting period, public prosecutors actively monitored investigations in criminal proceedings initiated according to Section 195 of the Criminal Law. This is due to the training conducted by the public prosecutors of the Prosecutor General's Office (PGO) in the regions of Latvia on criminal offences concerning ML and the development of guidelines, which facilitated the work of public prosecutors and raised awareness on the investigation and progress of criminal proceedings of this category.²⁶⁶
- 4.2.11. When assessing the effectiveness of sanctions during the reporting period, it is to be concluded that, of 88 criminal cases in which the courts found persons guilty of committing ML, in 9 criminal cases persons were convicted for the criminal offence provided for in Section 195(3) of the Criminal Law, i.e., ML committed on a large scale or in an organised group. In the remaining cases, the persons were tried for the criminal offence provided for in Section 195(2) of the Criminal Law (ML committed by a group of persons according to a prior agreement), which is related to laundering of the proceeds of computer fraud committed abroad, using "money mules" - persons who receive funds in their bank accounts for a remuneration, subsequently withdrawn in cash and transferred to another person. In these cases, the

²⁶⁴ Decision of the Department of Criminal Cases of the Senate of the Republic of Latvia dated 30 August 2022 in Case No. SKK-267/2022. Available at: <https://www.at.gov.lv/lv/tiesu-prakse/judikaturas-nolemumu-arhivs/kriminallietu-departaments/klasifikators-pec-lietu-kategorijam/kriminallikuma-seviska-dala/xix-nodala-noziedzigi-nodarījumi-tautsaimnieciba>.

²⁶⁵ Decision of the Department of Criminal Cases of the Senate of the Republic of Latvia dated 16 June 2022, Case No. SKK-35/2022. Available at: <https://www.at.gov.lv/lv/tiesu-prakse/judikaturas-nolemumu-arhivs/kriminallietu-departaments/klasifikators-pec-lietu-kategorijam/kriminallikuma-seviska-dala/xix-nodala-noziedzigi-nodarījumi-tautsaimniecibat>.

²⁶⁶ Report of the Prosecutor General on progress in 2020 and priority actions for 2021. Available at: <https://www.prokuratūra.lv/lv/par-mums/publiskie-parskati/gada-zinojumi>.

amounts of laundered money do not exceed EUR 17,000. Mostly in such cases the person is sentenced to community service or, pursuant to Section 55 of the Criminal Law, a suspended prison sentence is imposed.

- 4.2.12. During the reporting period, persons found guilty of committing a criminal offence provided for in Section 195(3) of the Criminal Law were sentenced to actual deprivation of liberty. Mostly in these cases, the funds involved in ML were obtained through tax evasion.
- 4.2.13. On a positive note, during the reporting period, coercive measures have been imposed on legal entities in a number of ML-related criminal cases imposing fines in the amount of up to EUR 100,000. In all the aforementioned criminal cases, the ML was committed in conjunction with evasion of taxes and payments equal thereto.
- 4.2.14. Assessing the criminal sanctions imposed for ML according to the nature and harm of the committed criminal offence, it can be concluded that, in the majority of cases, the sanctions imposed by the courts are sufficiently proportionate and of preventive nature.

Assessment

- 4.2.15. It can be concluded that the ML definition has not been amended since the NRA 2020 reporting period and is in line with the Latvia's international obligations.
- 4.2.16. During the reporting period, improvements in the range of sanctions provided for in the Criminal Law have been made, ensuring a variety of criminal sanctions to allow for proportionate and dissuasive penalty in each individual case in line with the nature of the offence and the harm caused.
- 4.2.17. The increasing number of ML cases brought to court and adjudicated during the reporting period shows that the perception of investigators, public prosecutors and judges on how to prove AML is improving significantly.

Assessment of the effectiveness of the ML definition: 0.9 (high), increasing.

4.3. Sufficiency of Regulatory Enactments Governing Forfeiture of Criminally Acquired Property

Legal Grounds of Forfeiture of Criminally Acquired Property

- 4.3.1. During the reporting period, work continued on improvement of Latvia's criminal legal framework with a view to make the system of forfeiture of criminally acquired property more effective.
- 4.3.2. On 3 November 2022, significant amendments made to Chapter 59 of the Criminal Procedure Law on proceedings regarding criminal property entered into effect, addressing a number of issues related both to the right of a person to have access to the file of a criminal case, the right of a person to have the case examined on the merits in courts of at least two instances, and making the examination of proceedings regarding criminally acquired property more effective, including in relation to the time limit within which evidence in relation to the property should be submitted to the Court.
- 4.3.3. The aforementioned amendments to Section 627(2)(1) of the Criminal Procedure Law stipulated that, when adopting a decision to initiate proceedings regarding criminally acquired property and when transferring materials regarding criminally acquired property to the court for decision-making, the person directing the proceedings shall indicate in the decision information on the facts that substantiate connection of the property with a criminal offence or the criminal origin of the property, as well as what contents of case file substantiate the existence of such information and are separated from the criminal case under investigation regarding a criminal offence. In view of the above, Section 627(4) of the Criminal Procedure Law provides for the right of the parties to the proceedings to acquaint themselves with the case file, ensuring that the fundamental rights of persons are not jeopardised, public interest

is protected and the purpose of the criminal proceedings from which the materials have been separated is achieved. According to the aforementioned amendments, the person directing the proceedings may only for objective reasons deny a person access to certain content of the case file. Furthermore, the need to include such materials in the separated case must be carefully assessed, since, in order to ensure the right of a person, including the owner of the infringed property, to a fair trial and the equality of the parties, it is not permissible for a court to make a decision declaring property criminally obtained on the basis of evidence that is not available to the parties.

- 4.3.4. In the Judgement of the Constitutional Court of 23 May 2017 in Case No. 2016-13-01, it was indicated that, in proceedings regarding criminally acquired property conducted in a democratic state governed by the rule of law, the principle of equal opportunities of the parties must be respected, which, inter alia, is related to the right of a person to acquaint themselves with the case file of the proceedings regarding criminally acquired property. Taking into consideration that the new regulation basically provides for the service of all materials on the parties to the case, it should be recognised that, in this way, findings expressed in the Constitutional Court's judgement regarding the need to ensure the right of the parties to acquaint themselves with the case file will be fully implemented.
- 4.3.5. It should be noted that these amendments not only enshrined the fundamental right of a person to a fair trial in proceedings regarding proceeds of crime, but also prevented the shortcomings identified by practitioners, which affected timely settlement of property relations. Taking into consideration the fact that, according to the regulation, the first hearing must take place within 10 days after the decision of the person directing the proceedings is received by the court, in practice it was found that, at the first hearing, in most cases persons expressed a request to acquaint themselves with the case file, and the court, satisfying the request, adjourned the hearing. Accordingly, the next hearing is scheduled after the acquisition with the case file has taken place, which is at a later date depending on the workload of the courts, the persons directing the proceedings and the advocates. Similarly, an appeal against the decision of the person directing the proceedings to reject a request to acquaint themselves with the case file could delay the progress of the proceedings, especially if the court reverses the decision and time is required for the person to be able to acquaint themselves with the case file. The aforementioned amendments to Section 627 of the Criminal Procedure Law remedied the above shortcomings, thereby enhancing effectiveness of the proceedings regarding criminal property.
- 4.3.6. In addition to the aforementioned amendments, a number of other amendments to the Criminal Procedure Law entered into effect on 3 November 2022, aimed at making proceedings regarding criminal property more effective, namely:
- 4.3.6.1. Limited time for submitting evidence on property to the court. Section 629(4) of the Criminal Procedure Law stipulates that the parties to a case have the right to submit evidence only to a district (city) court. This ensures that both the district (city) court and the regional court assess the same evidence in case of a complaint, thus strengthening a fair and impartial hearing.
- 4.3.6.2. Amendments to Section 628 and Section 629(2) of the Criminal Procedure Law stipulate that, where the suspect or defendant and the person from whom the property was collected or whose property was seized, if there are such persons in the relevant criminal proceedings, or another person who has a right to the relevant property in the relevant proceedings has a representative or defence counsel, decisions and notices shall be sent only to him/her. This eliminated the divergent perception of the notification of a person in cases where the defendant or the infringed owner of property has a representative or defence counsel, namely, in some cases notifications are sent to the persons themselves, while in other cases - to the representative or defence counsel. The aforementioned regulation also saves resources for translation, given that, for example, when serving a decision to initiate proceedings regarding criminally acquired property, it will not have to be translated if the representative or defence counsel understands the official language.
- 4.3.6.3. Section 630 of the Criminal Procedure Law has been supplemented with Paragraph Four providing for another basis for termination of proceedings regarding criminally acquired property to ensure that, if the criminal case from which the materials have been separated is referred to court, the court decides to terminate the proceedings regarding criminally acquired property, and the issue of disposal of the property is further dealt with within the framework of the main case.

- 4.3.6.4. Amendment to Section 631 of the Criminal Procedure Law by adding Paragraph Four ensures the right of a person to have the case examined on the merits in courts of at least two instances in proceedings regarding criminally acquired property. Namely, if a district (city) court, when adopting a decision on criminally acquired property or dismissal of a case, has not complied with all the conditions referred to in Section 630(1) and (2) of the Criminal Procedure Law, the regional court may annul the court's decision and refer the case for a new examination.
- 4.3.7. Whereas, according to Paragraph 72 of the Transitional Provisions of the Criminal Procedure Law, amendments to Section 365 of the Criminal Procedure Law entered into effect on 1 January 2021 to improve the legal framework and to provide for the disposal of VC that may be seized within the framework of criminal proceedings. Taking into consideration the fact that the storage of VC causes a risk that its value may decrease, Section 365 of the Criminal Procedure Law stipulates that the seized VC shall be transferred for sale by the decision of the person directing the proceedings and the Cabinet of Ministers shall determine the procedure for sale of VC. Accordingly, monetary value of the sold VC will be kept pending the final decision in the criminal proceedings, to be used to settle claims arising in the course of the criminal proceedings.
- 4.3.8. Besides the above-mentioned amendments to the legal framework ensuring effective confiscation of criminally acquired property, it is also worth to mention the ruling of the Constitutional Court adopted on 23 May 2022, by which Section 70¹¹, Paragraph Four of the Criminal Law and Section 358, Paragraph One of the Criminal Procedure Law were recognised as being compatible with the principle of legal equality included in the first sentence of Article 91 of the Constitution of the Republic of Latvia.²⁶⁷ In the aforementioned ruling, the Constitutional Court concluded that the achievement of the objective of confiscation of criminally acquired property - to immediately remove such property from civil circulation - could not be made dependent on whether a credit institution was undergoing insolvency proceedings. Contrary statement would mean opportunity to continue money laundering. The Constitutional Court concluded that, if criminally acquired property is confiscated on the basis of the contested norms, creditors of a credit institution undergoing insolvency proceedings are not in different circumstances than creditors of such a credit institution which is not undergoing insolvency proceedings.
- 4.3.9. In addition, it should be noted that during the reporting period a total of 17 cases have been initiated in the Constitutional Court regarding the conformity of the confiscation regulation of criminally acquired property with the Constitution of the Republic of Latvia:
- 4.3.9.1. 5 cases on compliance of Section 124(6), Section 125(3) and Section 126(3¹) of the Criminal Procedure Law (Presumption of Criminal Origin of Property and Standard of Proof of Criminal Origin of Property) with the First and Second Sentences of Article 92 of the Constitution of the Republic of Latvia.²⁶⁸ They have been merged into a single case No. 2022-32-01, in which the proceedings have been suspended having regard to the fact that the Constitutional Court has referred preliminary questions to the CJEU.
- 4.3.9.2. 6 cases on compliance of Section 631(3) of the Criminal Procedure Law (procedure for appealing against confiscation of criminally acquired property) with the first sentence of Article 92 of the Constitution of the Republic of Latvia, 5 of which were merged into a single case No. 2021-44-01, and the proceedings have been suspended until the preliminary ruling of the Court of Justice of the EU on the answers to the questions raised by the Constitutional Court on the interpretation of EU legal provisions in the proceedings enters into effect.²⁶⁹ However, proceedings in Case No. 2022-40-01 have also been suspended pending the decision in the merged Case No. 2021-44-01.
- 4.3.9.3. 6 cases on Compliance of Section 627(4) and (5) of the Criminal Procedure Law (the Right of a Person to Get Acquainted with Case File in Proceedings regarding Criminally Acquired Property) with the First Sentence of Article 92 of the Constitution of the Republic of Latvia.²⁷⁰ 5 of the cases have been merged into a

²⁶⁷ Judgement of the Constitutional Court of the Republic of Latvia of 23 May 2022 in Case No. 2021-18-01, available at: https://www.satv.tiesa.gov.lv/web/viewer.html?file=https://www.satv.tiesa.gov.lv/wp-content/uploads/2021/05/2021-18-01_Spriedums.pdf#search=

²⁶⁸ No. 2022-43-01, No. 2022-42-01, No. 2022-39-01, No. 2022-37-01, No. 2022-32-01.

²⁶⁹ No. 2021-44-01, No. 2022-11-01, No. 2022-07-01, No. 2022-12-01, No. 2022-15-01, No. 2022-40-01.

²⁷⁰ No. 2022-01-01, No. 2022-14-01, No. 2022-15-01, No. 2022-21-01, No. 2022-26-01, No. 2022-38-01.

single case No. 2022-01-01, and the proceedings have been suspended until the preliminary ruling of the Court of Justice of the EU in Case No. C-767/22, which will provide answers to the questions raised by the Constitutional Court, enters into effect. However, proceedings in Case No. 2022-38-01 have also been suspended pending the above-mentioned CJEU ruling, having regard to the fact that given that it will affect the outcome of this case.

Right and Obligation to Identify Criminally Acquired Property

- 4.3.10. NRA 2020 indicates that, during its reporting period, work was commenced on the development of regulatory enactments to improve the circulation of information within the framework of both the Criminal Procedure Law and the Law on Operational Activities between the LEAs and credit institutions, ensuring such a circulation by means of standardised documents in electronic format, thus both speeding up the exchange of information and allowing this information to be analysed.
- 4.3.11. During the reporting period of this NRA 2023, the above-mentioned work on the development of the regulation continued and, on 1 July 2021, the Cabinet Regulation No. 393 "Procedures for Requesting and Providing the Non-disclosable Information at the Disposal of a Credit Institution, also Information in Case of Transaction Monitoring", issued pursuant to Section 63(3¹) and (3²) of the Credit Institution Law, entered into effect.
- 4.3.12. The Cabinet Regulation "Procedures for Requesting and Providing the Non-disclosable Information at the Disposal of a Credit Institution, also Information in Case of Transaction Monitoring" stipulates a unified and clear action for the persons directing the proceedings, subjects of operational activities, courts, FIU and credit institutions in cases when non-disclosable information held by a credit institution is requested and provided, including the introduction of a technical solution that makes data exchange between these subjects faster and simpler.
- 4.3.13. It should be further mentioned that, during the reporting period, the PGO developed a methodological material on parallel financial investigation in the investigative authority, available to public prosecutors since the end of 2021 and was presented to investigators at the meeting of the National Criminal Intelligence Model's (NCIM) specialised inter-institutional expert working group on 9 February 2022. This material was developed in line with the Plan of Measures (2020-2022), which aims to introduce a unified approach to parallel financial investigations by investigating the predicate offence, thereby also ensuring the identification of criminally acquired property.

Third Parties' Rights to Property

- 4.3.14. With regard to third parties' rights to property, on 6 March 2021, amendments to Section 360 of the Criminal Procedure Law entered into effect, adding Paragraph 2¹, which stipulates that if the criminally acquired property is real estate to be transferred to the state, it shall be left within the ownership of a third party, provided that this person is a bona fide acquirer of the property and his/her ownership rights have been corroborated in a public register. Whereas, value of the property is recovered in accordance with the procedures laid down in the Civil Procedure Law in favour of the State from the person who has committed the criminal offence.
- 4.3.15. These amendments were developed after the legislator found that the existing legal remedies for the protection of a person who has acquired property in good faith, but later the property is recognised as criminally acquired, were of poor effect. However, the Constitutional Court's judgement in Case No. 2016-07-01 "On Compliance of Section 356(2) and Section 360(1) of the Criminal Procedure Law with Article 1, the first sentence of Article 91, Article 92 and Article 105 of the Constitution of the Republic of Latvia" stipulated that the rights of the victim should be protected by returning the defrauded property to the victim, but proper protection of the bona fide acquirer should also be guaranteed.
- 4.3.16. In light of the above, Section 360 of the Criminal Procedure Law was amended to provide a legal framework to protect the rights of a bona fide acquirer of property. At the same time, it should be concluded that the amendments regulate a very specific situation, which is an exception to the general regulation, when heirless property that has been recognised as

criminally acquired property and to which ownership rights to the bona fide acquirer have been registered in the Land Register after commission of a criminal offence, is left to the bona fide acquirer, while the value of this property is recovered from the person who has committed the criminal offence in favour of the State.

Effectiveness of Application of the Regulation on Confiscation of Criminally Acquired Property

- 4.3.17. During the reporting period, in accordance with the Plan of Measures for AML/CTPF 2020-2022, approved by Cabinet Order No. 576 of 29 September 2020, the MoJ prepared reports on the effectiveness of application of confiscation of criminally acquired property in 2020 and 2021.
- 4.3.18. According to these reports, in 2020, the courts decided in 77 judgements to recognise funds in the total amount of EUR 3,070,470.50 as criminally acquired funds. Whereas, in proceedings regarding criminally acquired property, the courts recognised by 79 decisions funds in the total amount of EUR 37,712,198.85 as criminally acquired funds, including shares worth in total more than EUR 17 million, additionally recognising real estate, vehicles, precious metals, gems, etc. as criminally acquired.
- 4.3.19. In 2021, the courts recognised by 37 judgements funds in the total amount of EUR 2,094,992 as criminally acquired funds, besides, 17 vehicles and other items (e.g., a pistol, banknotes of various currencies, a watch, jewellery, cufflinks, bracelets, figurines, bags) with no specified value were confiscated. Whereas, in proceedings regarding criminally acquired property, the courts adopted 185 decisions on the recognition of property worth EUR 82,020,971 as criminally acquired, as well as real estate, vehicles, jewellery, securities and capital shares.
- 4.3.20. According to the data provided by the Court Administration, in 2022, the courts recognised by 48 judgements, entered into legal effect by 31 January 2023, funds in the amount of EUR 216,454.37 as criminally acquired funds, as well as real estate, vehicles and gold bars, and, within the proceedings regarding criminally acquired property, the courts recognised by 130 decisions, entered into legal effect by 25 April 2023, funds in the amount of EUR 106,247,163.97 as criminally acquired funds, as well as real estate, vehicles, securities, financial instruments etc.

Chart No. 4.3.1 - Funds recognised as criminally acquired in court judgements, amount in EUR

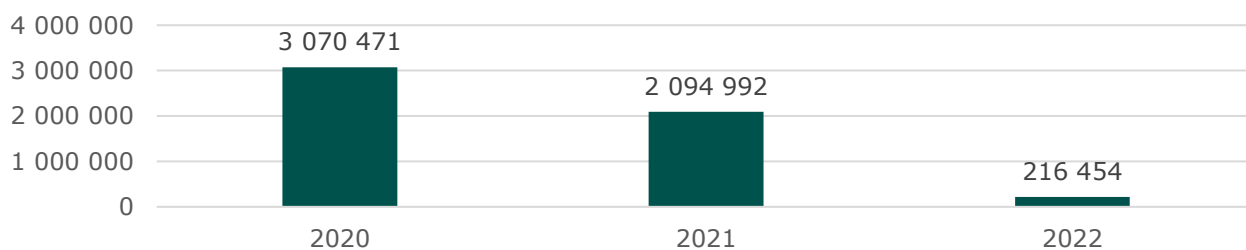
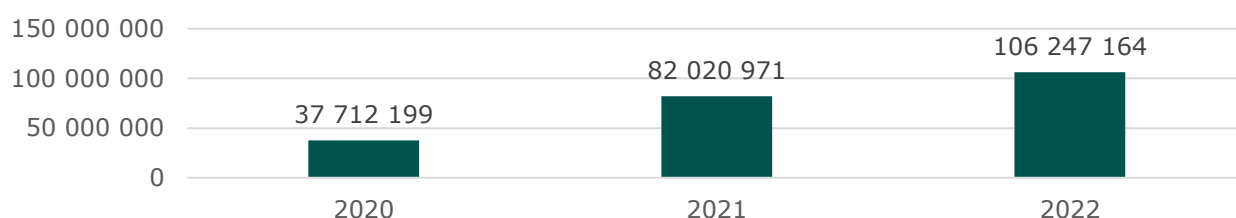


Chart No. 4.3.2 - Funds recognised as criminally acquired in court decisions, amount in EUR



- 4.3.21. In its examination of decisions on the recognition of property as criminally acquired or connected with a criminal offence and its confiscation or return to the victim, the MoJ concluded that a stable case law had been established with regard to the application of such legal provisions which determine the standard of proof and presumption of criminal origin of property.

4.3.22. The issues identified in the MoJ confiscation reports for 2020 and 2021 were included in the MoJ manual on disposal of property in criminal proceedings,²⁷¹ which was regularly clarified and updated, providing the necessary explanation for practitioners on the interpretation and application of legal provisions.

Assessment

4.3.23. During the reporting period, the legal framework for confiscation of proceeds of crime was substantially improved, including by making the proceedings regarding proceeds of crime more effective.

4.3.24. At the same time, it can be established that the case law in cases regarding criminally acquired property has continued to develop during the reporting period, strengthening the perception of the LEAs, public prosecutor’s office and courts on the necessity of recovery of proceeds of crime and the possibilities of application of legal provisions, which has reflected also in the amounts of seized funds and the results of confiscation.

4.3.25. Positive move during the reporting period is the MoJ practice to assess the court rulings by which property was recognised as criminally acquired or related to a criminal offence, while identifying problematic issues, collecting confiscation statistics and valuable case law on the application of the legal framework on confiscation, which is used in the manual on disposal of property in criminal proceedings, developed by the MoJ.

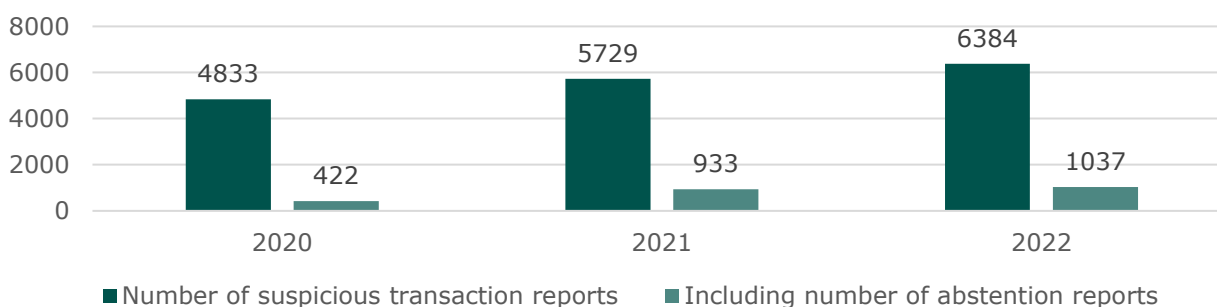
4.3.26. At the same time, the large number of cases initiated before the Constitutional Court regarding the compatibility of the of the legal framework on confiscation of criminally acquired property should be emphasised, with decisions of the Constitutional Court expected that may affect the legal framework on confiscation of criminally acquired property in the future.

Suitability assessment of regulatory enactments governing forfeiture of criminally acquired assets: 0.9 (high), increasing.

4.4. Quality of Financial Intelligence Data Collection and Processing

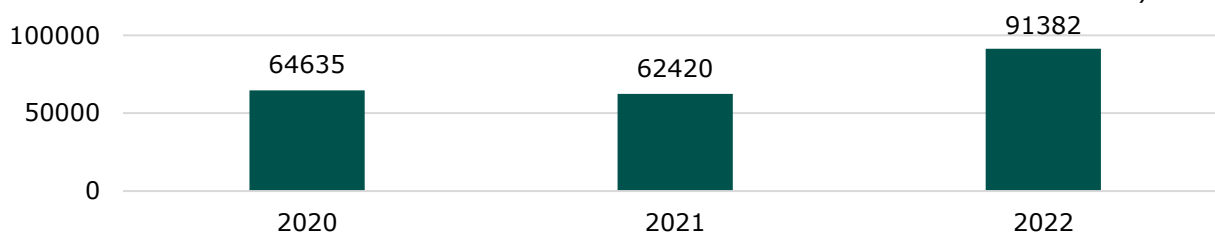
4.4.1. The FIU is the leading authority in the area of ML/TPF, receiving and analysing reports of suspicious transactions and other information that can be used to prevent and combat ML/TPF, in accordance with the AML/CTPF Law. The number of suspicious transaction reports received by the FIU during the reporting period has increased every year (Chart 4.4.1 and Chart 4.4.2).

Chart 4.4.1 - Number of reports received by the FIU.



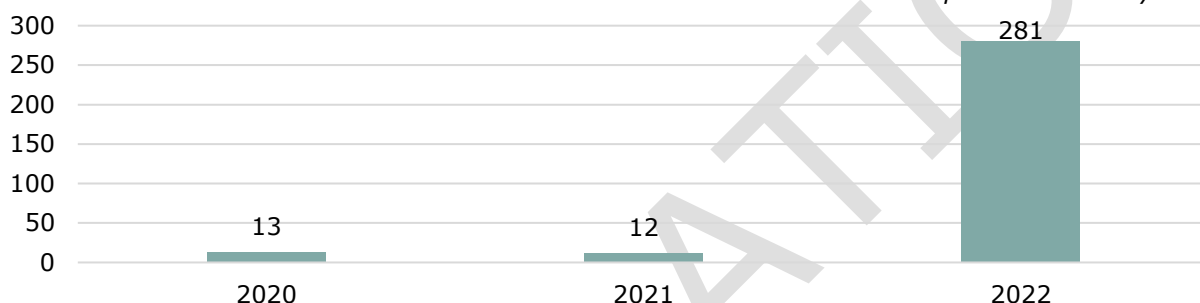
²⁷¹ Manual on disposal of property in criminal proceedings - update, 2022 Available at: <https://www.tm.gov.lv/lv/media/3577/download?attachment>.

Chart 4.4.2 - Number of threshold declarations received by the FIU.



- 4.4.2. The increase in suspicious transaction reports, in particular reports where the subject of the AML/CTPF Law has initiated abstention from transactions during the reporting period is still attributable to customer checks carried out during the liquidation of credit institutions undergoing the liquidation proceedings (Chart 4.4.1). A significant increase in reports of suspicious transactions to circumvent international and national sanctions has also been identified in 2022, which is attributable to geopolitical processes and the international sanctions imposed in relation thereto (Chart 4.4.3).

Chart 4.4.3 - Sanction circumvention reports received by the FIU.



- 4.4.3. The FIU has the power to issue a freezing order binding on the subject of the AML/CTPF Law or the national information system administrator where there are reasonable grounds to suspect that a criminal offence, including an ML/TPF offence or attempted offence of this nature is in progress or has been committed (Table 4.4.1).

Table 4.4.1 - Funds and values frozen by the FIU.

Year	Amount of frozen funds (mln. EUR)	Freezing orders issued	Real estate	Bank safe deposit boxes
2020	429.41	440	45	4
2021	209.63*	363	30	1
2022	357.25*	456	18	0

*Excludes value of securities and real estate

- 4.4.4. In parallel to the freezing of proceeds of crime, the FIU provides investigative authorities, public prosecutor's office and the courts with information that can be used to detect ML/TPF or attempted ML/TPF, pre-trial criminal proceedings or trial (Chart 4.4.4, case studies No. 4.4.1 - No. 4.4.4). This information is provided in accordance with the institutional jurisdiction set out in Section 387 of the Criminal Procedure Law (Chart 4.4.5).
- 4.4.5. The work on the historical risk profile 1 cases, already started during the NRA 2020 reporting period,²⁷² which occupied a significant part of the FIU resource, continued during the reporting period. At the same time, especially towards the end of the reporting period, the number of cases in which the proceeds of crime were obtained as a result of criminal offences committed in Latvia and elsewhere in the EU (risk profile 2) was also increasing. The most significant increase was identified in the information sent to the LEAs on the circumvention/violation of sanctions as well as criminal offences (including corruption) committed by public officials. When

²⁷² Most often, in relation to funds held by credit institutions under liquidation.

comparing the number of materials with the number of ML risk profiles identified in NRA 2020 and the criminal offences causing the most significant threats, a proportionally lower (compared to the threat level) of the information sent relates to tax offences. At the same time, all the suspicious transaction reports, where suspicious tax transactions have been identified, are automatically transferred to the SRS²⁷³ and are used both by the SRS Tax and Customs Police Department in the investigation of tax offences and by other SRS departments to detect and prevent offences that result in a reduction in the amount of tax payable to the budget or an increase in the amount of tax refundable from the budget.²⁷⁴

Chart 4.4.4 - Information sent to investigative authorities and public prosecutor's office²⁷⁵

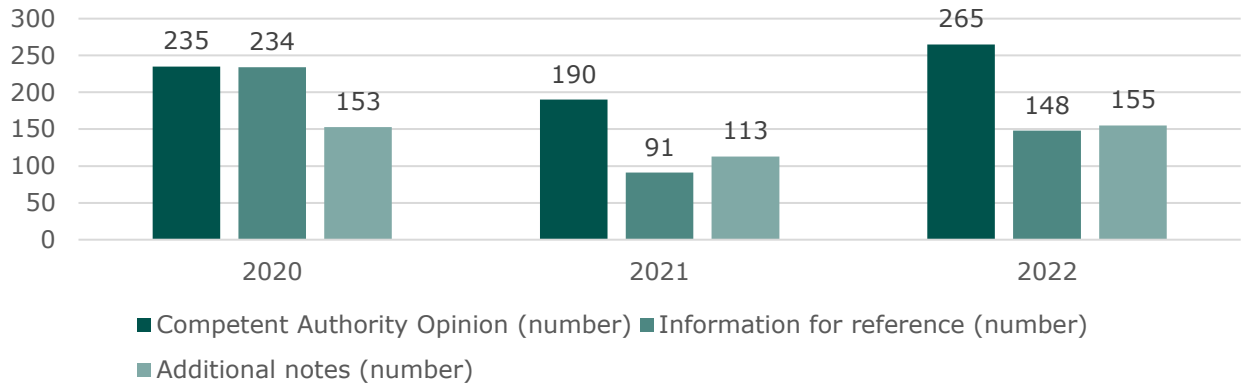
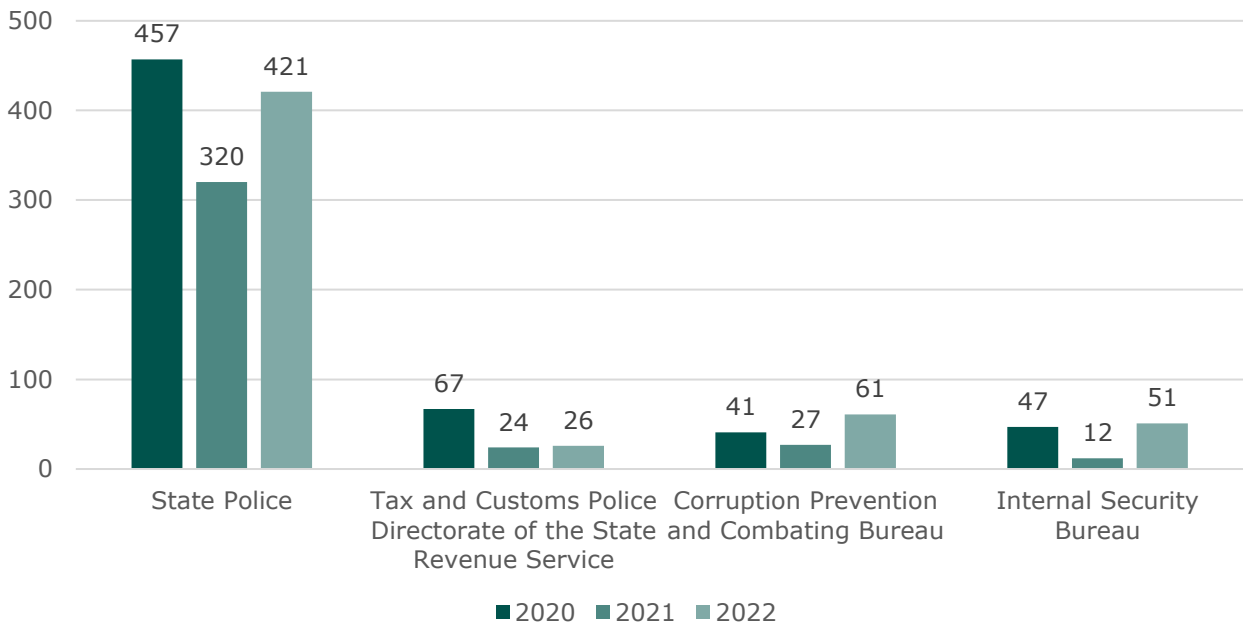


Chart 4.4.5 - Recipients of information sent by the FIU²⁷⁶



²⁷³ According to the suspicious transaction characteristics in the field of taxation as defined in Section 22²(3) of the Law on Taxes and Fees. Available at: <https://likumi.lv/ta/id/33946-par-nodokliem-un-nodevam>.

²⁷⁴ Ibid, Section 22², Paragraph Two.

²⁷⁵ Pursuant to Section 55(1) of the AML/CTPF Law, the FIU shall provide information to the investigative authorities, public prosecutor's office or court if this information gives rise to reasonable suspicion that the person concerned has committed a criminal offence, including committing or attempting to commit ML/TF (findings and opinion within an ongoing CP). Whereas, according to Section 55 (1¹) of the AML/CTPF Law, the FIU may provide information to the investigative authorities, public prosecutor's office, court, subjects of operational activities, supervisory and control institutions and other institutions, if, in the opinion of the FIU, such information may be used by the respective institutions for the performance of their tasks set out in the regulatory enactments (risk information).

²⁷⁶ The chart shows the authorities to which the FIU has provided the largest amount of information during the reporting period that can be used for the detection, pre-trial criminal proceedings or trial of ML/TFP or attempted ML/TFP cases.

Case Study 4.4.1 - Autonomous ML

The FIU received information about suspicious transactions in a Latvian credit institution where large amounts of funds were transferred from an offshore legal entity with indications of a shell arrangement (hereinafter referred to as - A) to the accounts of a natural person who is a foreign resident (hereinafter referred to as - FP). In addition, it is known that when FP closing their accounts in a European country (on the bank's initiative), the remaining funds are transferred to account opened with a Latvian credit institution.

Analysis of the accounts showed that, over a period of about 4 years, the number of transactions carried out through the A's accounts held with the Latvian credit institution exceeded EUR 160 million. Transactions carried out through the A's accounts have several ML characteristics: rapid movement of funds in round amounts; transactions with foreign legal entities with indications of a shell arrangement in various incompatible sectors; cash withdrawals, etc.

FP was provided with contradictory and unverifiable explanations about the origin of the funds and the transactions carried out through the personal account, namely, the real estate sale transactions:

- FP sold an apartment (transaction worth EUR 2.4 million), with the buyer being a natural person, who was simultaneously the A's UBO, therefore A was used in the cash transfers.
- In 2013, FP sold a plot of land for EUR 2.6 million, purchased in 2010 for EUR 6 thousand. The sale price has increased 400 times, even though the real estate index in the country in question was around 20% over 3 years. It was further established that the buyer of the aforementioned land plot was FP's father, who paid for the transaction in cash.

Information received from the FP's country of residence indicated that the funds in the FP's accounts in the amount of the carried out transactions could not be legitimate.

FP used part of the funds received for personal purchases or acquisition of securities.

Case progress:

1. Having summarised the available information, the FIU decided to freeze the FP account balance and prepared a competent authority's opinion for a LEA on the economically unreasonable transactions with ML characteristics carried out through the accounts held by the FP and A and the unexplained wealth.
2. On the basis of the FIU report, the LEA initiated criminal proceedings and seized the funds in the FP's accounts.
3. In 2021, funds in the FP's account (EUR 1.4 million) were confiscated.

Case Study 4.4.2 - Misappropriation of Foreign Municipal Property

The FIU received confirmations on standstill procedures opened by a Latvian credit institution in relation to the accounts of two natural persons who are foreign citizens (hereinafter referred to as - A and B). The initial origin of the funds in the accounts held by A and B consisted of complex and fictitious loan transactions from legal entities mainly owned by A, with indications of shell arrangements. The subsequent movement of funds from the accounts of A and B was conducted to accounts held with various credit institutions in the UK, Russia and Austria, and part of the funds received in accounts A and B was used to purchase goods and services and invest in financial instruments.

It is also known that B is a multi-millionaire of foreign origin whose business is mainly located in a foreign port city. There is negative public information with regard to his source of wealth, including on B relation to organised crime of a foreign port city and alleged corrupt dealings with municipal officials of a foreign port city.

Following a request to the foreign financial intelligence unit, information was received that B had been declared wanted by a foreign LEA on suspicion of embezzlement of real estate owned by a foreign municipality and large-scale ML. In addition, information has been received that B resides in the UK (which coincides with transfers made by B from accounts held with a Latvian credit institution) and that person A is considered to be a business partner and confidant of B.

Case progress:

1. In light of the information obtained, the FIU put forward the theory that the scheme involved the laundering of proceeds from a foreign criminal offence (corruption and/or embezzlement in the public sector). The FIU prepared a competent authority's opinion and forwarded it to the LEA.
2. The LEA initiated criminal proceedings on the basis of the FIU report and, by a court decision, seized the property owned by A and B.
3. The FIU received additional information that, for the purposes of laundering the proceeds of corrupt transactions, the organised group headed by B had established an extensive network of shell arrangements registered abroad. While analysing the information available to the FIU, as well as making several requests to various reporting entities, it was found that two of the shell arrangements identified in this network had a balance of funds in a Latvian credit institution.
4. The FIU issued freezing orders for freezing of funds of 2 legal entities owned by A in a Latvian credit institution.
5. The FIU prepared additional information, which, after being sent to the LEA, was appended to the case file of the criminal proceedings.
6. The court ruled on seizure of 2 legal entities' balances with a Latvian credit institution.

Case Study 4.4.3 - Circumvention of International Sanctions

According to information received from a Latvian credit institution, Latvian company A transferred funds in the amount of EUR 54,700 to German company B for the purchase of a car.

Company A, whose declared economic activity is not related to car sale, received transfers from natural persons C and D in the amount of EUR 39,500 as partial payment for purchase of a car and its delivery to the Russian Federation.

A check of Company's A export documents in the SRS database showed that the value of the car was EUR 49,300 and the delivery would be made to the Russian Federation.

The product (car) code is included in Paragraph 17 of Annex XVIII to Regulation No. 833/2014, imposing a prohibition on the supply, sale, transfer of vehicles to any natural person or legal entity, unit or body in, or for use in the Russian Federation, other than ambulance vehicles, for the carriage of persons by land, air or sea, the value of which exceeds EUR 50,000 apiece.

By knowingly understating the value of the vehicle in the export accompanying document and the purchase contract, Company A and its officials violated the EU restrictive measures (sanctions). The FIU referred the information on the activities of the Company A and its officials possibly related to the violation of the EU restrictive measures (sanctions) to the LEA for further consideration.

Case study 4.4.4 - Tax Evasion

A large scheme of interconnected (through the same officials, employees, business partners, addresses, etc.) fictitious legal entities allegedly used for large-scale tax evasion by companies operating in the construction sector. Several of the legal entities involved in the scheme have tax debts, and some of them have their economic activity suspended.

The scheme involved large cash disbursements (EUR 573,928 in total) and payments to individuals holding foreign accounts (EUR 173,900 in total). Given that these legal entities had declared employees with very low salaries, this raises the suspicion of "envelope salaries".

Several suspicious transaction reports have been received from various Latvian credit institutions on several persons involved in the scheme, as well as information from a foreign financial intelligence unit on one of the persons (possibly involved in e-commerce fraud).

Some of the individuals involved in the scheme are subjects of a number of criminal proceedings related to leasing fraud, drug trafficking, theft, property damage, theft of fuel, causing bodily injuries to a person, etc.

Investigation of the scheme revealed that several persons involved in the scheme were involved in the same pending criminal proceedings. On the initiative of FIU, a sitting of the Cooperation Coordination

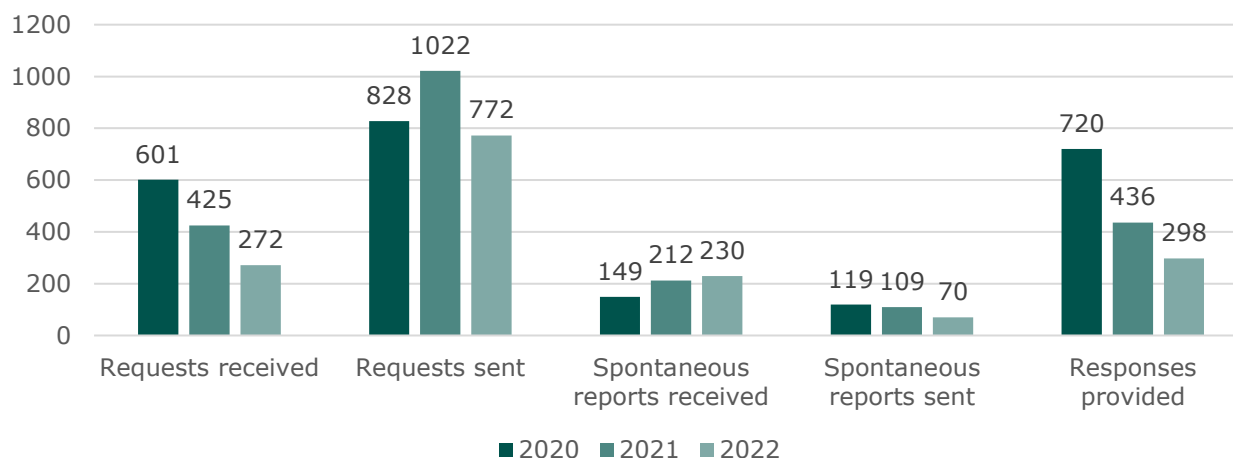
Group (CCG) was convened and the transaction scheme was sent to LEA. LEA's representatives asked the FIU to forward the information, which was subsequently appended to the criminal proceedings.

- 4.4.6. The FIU uses the financial intelligence data at its disposal, inter alia, to identify and collect information on the ML/TF techniques, methods and typologies. Such data, within the context of information held by other authorities competent in the field of ML/TPF, contribute to the prevention and combating of ML/TPF activities. The mechanism put in place for these information sharing and fusion purposes, the CCG, has been used effectively for cooperation on both operational and strategic matters during the reporting period (for details, see [Section 4.8 Effectiveness of Domestic Cooperation](#)).
- 4.4.7. During the reporting period, every year, the FIU has devoted considerable attention to improving the quality of reports submitted by reporting entities. In addition to the development of methodological materials and guidelines, as well as regular day-to-day communication, reporting entities, the FIU has also organised individual meetings to provide feedback on the number and quality of suspicious transaction reports to supervisory and control institutions, as well as to individual reporting entities.

International Cooperation

- 4.4.8. In the area of international cooperation, the FIU continued to make effective use of the *Egmont Group* framework during the reporting period, which enables communication and information exchange with all the members of the Group through a secure and protected information exchange channel (Chart 4.4.6). The most important functions of international cooperation are the preparation of replies to requests from foreign counterparts and sending of the FIU requests to foreign FIUs.
- 4.4.9. The number of requests received by the FIU from foreign authorised institutions has decreased between 2020 and 2022, due both to the impact of the Covid-19 pandemic in early 2021, when many financial intelligence units were operating at reduced capacity, and to the fact that Latvia is now much less exposed than before to the risks inherent to regional financial centres, thus reducing the overall number of suspicious transactions that may be of interest to foreign services.
- 4.4.10. In 2021, increase in the number of requests sent by the FIU to foreign authorised institutions was affected by the significant number of reports received from credit institutions under liquidation in the same year. Likewise, in 2021, as in previous years, the proportion of suspicious transaction reports examined in depth in the total number of reports continued to increase. Whereas, in 2022, the number of requests made by the FIU to foreign counterparts has decreased, which is attributable to a shift in the FIU priorities from the first risk profile (risks related to Latvia as a regional financial centre) to the second risk profile (domestic crime followed by money laundering). The FIU continues to provide extensive support to LEAs in obtaining information from abroad.
- 4.4.11. During the period from 2020 to 2022, international cooperation with foreign authorised institutions was mainly on the following possible criminal offences: autonomous ML; fraud; violation of international sanctions; misappropriation; evasion from taxes or payments treated as such; corruption.

Chart 4.4.6 - Dynamics of international cooperation



4.4.12. During the reporting period, namely, 10-15 July 2022, the FIU organised the 28th *Egmont Group* plenary session "New approaches to enhance the effectiveness of financial intelligence services in a risk-based environment" in Riga. At the plenary session, the FIU received an international award for outstanding work in the field of financial intelligence - the BECA (*Best Egmont Case Award*) - in a competition of 32 cases. The International Award recognises the FIU's ability to handle complex and voluminous cases, the innovative methods used in financial intelligence and its contribution to the development of international cooperation.

4.4.13. The work of the international task force IFIT, set up and chaired by FIU, was concluded during the reporting²⁷⁷ period. The goal of this task force was to develop a new approach to cross-border financial crime investigations and to promote multilateral cooperation through a practical example, namely, the investigation of a specific case involving a Latvian credit institution. The final discussion included presentation of the results and conclusions of the work, discussion on the benefits and importance of this type of cooperation, and discussion of very practical and operational task force results not only in Latvia but also in other Member States.

FIU Resources

4.4.14. Along with the amendments to the regulatory enactments, the *goAML* application was introduced in full functionality during the reporting period, replacing the previous FIU framework system and e-reporting system as of 1 October 2021. The *goAML* system, one of the main FIU intelligence channels, provides certain advantages and improvements, such as the end of the parallel reporting system (reporting to both SRS and FIU); immediate transfer of documents to cooperation partners via a secure communication channel. *goAML* is currently used by a significant number of foreign financial intelligence units, which contributes to rapid development of the application.

4.4.15. During the reporting period, analytical capacity was continuously strengthened, both by upgrading computing capacity and introducing new analytical solutions (e.g., introduced ALTIA's product *Investigation Toolkit* and *Financial Analysis Toolbar*, which improve analysis of bank statements). A number of technological solutions have also been introduced, thus extending functionality of the existing technological solutions and improving data quality, laying the foundations for future developments in the field of artificial intelligence.

4.4.16. In addition to the need to work remotely caused by Covid-19, which the FIU was able to meet quickly and within a short term by adapting its information technology, the FIU paid considerable attention to the security and protection of information and data, for example by strengthening its internal information systems security solutions; introducing a new video

²⁷⁷ Task force established and headed by the FIU in 2019 involving representatives from 22 countries whose financial institutions have dealt most with a particular Latvian credit institution.

conferencing platform to enable communication at institutional, national and international level without the use of third-party server platforms.

- 4.4.17. During the reporting period, capacity of the FIU has been strengthened with the allocation of 2 posts in 2020 and 10 additional posts for a fixed period until the end of 2022 to carry out operational analysis related to credit institutions under liquidation.²⁷⁸ 2 posts were allocated in 2021, and 4 additional posts - in 2022. At the end of 2022, the FIU had 68 employees.
- 4.4.18. The FIU staff regularly develop their professional competences through both face-to-face and online training, courses, lectures, seminars, conferences and experience-sharing events. During the reporting period, 11 employees have obtained the prestigious Certified Anti-Money Laundering Specialist (CAMS) certificate. In 2022, the FIU employees participated in 121 professional development events in total.
- 4.4.19. In 2020 and in 2021, the implementation of the FIU budget was equal and amounted to EUR 4.1 million, while, in 2022, the budget increased to EUR 5.5 million, which was attributable to the 28th *Egmont Group* plenary session organised by the FIU in Riga. The approved budget for 2023 is EUR 5.9 million, for 2024 – EUR 6.2 million, but for 2025 and onwards – EUR 5.3 million. The budget includes both expenditure for the implementation of the state's core functions and expenditure for the implementation of projects and measures co-financed and financed by the EU policy instruments and other foreign financial assistance. It should be noted that the core functions of the institution are financed to a significant extent by funds of the measure plan, allocated by a decision of the Cabinet, which may create risks for long-term liabilities in the long run (e.g., space rental and maintenance expenses, new posts, maintenance of IT databases).

Feedback on the Work of the FIU from Authorities Involved in AML/CTPF Activities

- 4.4.20. In addition to the above mentioned, a survey of responses provided by the FIU to the information requests was carried out at the end of 2022. Quality of the responses provided in the questionnaire, including completeness and timeliness, usefulness in criminal proceedings/operational activities, was rated 8.56 overall (on a scale of 10), while suggestions were made to increase the amount of information included, technical accuracy and more structured annexes. 90 respondents in total (out of 136) or LEA staff and public prosecutors participated, from whom at least one request was received by the FIU in 2022.
- 4.4.21. Feedback on cooperation within the CCG framework has also been received through a questionnaire survey of institutions involved in AML/CTPF activities. The average rating of the cooperation implemented by the CCG is high, namely, 8.9 (on a scale of 10). In the questionnaire, 72 respondents gave their assessment on issues such as the operativeness of convening of the CCG; usefulness of the information obtained in criminal proceedings/operational activities, etc.
- 4.4.22. A survey of supervisory and control institutions, credit institutions and other reporting entities on the quality of the strategic analysis materials was also carried out at the end of 2022. The respondents' average rating of the strategic analysis materials developed in 2022 was 8.4 (on a scale of 10). Results of the questionnaire show that the materials are generally very relevant and highly useful, but some respondents have indicated that they have not been able to put the information into practice.

Rating of the quality of financial intelligence data collection and processing: 1 (high), increasing.

²⁷⁸ The Measure Plan 2023-2025 stipulates that, for the purposes of effective performance of the FIU functions and strengthening of strategic and operational analysis, these 10 posts are allocated for indefinite period from 2023.

4.5. Financial Investigation, Criminal Prosecution and Adjudication Capacity and Resources

Capacity and Resources of Investigative Authorities

- 4.5.1. The following institutions are authorised to perform investigation in Latvia: SP, SSS, SBG, ISB, CPCB, SRS TCPD, SRS ISD, MP, LPA.²⁷⁹ Exceptionally, a public prosecutor can also act as the person directing the proceedings during the investigation phase.²⁸⁰ The investigation of ML cases is carried out in accordance with the investigative competence for predicate offences. However, if the predicate offence cannot be identified and is not suspected, including abroad, then the investigation is carried out by the SP.
- 4.5.2. When assessing the vulnerability of the fight against ML, it is necessary to initially indicate on the competence of the authorities to investigate predicate offences. According to the Criminal Procedure Law, investigative authorities, except the SP, have a very narrow and exclusive investigative competence.²⁸¹ As a result, the SP investigates and refers to the public prosecutor's office for the commencement of criminal prosecution more than 93% of all the criminal proceedings related to predicate offences.²⁸²
- 4.5.3. At the same time, the SP mainly does not investigate criminal proceedings falling within the exclusive competence of other investigative authorities. For example, investigative bodies such as the SRS TCPD, CPCB, ISB and the SRS ISD are responsible for highly relevant identified threat areas in terms of national predicate offences, such as tax evasion, corruption in the state and local government sector, etc.²⁸³
- 4.5.4. Investigators of the investigative authorities conducting investigation of the predicate offence are authorised and obliged to investigate also ML cases. Some investigative authorities have additionally set up specialised units to investigate ML in the financial sector or to provide analytical support in asset recovery.
- 4.5.5. During the reporting period, the capacity of investigative authorities and public prosecutor's office was significantly strengthened in line with the Plan of Measures (2020-2022). The measures were defined taking into consideration both the already foreseen increase in the number of ML cases related to credit institutions under liquidation during the reporting period and the risk mitigation measures of the NRA 2020. The Plan of Measures (2020-2022) included skill and knowledge strengthening measures binding on all the investigative authorities, including in relation to obtaining information on legal entities and their UBOs, identification of ML, use of crypto-assets in ML, etc., as well as the provision of additional resources and the creation of additional posts in specific investigative authorities.²⁸⁴
- 4.5.6. In line with the Plan of Measures (2020-2022), capacity and expertise of all the investigative authorities in relation to parallel financial investigations were strengthened during the reporting period, resulting in corroboration of the perception that both the predicate offence and the related ML should be investigated. All investigative authorities have a system in place for conducting parallel financial investigations and have access to methodological material on conducting parallel financial investigations developed by the PGO. Investigators are also provided with training materials on conducting parallel financial investigations on the FIU training website.²⁸⁵

²⁷⁹ Section 386 of the Criminal Procedure Law. *Latvijas Vēstnesis*, 74, 11.05.2005; *Latvijas Republikas Saeimas un MK Ziņotājs*, 11, 09.06.2005 Available at: <https://likumi.lv/doc.php?id=107820>.

²⁸⁰ Section 36 and Section 38(3) of the Criminal Procedure Law. *Latvijas Vēstnesis*, 74, 11.05.2005; *Latvijas Republikas Saeimas un MK Ziņotājs*, 11, 09.06.2005 Available at: <https://likumi.lv/doc.php?id=107820>.

²⁸¹ Section 387 of the Criminal Procedure Law. *Latvijas Vēstnesis*, 74, 11.05.2005; *Latvijas Republikas Saeimas un MK Ziņotājs*, 11, 09.06.2005 Available at: <https://likumi.lv/doc.php?id=107820>.

²⁸² According to DWI.

²⁸³ Section 387(1) of the Criminal Procedure Law. *Latvijas Vēstnesis*, 74, 11.05.2005; *Latvijas Republikas Saeimas un MK Ziņotājs*, 11, 09.06.2005 Available at: <https://likumi.lv/doc.php?id=107820>.

²⁸⁴ Cabinet Order No. 576 of 29 September 2020 *Regarding Plan of Measures for the Prevention of Money Laundering and Terrorism and Proliferation Financing 2020–2022*. Available at: <https://likumi.lv/ta/id/317729>; Cabinet Order No. 122 of 22 February 2022 *Regarding Plan of Measures for the Prevention of Money Laundering and Terrorism and Proliferation Financing 2022*. Available at: <https://likumi.lv/ta/id/330241>.

²⁸⁵ In line with the implementation of the Plan of Measures. Cabinet Order No. 576 of 29 September 2020 *Regarding Plan of Measures for the Prevention of Money Laundering and Terrorism and Proliferation Financing 2020–2022*. Available at: <https://likumi.lv/ta/id/317729>.

- 4.5.7. During the reporting period, the Criminal Procedure Law was amended by adding a new provision, namely, Section 392(2²), which stipulates that the investigator, with the consent of the supervising public prosecutor, or the public prosecutor, with the consent of a higher-ranking public prosecutor, in criminal proceedings for money laundering, may decide to terminate the criminal proceedings or a part thereof if a fair settlement of property relations has been reached, the guilt of a person in committing a criminal offence has not been proven in the pre-trial proceedings and the acquisition of additional evidence will not ensure an economic pre-trial criminal proceeding or will result in disproportionately high costs. The amendments to the Criminal Procedure Law aligned the Latvian regulatory framework in line with international standards and Latvia's risk profile, facilitating the investigation of ML cases and reducing the administrative burden and resource consumption related to the investigation of unknown or predicate offences committed abroad and holding the persons involved (mostly citizens of third countries) criminally liable.
- 4.5.8. Similarly to the NRA 2020, during the reporting period, the SP investigated and referred to the public prosecutor's office for commencement of criminal prosecution the absolute majority - 83.2% - of criminal proceedings related to ML (Table 4.5.1). The share of criminal proceedings related to ML referred to the public prosecutor's office for commencement of criminal prosecution among the investigative authorities is 81% (Table 4.5.1).
- 4.5.9. During the reporting period, 1075 criminal proceedings related to ML were initiated in total, while 315 were transferred for the commencement of criminal prosecution. The largest number of criminal proceedings was initiated by the SP (895), followed by the SRS TCPD (113) and CPCD (29). 38 criminal proceedings in total were initiated by other authorities during the reporting period. The largest number of criminal proceedings was referred for criminal prosecution by the SP (256) and the SRS TCPD (45). The other investigative authorities referred 14 criminal proceedings in total for criminal prosecution during the reporting period (Table 4.5.1).

Table 4.5.1 - Criminal proceedings related to ML, initiated and referred for criminal prosecution during the reporting period.

Institution	Criminal proceedings initiated according to Section 195 of the Criminal Law 2017–2019	Criminal proceedings initiated according to Section 195 of the Criminal Law 2020-2022	Criminal proceedings referred for the commencement of criminal prosecution (initiated according to Section 195 of the Criminal Law) 2017-2019	Criminal proceedings referred for the commencement of criminal prosecution (initiated according to Section 195 of the Criminal Law) 2020-2022
SP	384	895	96	256
SRS TCPD	101	113	21	45
CPCB	6	29	0	3
Public Prosecutor's Office	44	20	0	1
SRS ISO	1	6	0	2
ISB	2	4	1	4
SSS	1	3	0	2
SBG	0	3	0	0
MP	2	2	1	2

Source: Information Centre of the Ministry of the Interior.

- 4.5.10. Compared to the NRA 2020 reporting period, there has been a significant increase in the number of criminal proceedings initiated for ML (+98.7%) and the number of criminal proceedings referred for criminal prosecution (+164.7%). During the reporting period, investigative authorities assigned most of their resources to ML investigations related to credit

institutions under liquidation and to the historical first risk profile of Latvia as a regional financial centre.²⁸⁶ However, the number of criminal proceedings for money laundering generated from national predicate offences is expected to increase in the future.

- 4.5.11. During the reporting period, clear differences in remuneration and social guarantee policies between investigative bodies remained, making it difficult for bodies such as the SP and the SRS TCPD (whose investigators are lower paid) to reduce the persistent problems of understaffing. This leads to a higher risk of staff turnover in certain institutions, the resulting loss of institutional memory, while lack of experience of new investigators may have a negative impact on the quality of pre-trial investigations, in particular within the context of constantly increasing workload per investigator.²⁸⁷
- 4.5.12. In line with the identified threats, as well as the role of investigative authorities in combating ML, the assessment provides an in-depth assessment of the capacity of the SP, the SRS TCPD and CPCB to investigate ML cases and the vulnerability of these authorities.

State Police

- 4.5.13. The SP is the largest investigative authority in Latvia, which investigates and refers for the commencement of criminal prosecution the vast majority of criminal proceedings. Each investigator is authorised to investigate ML according to the competence of the predicate offence. At the same time, the SP Main Criminal Police Department (MCPD) includes also the Economic Crime Enforcement Department, whose individual units specialise in investigating complex economic crimes.
- 4.5.14. Compared to the NRA 2020 reporting period, the SP initiated 895 (+133%) criminal proceedings related to ML during the reporting period, and referred 256 (+166.7%) such criminal proceedings for commencement of criminal prosecution.
- 4.5.15. During the reporting period, the number of investigators conducting criminal proceedings related to ML has also increased significantly, with such criminal cases being investigated not only in the ST MCPD structural units, but also in regional departments and police stations. This addressed the high increase in workload related to ML cases and significantly expanded and improved the capacity and expertise of the regional departments in the investigation of complex ML cases. Furthermore, in order to strengthen the investigative capacity of the SP in relation to ML cases in line with the Plan of Measures (2020-2022), funding was earmarked for additional 20 posts in the SP MCPD ECED and 3 posts in the Criminal Intelligence Management Department (CIMD) during the reporting period.²⁸⁸
- 4.5.16. At the same time, it should be underlined that more than the SP was understaffed by 22% during the reporting period. Significant risks are posed also by the high staff turnover rate (>9.0)²⁸⁹, as well as the insufficient number of cadets in the State Police College (SPC) to replace those who have left the service.²⁹⁰ Being aware of the overall staffing problems of the SP, it can be concluded that increase in the capacity to investigate ML cases (including the increase of 23 posts within the ECED and the CIMD) has largely been at the expense of the capacity to investigate predicate offences.
- 4.5.17. In addition to the Plan of Measures (2020-2022), the overall capacity of the SP has been strengthened in various ways during the reporting period. During the period from 2017 to 2022, three phases of the EU Structural Reform Support Programme project "Increasing Efficiency of the Institutions of the Interior Sector of Latvia" were implemented in the interior sector, within the framework of which, involving both Latvian and international experts, recommendations for transformation of process management, policy planning and institutional

²⁸⁶ Latvia no longer positioned itself as a regional financial centre, in line with Paragraph 5 of Cabinet Order No. 58 of 13 February 2019 *Amendments to the Financial Sector Development Plan 2017-2019*. Available at: <https://likumi.lv/ta/id/304871>.

²⁸⁷ These conclusions follow from the SAO audit report *Investigative Authorities in Latvia: a Question of Competences and Resources Rather than a Number*. Available at: <https://www.lrvk.gov.lv/lv/getrevisionfile/29562-WbZXA-8dkHkQ98VO7Wl4picDzTcCosRb.pdf>.

²⁸⁸ Cabinet Order No. 576 of 29 September 2020 *Regarding Plan of Measures for the Prevention of Money Laundering and Terrorism and Proliferation Financing 2020-2022*. Available at: <https://likumi.lv/ta/id/317729>.

²⁸⁹ Given the specific nature of the operation and personnel policies of the interior services and the public resources invested in the training of officials, a staff turnover rate exceeding 5% should be considered high.

²⁹⁰ *Public Report of the State Police, 2020*. Available at: <https://www.vp.gov.lv/lv/media/9248/download?attachment> ; *Public Report of the State Police, 2021*. Available at: <https://www.vp.gov.lv/lv/media/13088/download?attachment> ; *Annual Report of the State Police, 2022*. Available at: <https://www.vp.gov.lv/lv/media/15759/download?attachment>

structure in order to improve effectiveness of the sector and the quality of services provided were developed.

- 4.5.18. During the reporting period, implementation plans for the recommendations received within the framework of the structural reform projects in the Ministry of the Interior, as well as in other interior institutions were drawn up.²⁹¹ Structural reforms in the SP mainly concern review of the allocation of the institution's human resources, introduction of the best practices of private sector in the management of internal processes and the implementation of measures to improve the quality of the pre-trial investigation process and to address the shortcomings identified in the SAO audit report titled "Effectiveness of Pre-Trial Investigation in the State Police", published in October 2017.²⁹²
- 4.5.19. The main reforms related to the review of the SP structure have entered into effect in the summer of 2022. The newly created Cybercrime Enforcement Department should be highlighted as the most significant innovation in the area of ML. Creation of the new department allows the concentration of human, technical resources and knowledge on preventing and combating high-tech crime, including ML involving crypto-assets.
- 4.5.20. At the end of the reporting period, the MoI, the SPC, RSU and the University of Latvia signed an agreement on the establishment of a long-term consortium "Internal Security Academy".²⁹³ Although the first students will start their studies after the end of the reporting period (2023), the establishment of the Internal Security Academy is an important step in the long-term development of investigators' competences.

Tax and Customs Police Department of the State Revenue Service

- 4.5.21. Compared to the NRA 2020 reporting period, 113 (+11.9%) criminal proceedings regarding ML were initiated and 45 (+114%) such criminal proceedings were referred for commencement of criminal prosecution in the SRS TCPD during the reporting period.
- 4.5.22. Although the SRS TCPD has a 90% staffing rate, the SAO audit report of 21 October 2022 "Investigative Authorities in Latvia: A Question of Competences and Resources Rather than a Number" reveals significant shortcomings in the SRS TCPD capacity, including the ability to conduct quality investigations in complex and high-volume cases of inter-regional and transnational nature.²⁹⁴ In terms of the number of active criminal proceedings per investigator, the average workload of SRS TCPD investigators is five times higher than that in the SP MCPD (40 vs 8, respectively), which is the second busiest investigative authority.²⁹⁵
- 4.5.23. In addition, the audit report concludes that the remuneration of the SRS TCPD investigators is the lowest among all the investigative authorities. Difference between the salaries of senior inspectors in the SRS TCPD and the ISB is almost 40%.²⁹⁶ This combination of circumstances contributes to relatively high staff turnover and a loss of institutional memory, with more experienced investigators leaving for better paid investigative authorities. At the same time, both workload and relatively low pay make it difficult to attract new professionals.²⁹⁷
- 4.5.24. Since the full-scale Russia's war in Ukraine on 24 February 2022 and the related sanctions against the Russian Federation and the Republic of Belarus, the number of criminal proceedings initiated by the SRS TCPD for breach of sanctions has increased significantly,²⁹⁸ which, under the circumstances of insufficient and overloaded stretched staff, further hampers capacity of the authority to investigate cases related to ML.

²⁹¹ Some of the recommendations of the structural reform projects are also being implemented in the SBG and ISB, improving their process and resource management.

²⁹² SAO. *Effectiveness of Pre-Trial Investigations in the SP*. Available at: <https://www.lrvk.gov.lv/lv/revizijas/revizijas/noslegtas-revizijas/pirmstiesas-izmeklesanas-efektivitate-valsts-policija>.

²⁹³ MoI. *Signed agreement on the establishment of a long-term consortium "Internal Security Academy"*. Available at: <https://www.iem.gov.lv/lv/jaunums/parakstits-ligums-par-ilgtermina-konsorcija-ieksejas-drosibas-akademija-izveidi>.

²⁹⁴ SAO. *Investigative authorities in Latvia: A Question of Competences and Resources Rather than a Number*. P. 72-73. Available at: <https://lrvk.gov.lv/lv/getrevisionfile/29562-WbZXA-8dkHkQ98V07Wl4picDzTcCosRb.pdf>.

²⁹⁵ Ibid, p. 75.

²⁹⁶ Ibid, p. 14, p. 98-99.

²⁹⁷ Ibid, p. 108-109.

²⁹⁸ According to DWH information retrieved on 07.02.2022, in 2020 and 2021, 0 criminal proceedings under Section 84 of the Criminal Law have been initiated by the SRS TCPD, while the number of criminal proceedings initiated by the SRS TCPD under Section 84 of the Criminal Law in 2022 was 87.

- 4.5.25. In addition to the above-mentioned shortcomings in the area of personnel policy, the technical equipment of the SRS TCPD for effective implementation of measures to combat customs and financial crime and to corroborate evidence in criminal proceedings is not always up to date and nuances of crime, thus increasing the amount of manual work and the related workload on investigators.²⁹⁹
- 4.5.26. Taking into consideration the high share of shadow economy in Latvia,³⁰⁰ as well as the increased workload of the SRS TCPD investigating cases related to sanction violations, it is necessary to strengthen the staff and technical capacity of the SRS TCPD to ensure timely and quality investigation of ML/TPF cases.

Corruption Prevention and Combating Bureau

- 4.5.27. Compared to the NRA 2020 reporting period, 29 (+383%) criminal proceedings regarding ML were initiated by the CPCB during the reporting period and 3 (previously - 0) such criminal proceedings were referred for commencement of criminal prosecution.
- 4.5.28. During the reporting period, capacity of the CPCB was improved by increasing the number of posts within the institution, including creation of 10 additional posts for the investigation of ML cases in line with the Plan of Measures (2020-2022).³⁰¹ During the period under review, around 12% of posts remained permanently vacant.
- 4.5.29. During the reporting period, the FIU, in cooperation with the CPCB, the Public Prosecutor's Office and four largest Latvian credit institutions, developed the material "Indicators and Case Study of Corruption Offences". The information contained in the material helped to improve the perception of the reporting entities in the elements of corruption offences, improving the number and quality of suspicious transaction reports. This, in turn, increased the number of the FIU opinions sent to the CPCB. The number of criminal proceedings regarding ML also increased during the reporting period.
- 4.5.30. In June 2020, the CPCB started prioritising investigations into bribery of foreign officials and ML. As a result, in 2022 Latvia was the only EU Member State that improved its performance in the fight against bribery of foreign officials, ranking it among the top three EU countries along with Germany and France.³⁰²
- 4.5.31. During the reporting period, Latvia completed the GRECO (*Group of States against Corruption*) Fifth Evaluation Round in the area of prevention of corruption and promotion of integrity, being only the second country which had fully or partially implemented all 17 GRECO recommendations on prevention of corruption and promotion of integrity in the central government, as well as in the investigative authorities.³⁰³ Latvia continues implementing the partially executed recommendations also after the reporting period.

Capacity and Resources of the Public Prosecutor's Office

- 4.5.32. The Public Prosecutor's Office is made up of the Prosecutor General's Office, Judicial District Public Prosecutor's Offices, District (City) Public Prosecutor's Offices and the Specialised Public Prosecutor's Offices.³⁰⁴ In 2022, the number of public prosecutors who could be dealing with ML cases was 399 (all the public prosecutors at regional and district level, as well as public prosecutors from the Anti-Money Laundering Coordination Unit of the Prosecutor General's Office).³⁰⁵

²⁹⁹ According to the information provided by the SRS TCPD in the questionnaires filled in during the NRA 2020-2022 development process.

³⁰⁰ Sauka A., Putniņš T. *Shadow economy index in the Baltic States 2009-2022*. Available at: https://www.sseriga.edu/sites/default/files/2023-05/Enu_ekonomikas_indeks_2009_2022.pdf.

³⁰¹ Annual Reports of the CPCB 2019, 2020, 2021, 2022. Available at: <https://www.knab.gov.lv/lv/publikacijas-un-parskati>.

³⁰² Transparency International. *Exporting Corruption, 2022. Assessing enforcement of the OECD Anti-Bribery Convention*. P. 10, 12. Available at: https://images.transparencycdn.org/images/2022_Report-Full_Exporting-Corruption_EN.pdf.

³⁰³ Group of States against Corruption. *Fifth Evaluation Round Second Compliance Report: Latvia*. Available at: <https://www.knab.gov.lv/lv/media/3624/download?attachment>.

³⁰⁴ Section 22 of the Office of the Prosecutor Law. *Latvijas Vēstnesis*, 65, 02.06.1994 Available at: <https://likumi.lv/ta/id/57276-prokuraturas-likums>.

³⁰⁵ Occupied posts. Public Prosecutor's Office of the Republic of Latvia. *Report of the Prosecutor General of the Republic of Latvia on the achievements of 2022 and priorities for 2023*. P. 241-245. Available at: https://prokuratūra.lv/media/Normativie_akti/Zinojums.pdf.

- 4.5.33. During the reporting period, 516 persons were held criminally liable in 321 criminal proceedings initiated under Section 195 of the Criminal Law (money laundering). During the reporting period, 259 criminal proceedings initiated under Section 195 of the Criminal Law were referred to court.
- 4.5.34. During the reporting period, the Public Prosecutor's Office underwent reorganisation of its structural units to create a more even distribution of public prosecutors' workload and to improve the specialisation of public prosecutors, including by focusing resources on crimes committed in the service of public institutions. Creation of a new specialised structural unit within the PGO - the Anti-Money Laundering Coordination Unit - should be mentioned as the most significant change.³⁰⁶ This new structural unit became operational on 1 January 2021. It contains 5 prosecutor posts, 4 of which have been created under the Plan of Measures (2020-2022).
- 4.5.35. As of 1 January 2021, the name of the Public Prosecutor's Office for the Investigation of Financial and Economic Crimes has been changed to the Public Prosecutor's Office for the Tax and Customs Affairs (POTCA) with 18 posts of public prosecutors. No changes have been made to the Specialised Public Prosecutor's Office for Organised Crime and Other Branches, which has posts of 26 public prosecutors.
- 4.5.36. During the reporting period, when identifying priority areas for combating ML, the Public Prosecutor's Office took into consideration the recommendations made by Moneyval and the OECD, as well as the conclusions of the NRA 2020 in the area of combating ML. The measures contained in the Plan of Measures to combat ML were also taken into consideration when defining the priorities to be set.
- 4.5.37. The Public Prosecutor's Office has regularly organised trainings or conferences on combating ML, which have raised public prosecutors' perception of the investigation and progress of this category of criminal proceedings. During the reporting period, three public prosecutors also obtained the internationally recognised Financial Crime Specialist's Certificate.³⁰⁷ Training was also provided in line with the Plan of Measures (2020-2022) on crypto-assets and related risks, the provision of evidence for ML investigations and the penal policy, as well as on confiscation of proceeds of crime in line with the current regulatory framework.³⁰⁸
- 4.5.38. During the reporting period, public prosecutors (including senior public prosecutors) regularly provided methodological support in criminal proceedings to other public prosecutors and investigators who requested their suggestions or opinions both on the application of the provisions of the Criminal Procedure Law and the Criminal Law, as well as other regulatory enactments, as well as on the sufficiency of the statement of facts in the procedural documents or the need to submit a public prosecutor's protest.
- 4.5.39. In 2021, with the aim of achieving a fair settlement of criminal legal relations as soon as possible in particularly topical criminal proceedings, the Public Prosecutor's Office regularly organised seminars, discussions with the participation of experienced public prosecutors in the specific field, and prepared information letters for both public prosecutors and investigators. A number of methodological materials on money laundering have been developed while implementing the Moneyval recommendations. For example, in order to implement a common approach to parallel financial investigations, in 2021, the PGO developed a methodological material on conducting parallel financial investigations in an investigative authority,³⁰⁹ as well as implemented several training events and seminars on conducting parallel financial investigations in 2022.³¹⁰

³⁰⁶ Individual public prosecutors of the Prosecutor General's Office started coordinating the work of public prosecutors in this area as of September 2020.

³⁰⁷ Public Prosecutor's Office of the Republic of Latvia. *Three public prosecutors obtain the internationally recognised Financial Crime Specialist Certificate*. Available at: <https://www.prokuratūra.lv/lv/aktualitates/2022/aktualitates/tris-prokurori-iegust-starptautiski-atzito-finansu-noziegumu-apkarosanas-specialista-sertifikatu-2763>.

³⁰⁸ Cabinet Order No. 576 of 29 September 2020 *Regarding Plan of Measures for the Prevention of Money Laundering and Terrorism and Proliferation Financing 2020–2022*. Available at: <https://likumi.lv/ta/id/317729>; Cabinet Order No. 122 of 22 February 2022 *Regarding Plan of Measures for the Prevention of Money Laundering and Terrorism and Proliferation Financing 2022*. Available at: <https://likumi.lv/ta/id/330241>.

³⁰⁹ Cabinet Order No. 576 of 29 September 2020 *Regarding Plan of Measures for the Prevention of Money Laundering and Terrorism and Proliferation Financing 2020–2022*. Available at: <https://likumi.lv/ta/id/317729>; Public Prosecutor's Office of the Republic of Latvia, *Report of the Prosecutor General of the Republic of Latvia on achievements in 2021 and priorities for 2022*. P. 173. Available at: https://prokuratūra.lv/media/Normativie_akti/Zinojums.pdf.

³¹⁰ Public Prosecutor's Office of the Republic of Latvia. *Report of the Prosecutor General of the Republic of Latvia on the achievements of 2022 and priorities for 2023*. P. 135 https://prokuratūra.lv/media/Normativie_akti/Zinojums.pdf.

- 4.5.40. During the reporting period, cooperation between public prosecutors and persons directing the proceedings has significantly increased and intensified when dealing with the issue of recognition of property as criminally acquired, initiating proceedings regarding criminally acquired property and referring materials regarding criminally acquired property to the court for decision-making in accordance with the procedures of Chapter 59 of the Criminal Procedure Law.³¹¹ For example, during the period between 1 April 2021 and 31 August 2022, the Public Prosecutor's Office supported investigators in more than 700 cooperation and coordination meetings and conducted more than 50 special training events (lectures, seminars, discussions, etc.) on the practical implementation of confiscations.³¹²
- 4.5.41. In January 2022, the Prosecutor General's Council approved the Operational Strategy of the Public Prosecutor's Office 2022-2027. The document has been designed as a tool to strengthen institutional capacity and improve governance. During the reporting period, combating financial and economic crime, including ML, has been accentuated as a high priority area for action.³¹³
- 4.5.42. During the reporting period, the Public Prosecutor's Office has also implemented the proposals and recommendations received within the framework of the SAO performance audit "Effectiveness of Investigations and Trials of the Criminal Offences in the Economic and Financial Area". Some of the proposals were implemented during the Prosecutor's Office's previous strategic planning period. The remaining proposals were included in the priority directions, objectives, deliverables and indicators of the Operational Strategy of the Public Prosecutor's Office 2022-2027.³¹⁴

Capacity and Resources of Courts

- 4.5.43. On 31 March 2021, the Economic Affairs Court commenced its work, with the main aim to providing quality and speedy trials in complex commercial disputes, economic and financial crime and corruption cases.³¹⁵ The Economic Affairs Court's staff includes 9 judges (8 judges and the President of the Court).
- 4.5.44. As for trials of ML cases, it should be indicated that a district (city) court or the Economic Affairs Court adjudicates all the criminal cases as a court of the first instance. A decision of a district (city) court appealed against in accordance with the appeal procedures is adjudicated by the regional court as a court of appellate instance. A ruling of any court appealed against in accordance with the cassation procedures is adjudicated by the Supreme Court as a court of cassation instance.³¹⁶
- 4.5.45. The information report on the performance of the Economic Affairs Court in its first year of operation prepared by the Ministry of Justice³¹⁷ concludes that the establishment and operation of the Court has yielded very good results. In its first year of operation, the Economic Affairs Court has adjudicated 268 cases, including 62 civil cases, 49 criminal cases and 157 proceedings regarding criminally acquired property. The total value of confiscated property in cases where a ruling of the Economic Affairs Court had entered into effect at the end of the first year of operation exceeded EUR 32.6 million. The average case processing time of criminal cases was 53 days, but of the proceedings regarding criminal property - 82 days, which are significantly shorter than the processing times of similar cases in district (city) courts of general jurisdiction.³¹⁸
- 4.5.46. When assessing the statistics for 2022, a total of 209 proceedings regarding criminally acquired property were adjudicated (under Section 195 of the Criminal Law) nationwide. 75.6% of them

³¹¹ Public Prosecutor's Office of the Republic of Latvia. *Report of the Prosecutor General of the Republic of Latvia on the achievements of 2022 and priorities for 2023*. P. 6-7. https://prokuratūra.lv/media/Normatīvie_akti/Zinojums.pdf.

³¹² Moneyval. Update For Follow-Up Report 5th Round Evaluation, Latvia. *Template for the 3rd Enhanced Follow-Up Report For Information At Moneyval's 64th Plenary (December 2022)*. P. 128; p. 133.

³¹³ Public Prosecutor's Office of the Republic of Latvia. *Approved Operational Strategy of the Public Prosecutor's Office 2022-2027*. Available at: <https://www.prokuratūra.lv/lv/aktualitates/2022/aktualitates/apstiprinata-prokuraturas-darbibas-strategija-2022-2027-gadam-2529>.

³¹⁴ Public Prosecutor's Office of the Republic of Latvia. *Operational Strategy of the Public Prosecutor's Office 2022-2027*. P 3. Available at: [https://www.prokuratūra.lv/media/Normatīvie_akti/Grozījumi_Prokuraturas_darbibas_strategija_2022_20\(1\).pdf](https://www.prokuratūra.lv/media/Normatīvie_akti/Grozījumi_Prokuraturas_darbibas_strategija_2022_20(1).pdf).

³¹⁵ Helmane I. *The Economic Affairs Court begins its work*. LV portāls. Available at: <https://lvportals.lv/tiesas/326524-darbu-sak-ekonomisko-lietu-tiesa-2021>.

³¹⁶ Section 442 of the Criminal Procedure Law. *Latvijas Vēstnesis*, 74, 11.05.2005; *Latvijas Republikas Saeimas un MK Ziņotājs*, 11, 09.06.2005 Available at: <https://likumi.lv/doc.php?id=107820>.

³¹⁷ From 1 April 2021 to 31 March 2022.

³¹⁸ MoJ, *On the results of the first year of operation of the Economic Affairs Court and its further development*. Available at: https://tapportals.mk.gov.lv/legal_acts/gcc0d6c8-f301-4c88-a3bc-2e4a269594b5#.

were adjudicated in the Economic Affairs Court. If criminal proceedings are initiated on the basis of material provided by the FIU, they are brought before the Economic Affairs Court in 88.6% of the cases.³¹⁹ Therefore, it can be concluded that, unlike the NRA 2020 reporting period, proceedings regarding criminal property are increasingly being dealt with centrally, enhancing judges' specialisation and experience in adjudication of such proceedings, thereby also improving the accuracy and speed of adjudication of such cases, as well as the quality of rulings.

- 4.5.47. During the reporting period, the amount of money recognised as criminally acquired exceeded EUR 200 million. In 2021 and 2022, the amount confiscated each year exceeded EUR 80 million. During these years, the main assets recognised as proceeds of crime were those involved in criminal proceedings regarding ML in credit institutions under liquidation.³²⁰
- 4.5.48. In addition, it should be underlined that, unlike the NRA 2020 reporting period, more and more complex ML cases are being dealt with in relation to the historical first risk profile or Latvia as a regional financial centre. Accordingly, the transition from dealing with relatively straightforward ML cases to more complex cases during the NRA 2020 reporting period has been successful, with the judiciary dealing efficiently with an increased number of such cases.
- 4.5.49. At the same time, it should be stressed that the number of convictions for ML offences remained relatively low during the reporting period, given that the majority of cases before the courts were related to predicate ML offences committed abroad, mostly by third-country nationals who do not reside in Latvia and whose holding criminally liable would take a disproportionate amount of time and create a disproportionate burden on resources.
- 4.5.50. There has been a significant improvement in the speed of adjudication of ML-related criminal proceedings in the courts.³²¹ In terms of average time taken to resolve ML cases (i.e., assessing average performance over several years), Latvia ranks 17th out of the 25 EU Member States for which data are available.³²² At the same time, it is important to highlight two factors. First, if we look at the performance of Latvia's courts in 2019 and 2020 only, Latvia ranks among the top 10 in the EU on the same list.
- 4.5.51. Second, the most recent data in this assessment is for 2020, when the ECJ had not yet been established. According to the EC analysis, duration of the adjudication of ML cases in the court of first instance was around 250 days in 2020. In 2021 and in 2022, with the Economic Affairs Court as the institution mainly dealing with ML cases, duration of the adjudication of proceedings regarding criminally acquired property has dropped three times (see above). Taking into consideration the most recent data, it can be concluded that Latvia is among the three countries with the highest speed of adjudication of ML cases.
- 4.5.52. One new post of Assistant to the President of the Court was created under the Plan of Measures (2020-2022) to provide support and advice to judges in dealing with financial crime issues. The judges also received training, including on crypto-assets and related risks, the provision of evidence for ML investigations and sentencing policies, as well as on confiscation of proceeds of crime under the current legal framework.³²³
- 4.5.53. On 11 January 2021, the SAO published its audit report "Effectiveness of Investigation and Trials of the Criminal Offences in the Economic and Financial Area". At the same time, it should be noted that the audited period was from 1 January 2018 to 30 June 2020, which largely covered the NRA 2020 reporting period. Accordingly, some of the problems identified in the phases of pre-trial investigation, criminal prosecution and trial have already been addressed and remedied during the reporting period.

³¹⁹ According to the information provided by the Court Administration. Other proceedings were adjudicated in city and district courts.

³²⁰ According to the information provided by the Court Administration and the Ministry of Justice.

³²¹ During the NRA 2020 reporting period, the EC concluded that Latvia ranked second to last in terms of duration of the adjudication of ML cases among the 24 EU countries reporting data on duration of the adjudication of cases. The average duration of the adjudication of such cases in a court of first instance in Latvia exceeds two years.

³²² European Commission. The 2022 EU Justice Scoreboard. Eurojust 2022. P. 19. Available at: https://commission.europa.eu/document/download/123138e5-f651-44e4-963e-65b721c4f5e7_en?filename=eu_justice_scoreboard_2022.pdf.

³²³ Cabinet Order No. 576 of 29 September 2020 *Regarding Plan of Measures for the Prevention of Money Laundering and Terrorism and Proliferation Financing 2020–2022*. Available at: <https://likumi.lv/ta/id/317729> ; Cabinet Order No. 122 of 22 February 2022 *Regarding Plan of Measures for the Prevention of Money Laundering and Terrorism and Proliferation Financing 2022*. Available at: <https://likumi.lv/ta/id/330241>.

- 4.5.54. The plan of recommendations received in the audit report was approved at the meeting of the Crime Prevention Council on 15 April 2021, with a view to implementing all recommendations by the end of 2022. Most of the recommendations were implemented during the reporting period, with some continuing into 2023.
- 4.5.55. The tasks of the Action Plan were defined and implemented with a purpose:
- 4.5.55.1. To prevent problems linked to a lack of common perception on the application of legal rules, uncertainty about the essential elements to be proved and the set of evidence needed to prove guilt;
 - 4.5.55.2. To assess the possibilities for improving the regulatory framework to facilitate swift and efficient pre-trial criminal proceedings and trials;
 - 4.5.55.3. To find solutions to develop the criminal justice system to reduce its workload and focus the most qualified resources on the most complex criminal proceedings affecting the most important national interests;
 - 4.5.55.4. To take steps to ensure that public prosecutors receive qualified "technical" and advisory support at various stages of the criminal proceedings.³²⁴

Assessment

- 4.5.56. During the reporting period, the country took targeted measures to strengthen the capacity of investigative authorities, public prosecutors and courts in line with the risk profile, to increase the human and technical resources available thereto, and to improve the skills of investigators, public prosecutors and judges in the investigation, criminal prosecution and adjudication of ML cases. The number of criminal proceedings regarding ML initiated and the number of criminal proceedings regarding ML referred for criminal prosecution also continued to increase during the reporting period.
- 4.5.57. At the same time, there remains an imbalance in the human and technical resources available to investigative authorities. Particular emphasis should be put on the high workload and insufficient staffing of the SRS TCPD, which hampers swift and quality pre-trial investigation of criminal proceedings initiated, as well as the problems of the SP in relation to the high percentage of unfilled posts, which makes it difficult to strengthen the capacity to investigate ML without weakening the capacity to investigate predicate offences.
- 4.5.58. Capacity of the public prosecutor's office in relation to public prosecutors' skills, experience and available staff resources has grown in specialised public prosecutor's offices specifically in the field of financial crime investigations. During the reporting period, public prosecutors also became more involved in the pre-trial investigation process by cooperating, supporting and providing necessary training to the persons conducting the proceedings.
- 4.5.59. Judges also have improved their knowledge in the field of ML during the reporting period, and there has been an increase in the number of ML cases and the judges adjudicating them. During the reporting period, judges have also dealt with much higher number of and more complex ML cases. Establishment of the Economic Affairs Court has significantly improved the quality and speed of the adjudication of ML cases.

Capacity assessment of investigative authorities: 0.8 (high), increasing.

Assessment of the capacity of the public prosecutor's office: 0.9 (high), increasing.

Assessment of the court's capacity: 0.9 (high), increasing.

³²⁴ SAO, *Summary of main findings and recommendations of the audit. Assessment of factors hindering the investigation and trials of economic and financial offences*. P.6. Available at: <https://www.lrvk.gov.lv/lv/getrevisionfile/29451-Xw5K4zIWYUeXSANTyqGHep2WdO7BIAsq.pdf>.

4.6. Independence and Integrity of Financial Investigators, Public Prosecutors and Judges

- 4.6.1. Independence of financial investigators, public prosecutors, and judges is protected by law and guaranteed by the state.³²⁵
- 4.6.2. When assessing the independence and integrity of financial investigators, public prosecutors and judges in practice, it is also necessary to take into consideration overall indicators of public attitude towards corruption. In 2019, Latvia with 56 points ranked the 44th among 180 assessed countries in the Corruption Perceptions Index by Transparency International (sharing the 19th/20th position among EU28). In 2022, Latvia with 59 points ranks the 39th among 180 countries (15th among EU countries). Although there has been progress, it is not rapid enough, especially given target set in the National Development Plan 2021-2027 target of reaching the EU and OECD average (64 points) by 2024 and 67 points by 2027.³²⁶ When examining the sources included in the Corruption Perceptions Index, it is obvious that Latvia has the weakest score in the *PRS Group International Country Risk Guide*,³²⁷ which assesses a country on the potential level of corruption in politics, i.e., the level of so-called financial corruption, which is manifested in the demand to pay or give bribes for services provided by public institutions.
- 4.6.3. Similar trends can be observed also in the results of the *Trace Bribery Risk Index*.³²⁸ There has been no significant improvement in Latvia's score in the index over the reporting period. Similarly to the Corruption Perceptions Index, the biggest problems in Latvia were found in relation to (1) cooperation between business and public administration (access to public administration, prevalence of bribery and bureaucratic obstacles to doing business), as well as (2) public attitude towards offences (corruption, tax evasion, bribe-taking) and public policies to fight corruption.
- 4.6.4. The EC survey "Special Eurobarometer 523 - Corruption", published in July 2022, shows that only 30% of the Latvian population believes that corruption is unacceptable and 25% of the respondents in Latvia answered affirmatively when asked whether they know someone who has accepted a bribe. Compared to other EU countries, Latvia takes the last position with the smallest share of the approving answers (17%) when asked of whether efforts of the public administration in a fight against corruption are effective.³²⁹ At the same time, an opinion poll commissioned by the FIU shows that, in 2022, majority of the public has confirmed that they trust the authorities involved in the investigation, criminal prosecution and adjudication of financial crime.³³⁰ The highest public confidence is in the FIU, the Public Prosecutor's Office, the courts and the CPCB. Comparatively the lowest levels of trust are in the SP and the SRS.
- 4.6.5. At the same time, it should be noted that the experience and opinion of entrepreneurs about the state of corruption nationwide gives a contradictory impression of corruption in Latvia. The EC's survey "Flash Eurobarometer 523 - Corruption" reveals that only 23% of entrepreneurs consider corruption to be a major problem in Latvia (10th highest indicator in the EU). Only 27% of entrepreneurs believe that political support is required to be successful in business (7th highest indicator). In particular, 68% of business people are confident that those (natural persons and legal entities) who engage in corruption would be held accountable (3rd highest result in the EU). It should be underlined that entrepreneurs have a relatively negative

³²⁵ Law On Judicial Power. *Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1/2, 14.01.1993; *Diena*, 9, 15.01.1993 Available at: <https://likumi.lv/ta/id/62847-par-tiesu-varu>; Law On Public Prosecutor's Office. *Latvijas Vēstnesis*, 65, 02.06.1994 Available at: <https://likumi.lv/ta/id/57276-prokuraturas-likums>; Judgement of the Constitutional Court in Case No. 2006-12-01 of 20 December 2006 Available at: http://www.satv.tiesa.gov.lv/wp-content/uploads/2016/02/2006-12-01_Spriedums.pdf;

Sections 22 and 23 of the Law On Police. *Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 31/32, 15.08.1991; *Diena*, 126, 05.07.1991 Available at: <https://likumi.lv/ta/id/67957-par-policiju/redakcijas-datums/1994/12/24>; Section 20 of the Law On the State Revenue Service. *Latvijas Vēstnesis*, 105, 11.11.1993; *Latvijas Republikas Saeimas un MK Ziņotājs*, 34, 09.12.1993; *Diena*, 249, 17.11.1993 Available at: <https://likumi.lv/doc.php?id=59902>; Sections 375 and 396 of the Criminal Procedure Law. *Latvijas Vēstnesis*, 74, 11.05.2005.; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 11, 09.06.2005 Available at: <https://likumi.lv/ta/id/107820-kriminalprocesa-likums> etc.

³²⁶ Cross-Sectoral Coordination Centre. *Latvia's National Development Plan 2021-2027*. P. 89. Available at: https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027_apstiprin%C4%81ts%20Saeim%C4%81_1.pdf.

³²⁷ PRS Group International Country Risk Guide. Available at: <https://www.prsgroup.com/explore-our-products/international-country-risk-guide/>.

³²⁸ Trace Bribery Risk Matrix. Available at: <https://www.traceinternational.org/trace-matrix>.

³²⁹ European Commission. *Special Eurobarometer 523 March-April 2022. Corruption*. Available at: https://data.europa.eu/data/datasets/s2658_97_2_sp523_eng?locale=en.

³³⁰ Cross-Sectoral Coordination Centre. *Research and publications database. Public opinion survey on the activities of the FIU, perceptions of financial crime, types of money laundering and people's tolerance of such crime*. Available at: <http://petijumi.mk.gov.lv/node/4075>.

representation of the level of corruption in procurement procedures supervised by state and local government institutions (60% and 59% respectively believe that corruption is present).³³¹

- 4.6.6. Therefore, it can be concluded that public attitudes towards corruption in Latvia are ambiguous. On the one hand, totality of the residents of Latvia is quite tolerant of corruption and sceptical about the capacity and interest of state institutions to combat it. On the other hand, the vast majority of entrepreneurs do not see corruption as a major problem in the country and consider the state's efforts to combat it to be effective.
- 4.6.7. During the reporting period, the public vision of the level of corruption nationwide, as well as of the integrity of the investigative authorities, has been affected by corruption scandals that have affected the SRS TCPD and the SP during the reporting period.
- 4.6.8. During the reporting period, criminal proceedings were initiated against the Head of the Investigation Division of the SRS TCPD and his subordinate investigators regarding suspected extortion of money from a timber industry company. Two SRS TCPD officers were remanded in custody. At the same time, disciplinary proceedings were initiated against the Head of the SRS and the Head of the SRS TCPD in connection with this corruption scandal.
- 4.6.9. The corruption scandal in the SP has involved the Chief of the Riga Regional Criminal Police, who, in a criminal case pending in court, is charged with collecting secret documents using his official position, as well as money laundering by purchasing an apartment in Spain. The official concealed the purchase of the real estate by registering the apartment in the name of an acquaintance and paying for the purchase using cash (EUR 67,000) generated by unregistered business - car sales (separate criminal proceedings have been opened regarding the unregistered business).
- 4.6.10. At the same time, it is important to emphasise the ability of law enforcement authorities to identify corrupt conduct by mid- and high-level officials and to investigate it rapidly and effectively, thereby reducing the risks of corruption in investigative authorities, as well as preserving the reputation of law enforcement authorities.
- 4.6.11. From the viewpoint of the independence of public officials, rejection of the candidature of Sanita Osipova for the office of Supreme Court Justice by the Parliament of the Republic of Latvia during the reporting period should be highlighted. Although the Constitution of the Republic of Latvia provides for the right of the Parliament of the Republic of Latvia to reject a candidate, the debates before the vote and the opinions of members of the Parliament of the Republic of Latvia expressed in the public space lead to conclusion that the decision to reject candidature of Sanita Osipova for the office of Supreme Court Justice was not related to her qualifications, which were confirmed by the Department of Civil Cases of the Supreme Court, or reputation, but to the decisions taken in her previous position - at the Constitutional Court. This precedent has a negative impact on the independence of the judiciary, creating the risk that political forces make choices about candidates for the highest judiciary positions based on past decisions of the candidate that are not in line with the political forces' vision, rather than on objective criteria such as the candidates' qualifications, reputation and the judiciary's support for the candidate's promotion to the office.

Assessment

- 4.6.12. During the reporting period, Latvia completed the GRECO Fifth Evaluation Round in the area of anti-corruption and integrity promotion, ranking among the leaders in Europe in eradicating corruption and promoting integrity in public administration. Although public assessment of corruption risks in public administration is improving slowly, the trends are positive.
- 4.6.13. The isolated and rare cases of corruption among officials in investigative bodies generally reflect the country's capacity to identify and combat such cases, as well as the effective and sustained preventive work of the law enforcement system to root out corruption and malpractice. At the same time, it should be noted that despite the limited number of corruption

³³¹ European Commission. Flash Eurobarometer 507. Businesses' attitudes towards corruption in the EU. Available at: https://data.europa.eu/data/datasets/s2263_94_1_507_eng?locale=en.

cases, they have a disproportionately large negative impact on the public perception of corruption in general and on trust in law enforcement institutions.

- 4.6.14. In conclusion, the independence of financial investigators, public prosecutors and judges is ensured from a legal perspective. At the same time, its practical delivery, while improving considerably, needs further improvement.

Assessment of the independence and fairness of financial investigators: 0.8 (high), increasing.

Assessment of the independence and fairness of public prosecutors: 0.9 (high), increasing.

Assessment of the independence and fairness of judges: 0.9 (high), increasing.

4.7. Financial Integrity and Tax Administration

- 4.7.1. The level of financial integrity of a country is determined by companies' and professional service providers' adherence to good corporate governance principles, tax compliance and high standards of business ethics. Whereas, financial integrity at the national level is characterised by the predictability and sustainability of tax policy, a tax system that, inter alia, requires natural and legal entities to provide the SRS with comprehensive information on their income and assets, the existence and application of preventive sanctions for financial crimes.
- 4.7.2. During the reporting period, certain measures have been taken to strengthen financial integrity and the tax administration closely related thereto. Namely, a number of measures have been taken to reduce the administrative burden on taxpayers during the reporting period, such as the introduction of a single tax account and consolidated tax payment deadlines from 1 January 2021, which will allow taxpayers to pay all regular domestic taxes into a single account through a single payment order. Also, in order to reduce the administrative burden on small and medium-sized enterprises, the Law on Amendments to the Law on Taxes and Fees was adopted on 16 June 2021, which provides a framework for the introduction of a simplified tax payment solution using a business income account.
- 4.7.3. In 2020, a framework (amendments to the Law on Taxes and Duties and new Cabinet Regulation) was developed to provide the SRS with information to fight cross-border tax circumvention and tax evasion by introducing automatic exchange of information on reportable cross-border schemes.³³²
- 4.7.4. In order to provide the SRS and tax administrations of other EU Member States with information on taxpayers' income generated through digital platforms and to facilitate voluntary payment of taxes in cross-border economic activities, on 22 December 2022, amendments to the Law on Taxes and Duties were adopted transposing requirements of Council Directive (EU) 2021/514 (22 March 2021) which amends the Directive 2011/16/EU on administrative cooperation in the field of taxation (DAC7), and the international exchange of information held by digital platforms on sellers earning income from a particular digital platform was introduced.
- 4.7.5. One of the main national threats most directly affects financial integrity, and that is the shadow economy. On 30 May 2023, the latest results of the study "Shadow Economy Index in the Baltic States" were presented.³³³ During the reporting period, overall, compared to 2019, shadow economy has grown both in Latvia and other Baltic countries. On the positive side, 2022 will mark the first time since 2019 that the size of the shadow economy in Latvia has not increased compared to the previous year. The shadow economy index (% of GDP) in the Baltic countries is shown in Table 1. 4.7.1³³⁴

³³² Transposing the requirements of Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border schemes. Available at: <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32018L0822>.

³³³ This research has been carried out annually since 2009 by Professors Arnis Sauka and Tālis J. Putniņš at the *Stockholm School of Economics in Riga*. Available at: <https://www.sseriga.edu/shadow-economy-index-2022-shadow-economy-latvia-almost-high-previous-year>.

³³⁴ Ibid.

Table 4.7.1 - Shadow economy index (% of GDP) in the Baltic States

	Latvia	Lithuania	Estonia
2022	26.5	25.8	18.0
2021	26.6	23.1	19.0
2020	25.5	20.4	16.5
2019	23.9	18.2	14.3

- 4.7.6. Growth of the shadow economy since 2019 has been influenced by the Covid-19 pandemic and directly by the increased security measures gradually introduced since March 2020. Despite the challenges, a number of measures have been taken during the reporting period to reduce the level of the shadow economy in Latvia. On 23 September 2021, the Ministry's draft Shadow Economy Reduction Plan for 2021/2022 was presented at a meeting of the Council for Combating Shadow Economy. It was designed with the fight against "envelope wages" as a priority for this period. The draft plan also included measures to create a more open and transparent business environment, to improve the exchange of data between authorities, both for tax administration and other tasks. The Shadow Economy Reduction Plan 2021/2022 was designed to continue the cooperation between public administrations in taking targeted action to reduce the specific problem of the shadow economy and to reduce the shadow economy.
- 4.7.7. In 2021, implementation of the national research programme "Reducing the Shadow Economy for Sustainable National Development" continued. The first results of the research were presented by the programme implementers - scientific reports describing and analysing the reasons why individuals avoid paying taxes voluntarily, an assessment of the factors affecting the shadow economy in Latvia, best practices to reduce "envelope wages" and initial action policy recommendations.
- 4.7.8. The SRS takes preventive measures - informing taxpayers about the obligations to fulfil tax obligations, registration in the register of taxpayers when carrying out economic activity, submission of reports and returns and tax payments, and assessment and analysis of the information declared by taxpayers. The SRS is also competent to carry out taxpayer control measures.
- 4.7.9. When registering taxpayers and persons subject to VAT in the VAT register, the SRS assesses all the information at its disposal to prevent the registration of entities with fraudulent intentions. Registration risks are assessed using SRS information systems, complaints received by the SRS from citizens, data received from other institutions, as well as information received by the SRS from foreign tax administrations, etc. Thus, by assessing all the information available to the SRS about the taxpayer before registration, risks are assessed and circle of potentially fraudulent persons is narrowed down already upon registration.
- 4.7.10. In the study carried out by the CPCB in 2021 to assess the honesty of 37 different institutions in relation to corruption, the SRS was ranked 14th/19th in the group of the most positively rated institutions with a score of 0.6. In the same study in 2022, the SRS was included in the group of less positively evaluated institutions, ranking 20th with a score of 0.3.³³⁵ Deterioration of the result may be linked to (also publicised) criminal offences committed by the SRS officials:
- 4.7.10.1. In 2020, 3 criminal cases against 3 officials were initiated. All cases are closed.
- 4.7.10.2. In 2021, 1 criminal case against 1 official was initiated. The case is closed.
- 4.7.10.3. In 2022, 2 criminal cases against 7 officials were initiated. One of the cases initiated against 1 official for making false statements in the official's declaration has been sent to the public prosecutor's office for opening criminal proceedings.
- 4.7.11. During the reporting period, the Internal Security Department of the SRS has been significantly strengthened, and corruption risk management of internal processes for has been improved to detect and prevent possible criminal offences in the performance of official duties.
- 4.7.12. During the reporting period, a number of measures were taken to improve financial integrity and tax administration, and a number of measures were implemented to reduce the share of the shadow economy in the national economy of Latvia and strengthen the SRS, including by

³³⁵ Average score on a 5-point scale, where -2 is "very unfair" and 2 is "very fair"; in a group among 37 institutions.

introducing new IT systems to facilitate implementation of control and tax administration functions.

Assessment of financial integrity and tax administration: 0.7 (high), increasing.

4.8. Effectiveness of Domestic Cooperation

Coordination of Cooperation

- 4.8.1. Coordination of cooperation in the area of AML/CTPF is ensured at both strategic and operational level (see also Section [4.1 Quality of the policy and strategy to prevent ML/TPF](#) for detailed overview of the coordination of cooperation at strategic level). This is ensured by cooperation mechanisms at various levels, whose basis and competences are enshrined in laws, which prevents possible overlapping of functions and mandates in the area of AML/CTPF.
- 4.8.2. The FSDB is a coordinating body that aims to coordinate and improve cooperation between public institutions and the private sector in the fight against ML/TPF.³³⁶ The FSDB is chaired by the Prime Minister and attended by ministers, heads of SCIs (supervisory and control institutions) and associations related to the financial sector, and the Chief of the FIU. The main tasks of the FSDB in the area of prevention and combating of ML/TPF are to coordinate cooperation between public institutions and the private sector in AML/CTPF, including the achievement of the objectives set out in the national AML/CTPF policy and strategy, and to facilitate cooperation with relevant foreign public and private institutions responsible for financial sector development in the area of AML/CTPF.
- 4.8.3. During the reporting period, the FSDB continued to ensure a harmonised AML/CTPF policy. The FSDB considered a number of policy planning documents aimed at AML/CTPF. On 27 November 2020, the FSDB approved a plan of measures (2020-2022) to strengthen proportionate approach while complying with the requirements set for AML/CTPF. The measures included in the approved plan ensure a risk-based approach to AML/CTPF that ensures further sustainable development of the sector and its ability to finance the national economy. Whereas, on 9 September 2021, the FSDB considered the implementation of the plan of measures for AML/CTPF 2020-2022 and agreed on the measures to be included in the plan of measures for AML/CTPF 2022.
- 4.8.4. On 3 June 2021, the Crime Prevention Council³³⁷ as a collegial body whose aim is to strengthen the rule of law, coordinate and improve the activities of public institutions to prevent and combat crime, approved a strategic action plan for 2021-2026. The Action Plan includes a series of measures aimed at ensuring effective AML/CTPF, based on the national ML/TPF risk assessment and plan of measures (2020-2022) for AML/CTPF. In line with this, during the reporting period, the Crime Prevention Council strengthened its monitoring of the effectiveness of the CCG to ensure in practice proper and active operation of the mechanisms implemented by the CCG, actual use thereof and culture by public authorities, the LEAs and the private sector.
- 4.8.5. Purpose of the FIU Advisory Board is to facilitate the activities of the FIU and to coordinate its cooperation with pre-trial investigation institutions, public prosecutor office, court and reporting entities. According to the provisions of Section 60, Paragraph One of the AML/CTPF Law, the FIU Advisory Board shall consist of representatives delegated from the MoF, the SRS, the MoI, the MoJ, the Bank of Latvia, the Finance Latvia Association, the Latvian Insurers Association; the Latvian Association of Certified Auditors; the Council of Sworn Notaries of Latvia; the Latvian Council of Sworn Advocates; the Supreme Court, and the Public Prosecutor's Office. In practice, the FIU Advisory Board mainly considers strategic issues relevant to the FIU activities.

³³⁶ Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing. Section 61, Paragraph One. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Zīņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/doc.php?id=178987>.

³³⁷ Cabinet Regulation No. 42 of 20 January 2004 *By-law of the Crime Prevention Council*. *Latvijas Vēstnesis*, 12, 23.01.2004 Available at: <https://likumi.lv/ta/id/83440-noziedzibas-noversanas-padomes-nolikums>.

- 4.8.6. The FIU Advisory Board, chaired by the FIU Chief, continued its work during the reporting period, ensuring coordinated FIU cooperation with investigative authorities, public prosecutor's office, courts, reporting entities and their SCIs. During the reporting period, regular meetings of the FIU Advisory Board were held to review the annual FIU activity reports and to present the FIU Strategic Objectives 2023-2027. Whereas, following the approval of the NRA 2020, members of the Advisory Board were familiarised with the proposed risk mitigation measures (a total of 78 proposals to mitigate the risks identified in the NRA 2020), which were subsequently included either in the policy planning documents of the responsible authority or in the Plan of Measures (2020-2022) for AML/CTPF.
- 4.8.7. During the NRA 2020 reporting period, a platform for cooperation and coordination of SCIs was established³³⁸ to facilitate coordination and cooperation between SCIs and to promote a common approach in the performance of supervisory and control duties. During the reporting period, it continued its successful work, ensuring effective cooperation between FIU and SCIs. Under the leadership of the FIU, regular meetings of the SCIs cooperation and coordination platform were organised with the participation of all SCIs and the FIU (in some cases, representatives of the MoF are invited) to discuss various issues related to supervision and to develop best practices in the field of supervision of the reporting entities. SCIs assess this cooperation platform positively, noting that the regular meetings allow for communication with other supervisory and control bodies and ensure exchange of experience.
- 4.8.8. In order to ensure its continued operation and appropriate governance, as well as to provide legal basis for the future operation of the SCI Platform, amendments to the AML/CTPF Law entered into effect on 8 November 2022, which supplemented the AML/CTPF Law with provisions setting out the legal basis for the SCI Platform and the objectives of cooperation between the institutions involved. In addition, assessment of the division of competences of the institutions responsible for AML/CTPF led to conclusion that the MoF is further determined as the institution responsible for the provision of the SCI platform, taking into consideration its competences in the area of AML/CTPF. According to these amendments, it was foreseen that meetings of the SCI Platform would be convened by the MoF on its own initiative or if proposed by the FIU or at least one of the SCIs. In order to facilitate the exchange of information on the SCI platform, the amendments provide for the right to exchange information related to ML/TPF or attempted ML/TPF, identified sectoral risks and the supervisory and control measures taken.
- 4.8.9. The NCIM continued to operate during the reporting period continuing effective exchange of criminal intelligence information between the LEAs in accordance with the Instruction No. 1 of the Cabinet of Ministers of 24 January 2017 "Procedures for Cooperation of Law Enforcement Authorities in Preventing and Combating Crime".³³⁹ This included annual analytical criminal intelligence assessments of the crime situation nationwide, including information on trends, new typologies, threat levels and crime-fighting factors. ML was assessed as one of the priority groups to tackle and one affecting the overall crime rates. These reports were examined and approved by the sittings of the Crime Prevention Board, setting out the priorities for the coming year in the fight against crime, as well as providing solutions to the identified concerns impeding the combating of crime.
- 4.8.10. During the reporting period, the specialised expert groups (SSEGs) and sub-groups established under the NCIM continued to function, including the sub-group on enhancing the effectiveness of cooperation between competent authorities in preventing and combating ML/TPF and the sub-group on information exchange and analysis on ML methods, typologies and phenomena. During the reporting period, these sub-groups not only provided methodological support to the LEAs in preventing and combating ML/TF, such as parallel financial investigations and the recovery of suspected criminal³⁴⁰ assets, but also annually collected and analysed data on ML proceedings initiated and referred for criminal prosecution with the aim of both improving data collection (preventing incomplete data) and timely preparing for the development of the NRA 2023.

³³⁸ Order No. 1-5.1/3 of the Financial Intelligence Unit dated 24 January 2019.

³³⁹ Instruction No. 1 of the Cabinet of Ministers of 24 January 2017 *Procedures for Cooperation of Law Enforcement Authorities in Preventing and Combating Crime*. *Latvijas Vēstnesis*, 21, 26.01.2017 Available at: <https://m.likumi.lv/ta/id/288282>.

³⁴⁰ Section 70¹¹, Paragraphs Two and Three, of the Criminal Law. *Latvijas Vēstnesis*, 199/200, 08.07.1998.; *Latvijas Republikas Saeimas un MK Ziņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

FIU Cooperation Coordination Group

- 4.8.11. Since 9 May 2018, when the amendments to the AML/CTPF Law entered into effect, introducing a specific public-private partnership mechanism in the area of AML/CTPF - the CCG, it has ensured effective cooperation between the subjects of operational activities, investigative authorities, public prosecutor's office, the SRS (involved authorities), as well as between the reporting entities and their SCIs, under the guidance of the FIU. The aim of the cooperation is to facilitate effective performance of the tasks set out in the laws and regulations for the involved authorities, reporting entities and the SCIs, to reduce the administrative burden in the circulation of information between the LEAs and the reporting entities, as it allows to clarify in advance the nature and parameters of the information to be requested and thus to process only the data that are really relevant for the investigation of specific cases. Involvement of the private sector in information exchange is also important because, once the information is obtained from the public sector, it has the effect of preventing crime, for example, the private sector denies a potential offender access to the financial sector at an early stage, therefore, further public sector involvement is not required at a later stage, thus saving resources of the public sector.
- 4.8.12. During the reporting period, the CCG sittings were convened on regular basis, with 170 meetings in 2020, 247 in 2021 and 305 - in 2022 (most of which were reconvened to continue the examination of specific cooperation issues). The range of participants of the CCG meetings and the agenda vary according to the purpose of the meeting in question, the initiator and the range of issues to be discussed. In order to strengthen the FIU's capacity, an interinstitutional cooperation department was established at the FIU in 2022, which is responsible for the CCG function.
- 4.8.13. Majority of the LEAs, SCIs and reporting entities participating in the CCG meetings indicate that cooperation has been effective, while not all the LEAs or their structural units use this cooperation tool.
- 4.8.14. An innovation in the operation of the CCG during the reporting period was the establishment and operation of several specialised CCG working groups focused on strategic analysis.
- 4.8.15. In 2021, the Corruption Prevention and Combating Cooperation Coordination Group was established with a permanent composition - representatives from 4 major Latvian credit institutions, the FIU, the CPCB and the PGO. During the year, 6 meetings of this group were held, resulting in the development of document titled "Indicators and Case Study of Corruption Offences".
- 4.8.16. It should be noted that, in the Latvia's Phase 3 Written 2 Year Follow up Report, approved on 15 October 2021, the OECD Working Group on Bribery in International Business Transactions welcomed the FIU's cooperation and coordination with the LEAs, which has produced tangible results in the detection of corruption and foreign bribery cases.³⁴¹
- 4.8.17. In addition, 11 working group meetings were held in 2021 and 2022 to coordinate the FIU's cooperation with the SP and the public prosecutor's office in the process of self-liquidation of the JSC (AS) "ABLV Bank" under liquidation, and within which work on enhancement of the detection of identified potential criminal offences was done.
- 4.8.18. In March 2022, the Sanctions Working Group was set up. It includes experts from the competent authorities in the field of sanctions, namely the FIU, the FCMC³⁴², the Public Prosecutor's Office of the Republic of Latvia, the SSS, the SRS and 5 Latvian credit institutions. By the end of the reporting period, 15 meetings of the Sanctions Working Group had been held, which contributed significantly to a regular and proactive exchange of information between the institutions represented. The work performed by the Sanctions Working Group and the implemented cooperation resulted in the publication "Indicators of Circumvention of

³⁴¹ PHASE 3 TWO-YEAR FOLLOW-UP REPORT: Latvia. Available at: <https://www.oecd.org/corruption/Latvia-phase-3-follow-up-report-en.pdf>.

³⁴² As of 1 January 2023, the FCMC 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 to the FCMC's property, financial resources, rights and obligations.

Sanctions Imposed Against Russia", which combines information from suspicious transaction reports received by the FIU, discussions of the Sanctions Working Group, and research carried out and findings made by other Latvian and international authorities. Based on the results of the FIU survey, the publication has been recognised by national authorities and reporting entities as a useful and practical tool for identification of suspicious transactions. The publication has also received a positive response from international partners when it was presented at the EFIPPP plenary session, which included major European financial institutions, financial intelligence units of EU Member States and the LEAs.

- 4.8.19. The working group on preventing and combating tax crime and ML was also launched in 2022. The working group includes representatives from four largest credit institutions in Latvia, the FIU, the SRS TCPD and the PGO. During 2022, five group meetings were held to produce a document on indicators, typologies and case studies of tax offences.
- 4.8.20. Whereas, at the operational level, an innovation in the operation of the CCG during the reporting period was the OpCen initiative, which allows the LEAs, as well as the public prosecutor's office to cooperate within the framework of investigations of individual operational cases. OpCen was established to further strengthen the effectiveness of cooperation, information analysis and exchange between the FIU and LEAs in promoting the prevention and combating of organised crime and serious crime, in particular the prevention and combating of ML/TF, as well as ML to ensure its subsequent confiscation.
- 4.8.21. OpCen addresses goals of specific financial intelligence, operational activity and/or criminal proceedings. The process shall involve the resources of the FIU and the institutions involved, on the part of the FIU, according to the volume and complexity of the case - an analyst or analysts conducting financial intelligence, and, on the part of the authority or authorities involved, according to the volume and complexity of the case - a person directing the proceedings who will implement measures in accordance with the Law on Operational Activities or the Criminal Procedure Law.
- 4.8.22. The decision to involve the FIU in a particular investigation, operational activity process is taken either with the approval of FIU management or with the approval of management of the FIU Financial Intelligence Department, taking into consideration the FIU priorities, capacity, importance of the case and proportionality to the planned resources in OpCen activities. OpCen is operated on the FIU premises or, in some cases, remotely. Cooperation between the FIU and involved authorities OpCen takes place in CCG format.
- 4.8.23. The FIU provides annual feedback on the number and quality of suspicious transaction reports to the supervisory and control institutions, as well as to the reporting entities by organising one-to-one meetings. Feedback meetings are held also with the credit institutions and reporting entities that have submitted at least 10 suspicious transaction reports in a year. The meetings discussed and analysed the qualitative and quantitative indicators of the reports, as well as discussed examples of individual suspicious transaction reports, including their content, technical deficiencies (if any), timeliness of reporting and other indicators. Particular focus of the meetings was put on developing a common understanding on reporting circumvention and attempted circumvention of sanctions to the FIU.
- 4.8.24. In 2020, 13 feedback meetings with credit institutions were organised, in 2021 feedback meetings were organised with 7 various SCIs and 16 various reporting entities, whereas, in 2022, the FIU organised 10 feedback meetings with all 11 SCIs stipulated in Section 45 of the AML/CTPF Law and with 11 various reporting entities.
- 4.8.25. In order to identify the CCG evaluation of the cooperation between the LEAs and the public prosecutor's office, in 2022, a survey of the participants of the CCG meetings was carried out for the first time. The cooperation within the CCG was evaluated by 88 representatives, with an overall score of 8.9 (on a scale of 1 to 10).

Assessment

- 4.8.26. During the reporting period, effective inter-institutional cooperation in the area of AML/CTPF was ensured at all levels. The FSDB, the leading political coordinating body in the area of AML/CTPF, continued to function, including a high-level collegial body in the fight against crime, the Crime Prevention Council, ensuring a coordinated national policy on AML/CTPF. The NCIM,

within the framework of which strategic analysis and prioritisation of the common fight against crime is implemented, identified the fight against ML and the recovery of proceeds from crime as one of the priorities in the common scope of fight against crime. The FIU-led CCG mechanism, as a private-public partnership model, provided the necessary cooperation between the private and public sectors in the area of AML/CTPF achieving significant results.

- 4.8.27. No significant amendments were introduced to the laws and regulations on domestic cooperation during the reporting period, given their adequacy. At the same time, inter-institutional cooperation in the area of AML/CTPF between the SCIs, namely, the SCI cooperation platform.
- 4.8.28. It should be noted that several international evaluations took place during the reporting period, in which Latvia's domestic cooperation mechanisms, namely, the FIU-led CCG, were highly rated. The initial report prepared by experts of the UN Counter-Terrorism Committee on the assessment of Latvia carried out in 2021 and 2022 notes that Latvia has a well-developed public-private partnership system that ensures cooperation both at the level of operational analysis and at the level of strategic analysis. The UN Counter-Terrorism Committee experts recommend the FIU CCG mechanism as a good practice and invite Latvia to share its experience in building public-private partnerships, including for the improvement of the system of AML/CTPF and cooperation with the NGO sector to protect it from abuse for TF purposes while avoiding negative impacts on its operations. Similar conclusions on the effectiveness of Latvia's domestic cooperation were made by the OECD Working Group on Bribery in International Business Transactions in its Phase 3 *Written 2 Year Follow up Report*, approved on 15 October 2021. The OECD welcomed the FIU-led CCG which had contributed to the detection of cases of corruption and those related to foreign bribery.

Assessment of the effectiveness of domestic cooperation: 1.0 (high)

4.9. Effectiveness of International Cooperation

- 4.9.1. Latvian laws and regulations provide for extensive opportunities for international cooperation in the fight against crime, including in combating ML and confiscation of proceeds of crime, both within the framework of criminal proceedings and beyond - within the framework of operational activities, departmental inspections, and financial intelligence.
- 4.9.2. Part "C" of the Criminal Procedure Law governs international criminal judicial cooperation both in relation to requests for legal assistance, transfer of criminal proceedings, extradition, seizure and confiscation of financial means and enforcement of judgements.³⁴³ The Law on Operational Activities provides for operational activities, including in a special manner, to be carried out at the request or upon agreement of international and foreign LEAs and national security and defence authorities.³⁴⁴ The AML/CTPF Law provides for the FIU's authority to exchange information with foreign authorised institutions, to freeze funds at their request and to monitor the accounts of credit institutions.³⁴⁵
- 4.9.3. The AML/CTPF Law also provides for that the SCIs are obliged, on their own initiative or upon request, to exchange information with foreign institutions whose obligations are substantially similar, provided that the confidentiality of the data is ensured and that its use is possible for mutually harmonised purposes only.³⁴⁶
- 4.9.4. During the reporting period, amendments were made to the AML/CTPF Law to eliminate the shortcomings identified in the Moneyval Round 5 assessment report regarding the implementation of the requirements of FATF Recommendation 40, as well as to transpose certain provisions of Directive 2015/849 concerning the FIU's international cooperation.

³⁴³ Criminal Procedure Law, Part C. *Latvijas Vēstnesis*, 74, 11.05.2005; *Latvijas Republikas Saeimas un MK Zīpotājs*, 11, 09.06.2005 Available at: <https://likumi.lv/ta/id/107820-kriminalprocesa-likums>.

³⁴⁴ Section 19, Paragraph Two, Clause 3 of the Law on Operational Activities. *Latvijas Vēstnesis*, 131, 30.12.1993 Available at: <https://likumi.lv/ta/id/57573-operativas-darbibas-likums>.

³⁴⁵ AML/CTPF Law of Money Laundering and Terrorism and Proliferation Financing, Section 46, Paragraph One, Clause 7, *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Zīpotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/doc.php?id=178987>.

³⁴⁶ Law On the Prevention of Money Laundering and Terrorism and Proliferation Financing, Section 32.1, Paragraph Two, Clause 3, Section 33.2, and Section 62. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Zīpotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/doc.php?id=178987>.

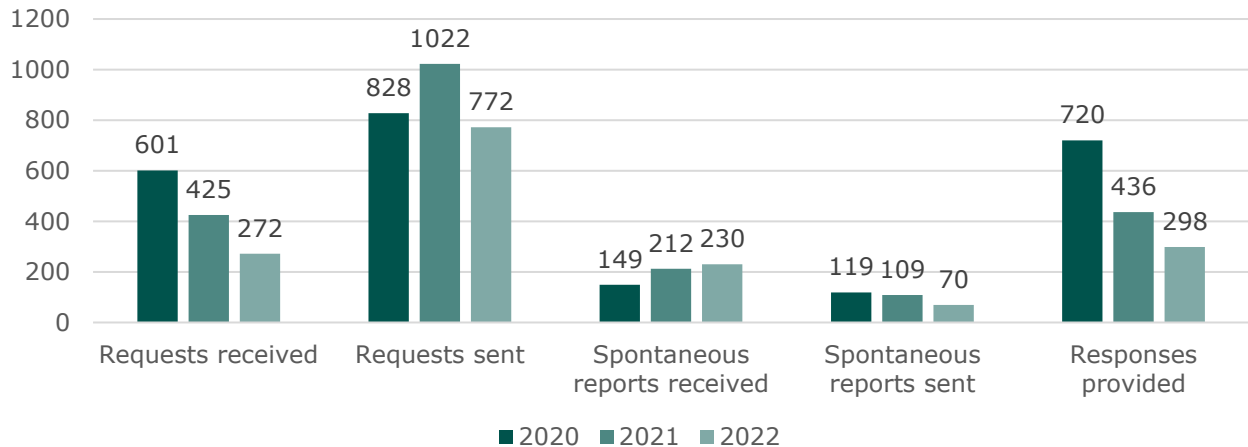
- 4.9.5. During the reporting period, the guidelines issued by the Ministry of Justice in 2019 "Guidelines for International Cooperation of Anti-Money Laundering and Anti-Terrorist Financing Supervision and Control Authorities" were supplemented to cover international cooperation implemented by the FIU and investigative authorities.³⁴⁷ The Guidelines briefly summarise the opportunities and legal framework of SCIs, the FIU and LEAs for their international cooperation. The clarifications made to the aforementioned guidelines address the shortcomings identified in the Moneyval Round 5 assessment report in relation to the implementation of requirements of FATF Recommendation 40.
- 4.9.6. In addition, during the reporting period, the FIU developed guidelines "Cooperation of the Financial Intelligence Unit with Subjects of Operational Activities, Investigative Authorities and Public Prosecutor's Office", which were harmonised with the PGO on 17 September 2020. Among other things, the Guidelines set out the process and requirements for LEA information requests from the FIU within the framework of international cooperation. The document has a restricted access status and is at the disposal of the FIU, the PGO and all the LEAs.
- 4.9.7. During the reporting period, the SCIs have implemented cooperation in the area of AML/CTPF with supervisory and control institutions of other countries on various issues, including sending and receiving information requests. The frequency and intensity of cooperation is similar from year to year, with a total of 33 information requests sent (9 in 2020; 10 in 2021 and 14 in 2022) and 29 information requests received (10 in 2020; 11 in 2021 and 8 in 2022) to/from foreign counterparts during the reporting period.
- 4.9.8. The FIU uses the Egmont network,³⁴⁸ as well as the EC FIU.net network for international cooperation.³⁴⁹ If necessary, the FIU may also use the LEAs to obtain information from foreign authorised institutions by making a relevant request to the FIU, mainly on matters related to suspicious transactions abroad or credit institution information. For example, in 2021, 16.6% or 170 and, in 2022, 23.8% or 184 of the requests sent by the FIU to foreign financial intelligence units were based on requests prepared by LEAs.
- 4.9.9. The amount of international cooperation implemented by the FIU has decreased during the reporting period (also compared to the NRA 2020 reporting period). The number of foreign requests received by the FIU decreased during the reporting period, which is related both to the impact of the Covid-19 pandemic, when a large part of the financial intelligence units were working under reduced capacity, and to the fact that the risks inherent in regional financial centres are less and less associated with Latvia during the reporting period, and, consequently, cross-border money flows characterising such risks are significantly lower in the Latvian financial system compared to the past. This has reduced the number of suspicious transactions that could be of interest to foreign authorities.
- 4.9.10. The number of requests made by the FIU to foreign counterparts has also decreased in 2022, which is attributable to a shift in FIU priorities from risk profile 1 (risks related to Latvia as a regional financial centre) to risk profile 2 (risks related to the laundering of proceeds of crime generated from criminal offences committed in Latvia and elsewhere). The FIU continues to provide extensive support to LEAs in obtaining information from abroad.

³⁴⁷ Guidelines for International Cooperation Between the Supervisory and Control Institutions of the Prevention of Money Laundering and Terrorism and Proliferation Financing, the Financial Intelligence Unit and Law Enforcement Authorities. Available at: <https://www.tm.gov.lv/lv/media/8234/download?attachment>.

³⁴⁸ Egmont Group, Information exchange network of financial intelligence units. Available at: <https://egmontgroup.org/about/>.

³⁴⁹ EU Information exchange network of financial intelligence units, available at: <https://ec.europa.eu/transparency/expert-groups-register/screen/expert-groups/consult?lang=en&do=groupDetail&groupDetail&groupID=3251>

Chart 4.9.1 - Dynamics of the FIU's international cooperation over 3 years



- 4.9.11. During the reporting period, the SP, as one of the competent authorities for international criminal judicial cooperation in pre-trial investigations, was actively involved in international criminal judicial cooperation, both by sending requests for assistance to foreign countries - European Investigation Orders and Requests for Legal Assistance³⁵⁰, and by executing them.
- 4.9.12. The number of European Investigation Orders and Requests for Legal Assistance sent by the SP for criminal offences in relation to the ML/TPF offences³⁵¹, as well as for offences related to fraud, corruption, tax, excise goods, drugs, smuggling and organised crime has increased significantly during the reporting period (see Table 4.9.2). This indicates that the SP is actively using international criminal justice assistance in the investigation of ML/TPF offences and in the investigation of offences that pose the greatest ML/TPF threat, namely fraud, corruption, tax evasion, illicit circulation of excise goods and drugs, including smuggling and organised crime.
- 4.9.13. At the same time, it should be mentioned that the number of European Investigation Orders and Requests for Legal Assistance received and executed by the SP related to offences provided for in Sections 73, 73¹, 79² and 195 of the Criminal Law, as well as for offences related to fraud, corruption, tax, excise goods, drugs, smuggling and organised crime is significantly lower than the number of requests sent, but there is a slight increase in the reporting period compared to the NRA 2020 reporting period (see Table 4.9.2).

Table 4.9.2 - Number of European Investigation Orders and Requests for Legal Assistance received and sent by the SP

	2017	2018	2019	2020	2021	2022
Sent	563	570	891	1060	1051	1239
Received	363	400	458	442	544	559

- 4.9.14. Most frequently, the SP has sent European Investigation Orders and requests for legal assistance to Lithuania, Germany, Great Britain, Estonia and Russia during the reporting period. European Investigation Orders are mostly executed on time, within 3 months or even sooner (Lithuania, Estonia, Germany, Poland), but sometimes execution can be delayed if additional information is requested from abroad (3-9 months), and sometimes up to 1.5 years (the Netherlands). Whereas, Requests for Legal Assistance are executed on average within 6 months - 1.5 years. It should be noted that China executes those requests a very long time, does not respond to follow-up requests on the progress of execution, does not provide interim replies or information on the expected timeframes for execution, resulting in an average duration of execution of the request 2-3 years or a refusal of execution, which is sent late.

³⁵⁰ European Investigation Orders under Section 875¹ of the Criminal Procedure Law and requests for legal assistance under Section 845 of the Criminal Procedure Law. Available at: <https://likumi.lv/ta/id/107820-kriminalprocesa-likums>.

³⁵¹ Criminal Law, Sections 73, 73¹, 79² and 195. *Latvijas Vēstnesis*, 199/200, 08.07.1998.; *Latvijas Republikas Saeimas un MK Ziņotājs*, 15, 04.08.1998 Available at: <https://likumi.lv/ta/id/88966-kriminallikums>.

- 4.9.15. During the reporting period, the SP has most frequently received European Investigation Orders or Requests for Legal Assistance from Germany, Poland, Belarus, Russia, Estonia and the Czech Republic.
- 4.9.16. During the reporting period, the PGO as one of the competent authorities for international criminal justice cooperation in pre-trial investigations has sent abroad almost twice as many European Investigation Orders and Requests for Legal Assistance in relation to ML and offences related to fraud, corruption, tax, excise goods, drugs, smuggling and organised crime compared to the previous reporting period (see Table 4.9.3).

Table 4.9.3 - Number of European Investigation Orders and Requests for Legal Assistance sent by the PGO, by type of offence (Sections of the Criminal Law)

	2017	2018	2019	2020	2021	2022
Section 73 of the Criminal Law.	0	0	0	0	0	0
Section 73 ¹ of the Criminal Law.	0	0	0	0	0	0
Section 195 of the Criminal Law.	105	86	237	372	262	211
Sections 177, 177 ¹ , 178, and 210 of the Criminal Law.	60	61	85	89	84	92
Sections 198, 199, 320, 322, 323, 326 ¹ , 326 ² , and 326 ³ of the Criminal Law.	8	13	27	57	23	15
Sections 218, 218 ¹ of the Criminal Law	154	133	179	256	204	180
Sections 221, 221 ¹ , 221 ² , and 221 ⁶ of the Criminal Law.	3	1	5	7	14	26
Sections 253, 253 ¹ , and 253 ² of the Criminal Law.	0	3	8	12	2	4
Sections 190, 190 ¹ of the Criminal Law	36	20	45	45	48	21
Sections 184, 224 of the Criminal Law.	0	2	4	1	2	0
Total	366	319	590	839	639	549

- 4.9.17. During the reporting period, the most frequent destinations of European Investigation Orders and Requests for Legal Assistance were Lithuania, Germany and Russia. Majority of European Investigation Orders and Requests for Legal Assistance sent were related to ML and tax evasion offences.
- 4.9.18. It should be noted that, during the reporting period, the number of requests sent for the seizure of property has increased significantly: in 2020, 16 requests for the seizure of property were sent; in 2021, number of such requests was the same, but, in 2022 - 43 requests for the seizure of property were sent. Comparatively, during the NRA 2020 reporting period, the number of such requests sent varied between 8 and 17 each year. Whereas, number of requests for the seizure of property received from abroad has decreased during the reporting period: in 2020 – 26, in 2021 – 19 and in 2022 – 17. During the NRA 2020 reporting period, between 45 and 21 requests were received each year.
- 4.9.19. During the reporting period, the PGO received 721 European Investigation Orders and Requests for Legal Assistance from abroad in 2020, 635 - in 2021 and 506 - in 2022 for ML and offences related to fraud, corruption, tax, drugs, smuggling and organised crime, as well as offences under the jurisdiction of the International Criminal Court. Most of the European Investigation Orders and Requests for Legal Assistance received were related to fraud and ML. Most frequently, European Investigation Orders were received from Germany, Poland and Lithuania. In contrast to the sent ones, the number of received Requests for Legal Assistance and European Investigation Orders has not increased during the reporting period compared to the NRA 2020 reporting period (see Table 4.9.4).

Table 4.9.4 - Number of European Investigation Orders and Requests for Legal Assistance, received and sent by the PGO

	2017	2018	2019	2020	2021	2022
Sent	366	319	590	839	639	549
Received	599	623	840	721	635	506

- 4.9.20. LEAs makes active use of the information exchange tools offered by Europol and Interpol. Likewise, cooperation between various AROs (asset recovery offices), as well as the CARIN³⁵² and AMON³⁵³ networks to promote cooperation in the area of asset recovery and combating ML are used.
- 4.9.21. The SP and SRS TCPD have appointed liaison officers at Europol. There is also a liaison officer of the SP in Great Britain. The liaison officer enhances information exchange and implements organisational activities to ensure practical cooperation.
- 4.9.22. Criminal justice cooperation makes use of the possibilities offered by Eurojust³⁵⁴ and³⁵⁵ the EJM.
- 4.9.23. LEAs assess international cooperation from abroad differently, mostly - as adequate. At the same time, the institutions involved in the fight against ML/TPF identify cases and partner countries where requests for legal assistance prepared within criminal proceedings are not executed in a timely manner or adequate quality. Since 24 February 2022, cooperation with Ukraine, Russia and Belarus has become very difficult (but it still exists).
- 4.9.24. Effectively AML measures require further improvement and promotion of cooperation and information exchange between Latvian and foreign LEAs fighting the same type of crime. During the reporting period, the CPCB has purchased encryption equipment (Secure Information Exchange Network Application (SIENA)) and established a communication point. Until then, the CPCB was the only anti-corruption institution in the Baltic States that did not have operational communication with partner services, including Europol, through SIENA. In the opinion of the CPCB, further improvement of cooperation in the area of combating of corruption would require creation of a similar international cooperation channel, similar to the Egmont Group for financial intelligence.
- 4.9.25. In cyber-crime, the time required to obtain information is a particularly important factor, with clear impact on the effectiveness of investigations and the possibility to recover funds lost by the victims in a timely manner. Consequently, discussion should be promoted on the effectiveness of international cooperation in the investigation of criminal offences involving virtual assets (including in a different way from criminal judicial cooperation).
- 4.9.26. Globally, international cooperation is one of the biggest challenges in the area of AML. During the reporting period, the Covid-19 pandemic led to the development of remote account opening options abroad. This makes it even easier and quicker for criminals to set up complex payment flows through several countries, while the LEAs' options have remained the same.

International effectiveness during the reporting period is 0.9 (high).

³⁵² Camden Assets Recovery Inter-Agency Network (CARIN). Available at: <https://www.europol.europa.eu/publications-documents/camden-asset-recovery-inter-agency-network-carin-manual>.

³⁵³ International anti-money laundering operational network (AMON). Available at: <https://www.europol.europa.eu/newsroom/news/international-anti-money-laundering-operational-network-amon-launched>.

³⁵⁴ EU Agency for Criminal Justice Cooperation (Eurojust). Available at: https://europa.eu/european-union/about-eu/agencies/eurojust_lv.

³⁵⁵ European Judicial Network (EJM). Available: https://www.ejm-crimjust.europa.eu/ejm/EJM_Home.aspx.

4.10. Quality of Border Controls, Scope of Customs Regime and Effectiveness of Control in Relation to Cash and Similar Tools

- 4.10.1. The State border of the Republic of Latvia is a continuous and closed line, and a vertical surface coinciding with this line, which delimits the land and water territory, subsoil and airspace of the Republic of Latvia from neighbouring countries and from the exclusive economic zone of the Republic of Latvia in the Baltic Sea.³⁵⁶ Land border of the State of Latvia consists of an internal border and an external border. Internal border under Regulation 2016/399³⁵⁷ is with Estonia and Lithuania. Whereas, the external border is shared with Russia and Belarus in accordance with Regulation 2016/399.
- 4.10.2. The State border of Latvia can be crossed by land, inland waters, sea or airspace. The national border surveillance is provided by the SBG. In addition, the SBG cooperates with the SRS Customs Department. In exceptional cases, the armed forces may also be involved in border surveillance, for example, surveillance at the Latvian-Russian border.
- 4.10.3. The SBG is responsible for cash control at border crossing points where there are no officials of the SRS Customs Department. The SBG is responsible for cash control at border crossing points for local border traffic on the Latvian-Belarusian State border (Kaplava, Piedruja and Meiksani border crossing points), on the Latvian-Russian State border (Pededze border crossing point), sea border, as well as performs general provision of the inviolability of the State border, including beyond the border crossing points.
- 4.10.4. Ability of the SBG to ensure effective border controls is crucial to prevent illegal movement of cash and similar instruments across external borders, in particular at border crossing points where officials of the SRS Customs Department are deployed. Effective border controls are important not only for cash control, but also for the prevention of predicate offences arising from the possible involvement of illegal migrants in criminal activities or their exposure to such activities.³⁵⁸
- 4.10.5. There is an increased risk of illegal crossing of the external State land border beyond the border crossing points (hereinafter referred to as - the "green" border) in the sections of the State border in the vicinity of which residential places are located, including from the direction of the neighbouring country, in the sections crossed, accessed by or in the vicinity of roads, railways, as well as in the areas bordering with or crossed by water bodies, watercourses. In order to determine which parts of the "green" border require increased border guarding intensity, the SBG periodically carries out risk analysis.

Quality of Border Controls

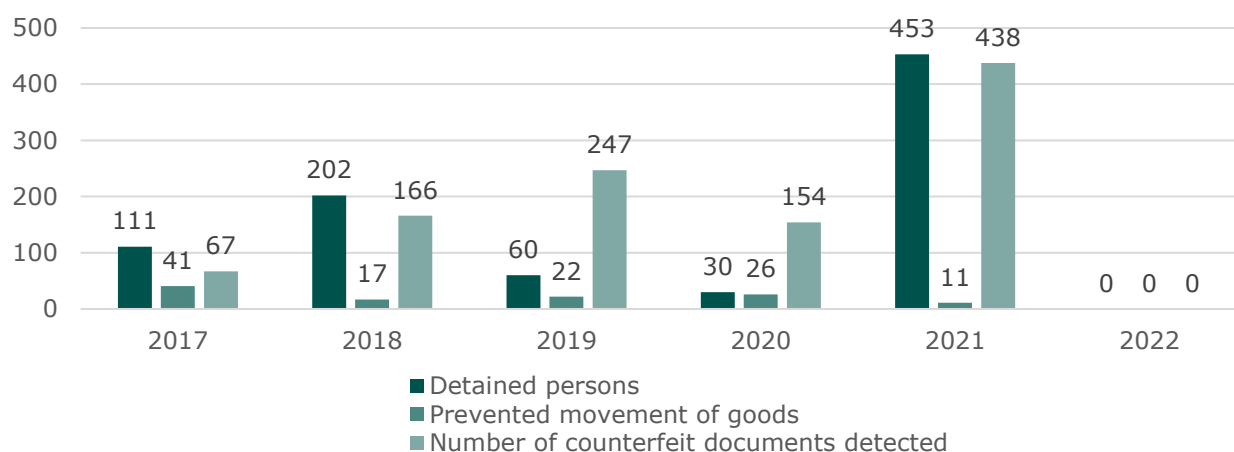
- 4.10.6. Compared to the NRA 2020 reporting period, the number of illegal state border crossings identified by the SBG at border crossing points where there are no SRS customs officials has changed significantly. (Chart No. 4.10.1). The number of detained persons has increased from 111 in 2017 to 453 in 2021. During the reporting period, increase in the number of detected cases has not been gradual, but rather related to various changes in external circumstances, mainly the emergency situation declared in 2021 on the Latvian-Belarusian border (explained in more detail in Paragraph 4.10.9 below).

³⁵⁶ Section 1, Paragraph One of the State Border Law of the Republic of Latvia. *Latvijas Vēstnesis*, 189, 02.12.2009 Available at: <https://likumi.lv/ta/id/201364-latvijas-republikas-valsts-robezas-likums>.

³⁵⁷ Regulation (EU) 2016/399 of the European Parliament and of the Council of 9 March 2016 on a Union Code on the rules governing the movement of persons across borders (Schengen Borders Code). Available at: <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32016R0399&qid=1689843111735>.

³⁵⁸ FATF report. *Money Laundering Through the Physical Transportation of Cash*, p. 4. Available at: <https://www.fatf-gafi.org/en/publications/MethodsandTrends/MI-through-physical-transportation-of-cash.html>.

Chart 4.10.1 - Number of cases of illegal crossings of the State border³⁵⁹



- 4.10.7. During the reporting period, the number of cases identified in 2020 decreased significantly in relation to the measures implemented to contain the spread of Covid-19 both globally and in Latvia. These measures had a significant impact on the right and actual opportunities of movement for persons, resulting in significant reduction in the number of international travellers, including those wishing to cross the State border illegally.³⁶⁰ Similar to the NRA 2020 reporting period, illegal crossing of State borders was mainly detected at the external land border, bypassing border crossing points, i.e., at the green border. Illegal crossing of the Russian-Latvian State border was mainly detected. Significant increase in illegal crossing of the Belarusian-Latvian State border is detected.³⁶¹
- 4.10.8. The competent authorities for border control, the SBG and the SRS, started the reporting period with significant security enhancements from the end of the NRA 2020 reporting period. Completion of construction of a fence along the Latvian-Russian border, completed in 2019, was a major reinforcement of controls. During the current reporting period, construction of the stand-alone fence for the Latvian-Belarusian border as also commenced, with the first phase of the length of 85.9 km completed, with a plan to complete the entire 173 km of the border by the end of 2024.³⁶²
- 4.10.9. Number of identified cases of illegal border crossings increased in 2021. Number of people at the Belarusian-Latvian border increased significantly.³⁶³ The main reason for the increase in numbers was the announcement by the President of Belarus on 26 May 2021 that Belarus will no longer impede the migration of persons to the EU (via the Republic of Belarus). Following this announcement, the Belarusian authorities took targeted measures to artificially create a large flow of migrants transiting through Belarus to the EU. Infrastructure of transport services was purposefully increased to provide the migration of persons, and information was disseminated on the facilitations created for entry in Belarus and the EU, in particular in the countries in the Middle East region.³⁶⁴ In order to strengthen the capacity to prevent and detect illegal border crossings, Order No. 518 of the Cabinet of Ministers dated 10 August 2021 "On Declaring a State of Emergency" granted to the National Armed Forces the duty and the right to take measures to detect and stop illegal crossings.³⁶⁵
- 4.10.10. In 2022, number of recorded illegal border crossings increased. Illegal crossings continued mainly at the Latvian-Belarusian border.³⁶⁶ As a result of the measures for attraction of migrants, implemented by Belarus, a significant number of migrants stayed in Belarus in 2022

³⁵⁹ BDG Annual Reports 2017-2021.

³⁶⁰ NCIM 2020. Page 50.

³⁶¹ Ibid, p. 50.

³⁶² Valsts nekustamie īpašumi, *Construction works on the second phase of the Latvian-Belarusian border to begin in April*. Available at: <https://www.vni.lv/aktualitates/vni--aprili-saksies-buvdarbi-latvijas--baltkrievijas-robezas-izbuves-otrāja-karta->

³⁶³ NCIM 2021, p. 53.

³⁶⁴ Ibid, p. 53.

³⁶⁵ Ministry of the Interior, *The state of emergency on the Latvian-Belarusian border is extended until 10 May 2023*. Available at: https://www.iem.gov.lv/lv/jaunums/arkarteja-situacija-uz-latvijas-baltkrievijas-robezas-tiek-pagarinata-lidz-2023-gada-10majam?utm_source=https%3A%2F%2Fwww.google.com%2F

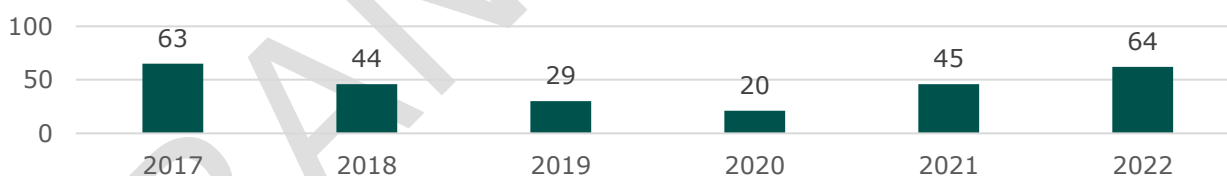
³⁶⁶ NCIM 2022, p. 58.

wanting to reach Western Europe.³⁶⁷ Whereas, increase in the number of migrants in Latvia is considered to be small, as the introduction of the state of emergency has increased border controls in certain areas along the external border of Latvia.³⁶⁸ The increased controls also affected the activity of organised crime groups previously involved in the smuggling of persons across the State border. The enhanced surveillance of the State border created a very high risk of detention of persons. Consequently, organisers of the illegal movement of persons tried to minimise the type of movement that required the movers to be physically present at the State border.³⁶⁹

4.10.11. Increase in cross-border movements in 2022 was also influenced by the lifting of movement restrictions imposed during the Covid-19 pandemic.³⁷⁰ As the concurrences of Covid-19 continued to decline, the European Council published new guidelines on 22 February 2022 calling on EU Member States to ensure a coordinated and unified approach to free movement both within the EU and by restoring connectivity with third countries. On this basis, restrictions on cross-border movement of persons were gradually lifted in Latvia. For example, on 1 April 2022, amendments to Cabinet Regulation No. 662 of 28 September 2021 "Epidemiological Safety Measures to Limit the Spread of Covid-19 Infection" entered into effect, which abolished the requirement to present certain types of medical documents for third-country immigrants. This political decision has led to a much freer cross-border movement of third-country travellers and an increase in the number of immigrants. The right of cross-border movement was also used by people travelling with forged documents.³⁷¹ In 2022, the migration wave was further aggravated by residents of Ukraine emigration following the commencement of Russia's hostilities against Ukraine. These trends created a number of non-standard challenges for the SBG, along with increased pressure to adapt quickly and in good quality to the new situation and threats. In a context of increased intensity, the vulnerability of a state border to being exploited for ML/TPF and other financial crimes also increases.

4.10.12. The criminal proceedings initiated in 2021 and 2022 do not reflect the objective situation in the area of illegal crossing of the State border (Graph 4.10.2). On the basis of Paragraph 4 of the Order No. 518 of the Cabinet of Ministers of 10 August 2021 "On Declaring a State of Emergency", the SBG, the National Armed Forces and the SP in most cases, having established that a person attempted to cross the Latvian-Belarusian border illegally or had crossed it illegally, ordered the person to immediately stop the attempted illegal border crossing or to return immediately to the country from which the person crossed the border, and in most cases no criminal proceedings were initiated.

Chart No. 4.10.2. - Criminal proceedings initiated for illegal crossing of the State border (Section 284 of the Criminal Law)



4.10.13. No cash or similar instruments were seized during the reporting period at border crossing points where controls are carried out exclusively by the SBG officers, and beyond them.³⁷²

Quality of Customs Controls

4.10.14. As Latvia is a member of the EU and a Schengen country, border checks on persons and vehicles are carried out at the EU's external borders (with Russia and Belarus, as well as at airports and ports, except for internal ferry and air lines). The Law On Declaration of Cash at the State Border

³⁶⁷ NCIM 2022, p. 58.

³⁶⁸ Ibid, p. 56

³⁶⁹ Ibid, p. 56

³⁷⁰ Ibid, p. 58

³⁷¹ Ibid, p. 56

³⁷² For the purposes of the WB methodology, cash-like instruments are negotiable bearer instruments, as well as other means of payment evidencing the holder's right to receive cash, precious stones and precious metals. WB, *Guidelines for the National Risk Assessment Tool*, p. 22.

stipulates that a person must declare cash in excess of EUR 10,000 when crossing the external borders of the State and the EU. From 1 July 2019, persons crossing the EU internal borders are obliged to declare cash in excess of the equivalent of EUR 10,000 at the request of an official of the SRS Customs Department or an official of the Customs Department.³⁷³

- 4.10.15. On 3 June 2021, Regulation 2018/1672³⁷⁴ entered into effect, therefore, amendments to the Law On Declaration of Cash at the State Border were made. For the purposes of the Law On Declaration of Cash at the State Border and Regulation 2018/1672, cash is currency - banknotes and coins, negotiable bearer instruments (e.g., travellers' cheques and cheques, bills of exchange), goods used as means for value saving with high liquidity (coins containing at least 90% gold; gold in various items, such as bars, nuggets or agglomerates containing at least 99.5% gold), and prepaid card (currently not yet subject to the Regulation).
- 4.10.16. According to EU laws and regulations and amendments to the Law On Declaration of Cash at the State Border, in the case of unaccompanied cash movements (e.g., mail, courier, unaccompanied luggage or containerised goods), a person (sender or consignee or representative) must submit a cash disclosure declaration. In order to ensure that the competent authorities of the EU Member States implement cash controls in a uniform manner, the European Commission adopted Regulation 2021/776³⁷⁵ laying down models for certain forms for the *Cash declaration form* (for accompanied cash) referred to in Article 3(3) of Regulation 2018/1672 and the *Cash disclosure form* (for unaccompanied cash) referred to in Article 4(3) thereof. For the purposes of consistency, the Cash declaration form (for accompanied cash) and the Cash disclosure form (for unaccompanied cash) laid down in Regulation No. 2021/776 will be used for cash controls at the internal State border. If an official of the SBG or the SRS TCPD discovers that a person crossing the external State border is bringing cash into or out of the Republic of Latvia in an amount of less than EUR 10,000 and there are indications that the cash is related to a criminal activity, he/she is entitled to request the completion of a cash declaration. The same rules apply to unaccompanied cash.
- 4.10.17. Based on the available risk information, officials of the SRS TCPD officers monitor cash movements at the internal border of Latvia and the EU. A number of other EU and Schengen countries (e.g., Lithuania³⁷⁶ and Germany³⁷⁷) have similar measures in place for cash controls at internal borders. Significant number of cash declarations and amount on external EU borders demonstrate that cash movement routes inside the EU must be assessed and regulated. In 2022, a total of almost EUR 61 billion was declared at the customs control posts at the EU's external borders representing EUR 10 billion over the indicator of 2018.³⁷⁸ In 2015, Europol indicated in its research that, despite the increase in non-cash payments and decrease in cash payments, amount of euro banknotes and coins every year grows faster than inflation, assuming criminal activities as the possible cause thereof.³⁷⁹
- 4.10.18. During the reporting period, the euro amount in circulation has increased annually by of 7% on average - from EUR 127 billion to EUR 157 billion in 3 years.³⁸⁰ Following the ECB's decision in 2016 to withdraw the EUR 500 banknotes, they have been replaced by EUR 100 and EUR 200 banknotes. In 2019, when the ECB suspended putting EUR 500 banknotes into circulation, their value fell from EUR 258 billion to EUR 149 billion. However, the value of EUR 200 banknotes has more than tripled, rising from EUR 51 billion to EUR 169 billion.³⁸¹

³⁷³ Working on the roads of the EU's internal border are only officials of the SRS TCPD.

³⁷⁴ Regulation (EC) No. 1672/2018 of the European Parliament and of the Council of 23 October 2018 on controls of cash entering or leaving the territory of the Union and repealing Regulation (EC) No. 1889/2005.

³⁷⁵ The Commission's Implementing Regulation (EU) 2021/776 of 11 May 2021 laying down models for certain forms as well as technical rules for the effective exchange of information under Regulation (EU) 2018/1672 of the European Parliament and of the Council on controls of cash entering or leaving the territory of the Union.

³⁷⁶ Cash control statistics 3 June 2021-2 June 2022 (inclusive) in accordance with Article 18. Regulation (EU) 2018/1672 on controls of cash entering or leaving the Union. <https://taxation-customs.ec.europa.eu/system/files/2022-11/20221125%20-%20Cash%20Controls%20Statistical%20Data%203%20June%202021%20-2%20June%202022.pdf> and When crossing the internal border between Lithuania and the EU with more than EUR 10,000 in cash, these funds must be declared at the request of an official of the competent authority. <https://www.vilnius-airport.lt/en/passenger-guide/information-for-crossing-the-lithuanian-border/customs-informations>.

³⁷⁷ Similarly as in Latvia, when crossing the internal border between Germany and the EU with more than €10,000 in cash, these funds must be declared upon a request of an official of the competent authority. In addition to the definition of cash in Regulation (EC) No. 1889/2005, German law also requires the declaration of rough precious stones and precious metals. German customs, *crossing the internal German border*. Available at: https://www.zoll.de/EN/Private-individuals/Travel/Entering-Germany/Restrictions/Cash/Entering-Germany-from-EU-Member-State/entering-germany-from-eu-member-state_node.html.

³⁷⁸ EU cash control statistics. Available at: <https://taxation-customs.ec.europa.eu/system/files/2022-11/20221125%20-%20Cash%20Controls%20Statistical%20Data%203%20June%202021%20-2%20June%202022.pdf>.

³⁷⁹ Europol, *Why is cash still a king?* p. 6. Available at: <https://www.europol.europa.eu/publications-documents/why-cash-still-king-strategic-report-use-of-cash-criminal-groups-facilitator-for-money-laundering>.

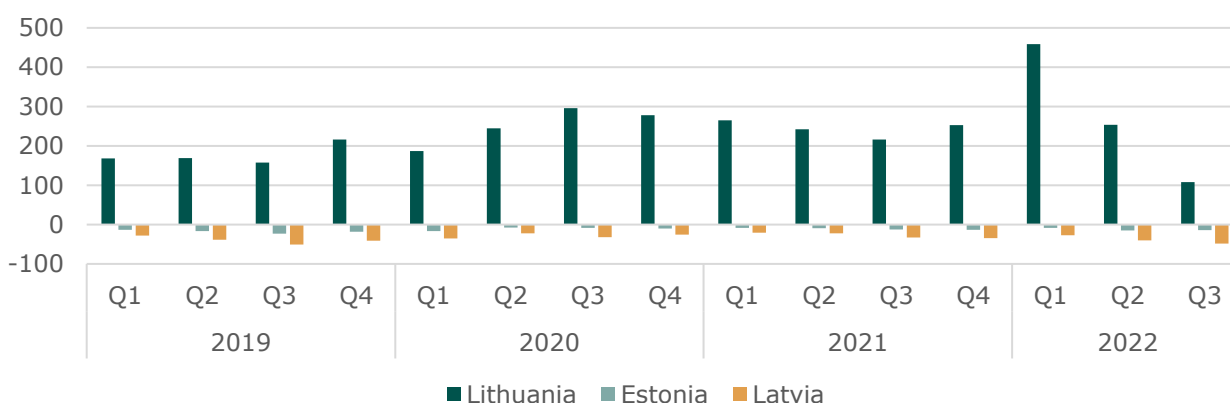
³⁸⁰ ECB data. Available at: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/banknotes+coins/circulation/html/index.en.html.

³⁸¹ ECB data. Available at: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/banknotes+coins/circulation/html/index.en.html.

4.10.19. During the reporting period, the value of banknotes issued by the Bank of Latvia changed from negative to positive. The FIU analysis shows that the negative emissions are to be related to the cross-border cash flows from abroad to Latvia up to 2020. More details on cash and issue trends are provided in Section [3.3. Threat of a foreign predicate offence](#).³⁸²

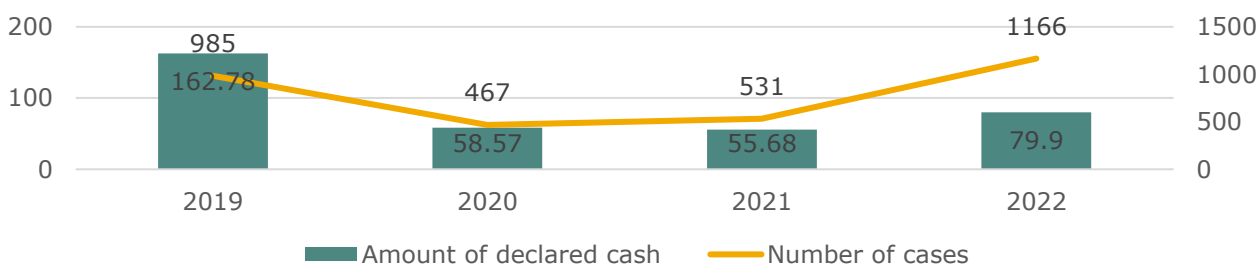
4.10.20. Some of the cash may historically be linked to criminal schemes linked to the domestic shadow economy, as well as to the placement of cash abroad. Latvia's overall issue balance increased from EUR -285 million in Q1 2020 to EUR +187 million in Q1 2022, reinforcing the hypothesis that the negative issue balance is related to cash flows from abroad. Even in such a case, the balance of emissions remained disproportionate to the neighbouring Baltic countries. The disproportionate issuance of EUR 100 banknotes in the Baltics points at possible criminal activities. During the reporting period, there was an increased demand in Latvia for high-value banknotes, which are more likely to be linked to criminal activities than, for example, tax evasion.

Chart 4.10.3 - Balance of net issuance of EUR 100 banknotes in the Baltic States³⁸³



4.10.21. During the reporting period, 20 cases of cash movements across the state border where cash is not declared or cash is declared but false information on the origin of cash is provided in the declaration were recorded, for which criminal proceedings under Section 195² and/or 195 of the Criminal Law were initiated in the SRS TCPD.³⁸⁴ The number of cases recorded in the reporting period was significantly lower than in the previous reporting period with 68 cases in total.³⁸⁵ Decrease in the changes of the recorded cases also corresponds to the overall decrease in cash declared during the reporting period (Graph 4.10.4).

Chart 4.10.4 - Declared cash in Latvia 2019-2022, EUR million



4.10.22. Several reasons have been identified for the decrease in declared cash during the reporting period. The movement restrictions imposed during the Covid-19 pandemic severely reduced air traffic between Latvia and other countries, which reduced the total amount of cash declared from air travel. In 2019, the total amount of was EUR 77.8 million, in 2020 - mere EUR 13

³⁸² Data from the Bank of Latvia.

³⁸³ More information on cash trends is available in the joint strategic study of Latvian, Estonian and Lithuanian FIUs on cash movements through the Baltic States. Available at: https://www.fid.gov.lv/uploads/files/2023/Licit_and_illicit_cash_flows_in_the_Baltic_states.pdf.

³⁸⁴ SRS TCPD data.

³⁸⁵ SRS TCPD data.

million.³⁸⁶ The import of cash by air from Russia and Belarus has been completely interrupted following the Russian-led war in Ukraine. The decrease is also due to the newly created structures and human resources of the Tactical Task Unit of the SRS TCPD, increase in fines and the new wording of Section 195² of the Criminal Law.³⁸⁷ In addition, cash controls continue to be facilitated by restrictions on cash transactions above EUR 7,200 imposed on taxpayers and the obligation for natural persons engaged in economic activity to declare cash transactions exceeding EUR 1,500 per month.³⁸⁸

- 4.10.23. In 2022, cash within the air boundaries amounted to EUR 6 million, but related to road transport – EUR 16.5 million. Although cash exports and imports have decreased significantly, attempts by individuals to smuggle criminally obtained cash from Latvia to Russia and Belarus and from Russia to Latvia, claiming it as their personal funds, still continue. A new typology has been noticed: people travelling in small groups in the same vehicle, dividing the money between passengers to the extent that they are not obliged to declare cash.³⁸⁹ During the period under review, cash with Russia and Belarus as the country of origin was taken over by Georgia, Switzerland and Ukraine.³⁹⁰ Currently, the largest number of criminal proceedings are initiated for the alleged import of cash from Russia and Ukraine.³⁹¹
- 4.10.24. During the reporting period, a number of domestic cash offences were detected (Table 4.10.1). The most frequent offences detected were related to undeclared cash. Domestic offences involved nationals of all three Baltic States participating in money courier, mule or other ML schemes.³⁹² Both on the green lane and in relation to domestic offences, we observe the involvement of organised groups of criminals and instructed persons who are aware of commission of criminal offences.³⁹³
- 4.10.25. The main smuggling routes for excise goods are land and sea borders.³⁹⁴ Control mechanisms for passenger flows are the same at air, land and sea border crossings and based on the FIU and FATF recommendations.³⁹⁵

Table 4.10.1 - Number of sanctions imposed for non-declaration of cash

	2020	2021	2022
Avoidance of Declaration of Cash, Section 195 ² of the Criminal Law (failure to declare or false declaration of large amounts of cash)	5	3	12
Amount of suspended money (EUR thous.)	5548	3046.2	1402.6
Seizures for total undeclared amounts (EUR thous.)	4559.5	2584.3	630.3
Avoidance of declaration of cash up to a large scale, number of administrative violations	4	8	26
Avoidance of declaration of cash up to a large scale, case files referred for initiation of criminal proceedings	12	14	20
Violations related to cash circulation at internal borders detected by the TCPD (EUR thous.)	57.9	213.9	17.1
Number of violations related to cash circulation at internal borders detected by the TCPD TUD	2	14	4

- 4.10.26. It should be noted that the necessary changes from the previous reporting period to provide the SRS Customs Department and the TCPD with timely information which would facilitate the implementation of risk assessment-based controls have not yet been implemented.

³⁸⁶ SRS TCPD data.

³⁸⁷ SRS TCPD data.

³⁸⁸ Section 30 of the Law On Taxes and Duties. *Latvijas Vēstnesis*, 26, 18.02.1995; *Latvijas Republikas Saeimas un MK Zīņotājs*, 7, 13.04.1995 Available at: <https://likumi.lv/ta/id/33946-par-nodokliem-un-nodevam>.

³⁸⁹ SRS TCPD data.

³⁹⁰ SRS TCPD data.

³⁹¹ SRS TCPD data.

³⁹² SRS TCPD data.

³⁹³ LEA Criminal Intelligence Analytical Report 2022, p. 67.

³⁹⁴ LEA Criminal Intelligence Analytical Report 2019, p. 50; LEA Criminal Intelligence Analytical Report 2018, p. 48.

³⁹⁵ SRS information.

Amendments to the Law on Aviation, the Law on Railway Transport and the Law on Air Passenger Data Processing are still needed to adapt the laws and regulations so that the SRS Customs Department could both request passenger data and the data request mechanism was efficient and fit for purpose.³⁹⁶

- 4.10.27. With the main trend of cash entering or leaving increasing and shifting from air to road transport, further actions would require an improvement in the human resources of both the SRS TCPD Intelligence Analysis Division and the SRS TCPD Customs Affairs Investigation Division. There is a need to further develop the resources for cynology.³⁹⁷ Based on the SAO report on investigative authorities in Latvia, compared to other investigative institutions investigating particularly complex and large-scale or international crime cases, the SRS TCPD has the highest workload per investigator.³⁹⁸ The need is justified by the termination of cooperation with the border and customs authorities of Russia and Belarus, which calls for a higher analytical capacity.³⁹⁹

Assessment

- 4.10.28. The movement restrictions during Covid-19 and the Russian hostilities against Ukraine have fundamentally and rapidly changed the nature and scope of activities of the State Border Guard and the SRS. Changes in the laws and regulations, as well as the involvement of the National Armed Forces and the SP to perform functions of the SBG can be assessed as positive factors during the reporting period with regard to the scope of the customs regime and the effectiveness of controls. Border controls are reinforced by the fencing of the country's borders, which is due to be completed in 2024.
- 4.10.29. During the reporting period, the methodology and understanding of parallel financial investigations in criminal proceedings regarding cash generated by crime has improved at the SRS TCPD, and the minimum evidence to be obtained in this type of criminal proceedings has been established. Since the NRA 2020 reporting period, capacity building has continued, both through the involvement of the SRS TCPD Cynology Service and the development of a number of methodological guides for the officials of the SRS TCPD and the Customs Administration. At both internal and external borders, special attention is paid to cases of undeclared cash and each declaration is assessed to prevent ML. Following the practice of the previous reporting period, the intelligence structural units of the SRS TCPD ensure the assessment, risk analysis and profiling of persons at risk for each declaration.
- 4.10.30. The Bank of Latvia's negative issue of EUR 100 banknotes during the NRA 2020 reporting period continues, indicating significant uncontrolled cross-border cash flows. However, less cash was flowing into the country during the current reporting period than during the NRA 2020 reporting period. The changes are mainly related to the restrictions imposed against Russia and Belarus. As a result, the total number of amounts declared has decreased during the reporting period, which reduces vulnerability.
- 4.10.31. The number of cash declarations submitted at the request of the competent authority, on the other hand, is constant, with a long-term upward trend, but the amounts declared are decreasing. These trends indicate that the movement of cash across internal borders persists and that monitoring and control of its movement is a priority direction in the area of the AML/CTPF. It is therefore important to further develop the capacity of the SRS TCPD and to ensure the adequacy of resources, given that the current political situation may further reinforce the dynamics identified.

Quality rating of border control: high

Assessment of scope of the customs regime for cash and similar instruments: 0.9 (high)

Assessment of the effectiveness of customs controls on cash and similar instruments: 0.9 (high).

³⁹⁶ Section 11 of the Air Passenger Data Processing Law (requires the authority to apply to a district court for the release of passenger data, which makes the data request process cumbersome and inappropriate for customs control). *Latvijas Vēstnesis*, 29, 07.02.2017 Available at: <https://likumi.lv/ta/id/288544-gaisa-kugu-pasazieru-datu-apstrades-likums>.

³⁹⁷ SRS TCPD data.

³⁹⁸ SAO Report, *Investigative bodies in Latvia: a question of competences and resources, not of numbers*. P. 75. Available at: <https://lrvk.gov.lv/lv/getrevisionfile/29562-WbZXA-8dkHkQ98V07Wl4picDzTcCosRb.pdf>.

³⁹⁹ SRS TCPD data.

4.11. Availability of Reliable Identification Infrastructure

Legal Framework

- 4.11.1. According to Sections 12-14 of the AML/CTPF Law, onsite identification of a natural person shall be made on the basis of an identity document, and the subject of the AML/CTPF Law shall make copies of the documents on the basis of which the customer was identified. The representative of a legal entity is also identified. If the person is a non-resident who has come to the subject of the AML/CTPF Law in the Republic of Latvia, only an identity document valid for entry into the Republic of Latvia shall be used for identification. A copy of the UBO passport shall be requested as part of the customer due diligence in accordance with risk-based approach.⁴⁰⁰ The validity of the document shall be verified in addition to the standard forgery and visual assessment in the Register of Invalid Documents and other registers (if available to the subject of the AML/CTPF Law) as specified in the ICS.
- 4.11.2. Remote identification of the customer, on the other hand, contributes to significant savings in resources and time, given the increasing emphasis on remote working after the Covid-19 pandemic, as well as reducing human errors. Some of the most significant remote identification risks are loss, corruption or misuse of data and information, as well as unauthorised access to data by third parties, use of false identities, including to register fictitious companies, obtain bank loans in someone else's name.
- 4.11.3. Sections 23 and 22(2) of the AML/CTPF Law provide for the main requirements for cases where the customer does not personally participate in the identification procedure, including the obligations of the subject of the AML/CTPF Law, taking into consideration a risk-based approach. The laws and regulations also provide, inter alia, that, if the customer is a natural person (resident), it is permissible to obtain the customer's proof of identity from a document signed by the customer with a secure electronic signature. If the subject of the AML/CTPF Law authorises someone other than an employee of the subject of the AML/CTPF Law to identify the customer, the subject of the AML/CTPF Law is responsible for ensuring that the customer is identified in accordance with the requirements of the AML/CTPF Law.
- 4.11.4. Section 22(2) of the AML/CTPF Law contains a presumption that, in the case of customers identified remotely, due diligence of the customer shall be conducted, unless the subject of the AML/CTPF Law has implemented a risk management system related to remote identification and uses technological solutions governed by the Cabinet of Ministers.
- 4.11.5. Remote identification of customers is governed in more detail by Regulation No. 392 of the Cabinet of Ministers of 3 July 2018 "Procedures by which the Subject of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing Performs the Remote Identification of a Customer". The aforementioned Regulation provides for five governed methods of remote identification:
 - 4.11.5.1. E-signature (LV, Smart-ID⁴⁰¹) or means of electronic identification (eMobile, Smart-ID) or other eIDAS.
 - 4.11.5.2. Video identification as a solution (Swiss, German model).
 - 4.11.5.3. Video conversation format using e-signature or electronic identification following the "4.11.5.1." approach.
 - 4.11.5.4. A method of capturing/comparing self-portrait and document photos with photo or video elements.
 - 4.11.5.5. Identification payment.
- 4.11.6. The aforementioned Regulation also provides for additional risk management requirements:
 - 4.11.6.1. Remote identification shall not be applied if it does not correspond to the inherent risk of the customer, which therefore obliges the subject of the AML/CTPF Law to consider and regulate this issue in the ICS.

⁴⁰⁰ Section 18 of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Zīpotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-noversanas-likums>.

⁴⁰¹ In May 2023, Smart-ID developer SK ID Solutions has completed the procedure lasting for several years to obtain the local status of a qualified mean of identification for authentication, as stipulated by the laws and regulations of the Republic of Latvia. Available at: <https://www.financelatvia.eu/news/smart-id-ieguviss-lokalo-kvalificeto-statusu-autentifikacijai/>.

- 4.11.6.2. Remote identification shall not be applied if circumstances are found which suggest that the safety, suitability or reliability of the information obtained is insufficient.
 - 4.11.6.3. Remote identification shall not be applied if discrepancy with the information obtained during the customer due diligence is found, which, inter alia, requires the quality of the identification to be verified during the transaction monitoring process within the context of the new information obtained.
 - 4.11.6.4. The subject of the AML/CTPF Law may request a face-to-face identification, application of a different or additional method at any time.
 - 4.11.6.5. The subject of the AML/CTPF Law is obliged to analyse current vulnerabilities and possible fraud scenarios.
 - 4.11.6.6. The subject of the AML/CTPF Law may use not only direct but also compensatory controls to reduce the level of risk, such as analysing a person's digital behaviour with self-learning algorithms, checking a person's invoices, obtaining information from other databases, social networks, monitoring IP addresses, etc.
 - 4.11.6.7. Certain measures are foreseen if the subject of the AML/CTPF Law has delegated the off-site identification of the customer to an external service provider.
 - 4.11.6.8. There are also certain requirements regarding the technological solutions to be used and the documentation to be provided.
- 4.11.7. Overall, the regulatory framework provides for sufficient tools to effectively manage the risks associated with remote identification. The obligations set out in the regulatory framework are in line with the principles of risk-based approach, i.e., they set out the main obligations of the subject of the AML/CTPF Law, while allowing the most appropriate risk management solutions to be implemented and conducted according to the inherent risk, the business model and the specific characteristics of the customer and the service.
- 4.11.8. During the reporting period, the Bank of Latvia's recommendations for the remote identification of customers were developed and entered into effect.⁴⁰² The purpose of the recommendations is to provide the reporting entities under the supervision of the Bank of Latvia with clarification on the process of remote customer identification and binding requirements, as well as to help manage the risks specifically related to remote identification, thereby promoting a broader application of appropriate remote identification in the customer due diligence process.
- 4.11.9. The Bank of Latvia has provided recommendations for more appropriate identification of legal entities, for the identification of minors in absentia, as well as a number of IT security-related measures. It also clarifies that not all cases involving the use of remote identification, which is not governed as a specific method, require due diligence. For example, if the potential customer (legal entity⁴⁰³) has sent the documents and information necessary for the customer due diligence to the institution by post before commencing cooperation with the institution, the institution is not required to conduct a full customer due diligence in accordance with the provisions of the AML/CTPF Law and its subordinate laws and regulations. In such cases, targeted due diligence should be conducted only to the extent arising from the information contained in the documents received by post, unless there are other circumstances which require the due diligence to be performed in full.

Characteristics of the Current Practice

- 4.11.10. According to the information provided by SCI, reliability of the customer's identity is very important in ensuring compliance with the AML/CTPF requirements. At the same time, the information provided by SCI does not suggest that increased use of remote customer identification has contributed to identity fraud in such a way that SCI should pay increased attention to this aspect as a new and significant risk.
- 4.11.11. The share of illegal activities is usually related to cases where the service can only be obtained remotely and quickly, such as accessing an account and stealing funds; requesting and obtaining a loan using another person's identity. At the same time, it is important to stress that such risks are limited to certain sectors and services. From the information provided by

⁴⁰² FCMC Recommendation No. 15. *Recommendations for remote customer identification*. Available at: <https://likumi.lv/ta/id/330205-ieteikumi-klientu-neklatienes-identifikacijai>.

⁴⁰³ For example, the European Bank for Reconstruction and Development or another relatively large and well-known company or organisation whose existence and willingness to enter into a business relationship is not in doubt, e.g., there have been long-standing negotiations with representatives to conclude a transaction.

SCI, it is essential to address the risks associated with the use of false identities in face-to-face identification or the use of another person's identity documents in the self-portrait method.

- 4.11.12. The following conclusions emerge from the information provided by SCI on identification methods in practice:
- 4.11.12.1. Part of the information provided by SCI leads to a conclusion about a significant increase in the number of cases where a person gains access to a bank's authentication tools in order to make an identification payment (6 cases in two credit institutions in 2020 and 82 cases in 2022). SCI has stressed that these activities tend to be cross-border in nature. In view of the above, reporting entities should pay additional attention when using identification payment by introducing additional controls or using other identification methods alternatively or additionally.
 - 4.11.12.2. Forgery of eSignature or Smart-ID is rare (in practice, only a few cases were detected during the reporting period).
 - 4.11.12.3. Face-to-face identification, where a copy of the identity document is produced, continues to play an important role in customer identification. In practice, it is widely believed that a face-to-face customer is less risky from the viewpoint of using a false identity, but SCI notes that this is not true in itself. SCI also rightly highlights that it is not possible to obtain a photo image of a person from the registers and that certain national registers are not accessible to the reporting entities in a reasonable manner at all.
 - 4.11.12.4. Reporting entities are increasingly using eID, eMobile or Smart-ID solutions.
 - 4.11.12.5. A method of taking a self-portrait and an identity document and comparing the two photographs is also commercially available and widely used.
 - 4.11.12.6. Video identification is less common as such a solution requires additional resources, time and technological solutions. The initial purpose of this solution was to enable the start of cooperation with higher-risk customers who do not have a secure (qualified) electronic signature or identification solution. At present, demand for this model is likely to be limited to specific niche products only.
- 4.11.13. Furthermore, it should be noted that the regulatory framework allows the reporting entities to make full use of various risk mitigation measures that are not related to access to registers. For example, address verification with relevant up-to-date invoice requests or social behaviour analysis. In addition, for a number of reporting entities, specifics of the service do not provide for a quick and standardised provision of the service, but rather involve analysis of other documents (certified auditors, notaries, advocates) that allow getting to know the customer, thus reducing the use of false identity not only at the beginning of business relations, but also during transaction monitoring, as well as ensuring a link between these two processes.

Identification of Non-residents

- 4.11.14. The AML/CTPF Law provides for additional rules for the identification of a non-resident. For the identification of a natural person non-resident who has arrived at the reporting entity in the Republic of Latvia, only an identity document valid for entry into the Republic of Latvia may be used.⁴⁰⁴ It should be noted that the special laws and regulations may provide for additional requirements for the reporting entities when commencing cooperation with a non-resident.
- 4.11.15. The rules on remote identification no longer provide for specific requirements for non-residents, except that the identification payment and the self-portrait method are not applicable if the customer or the UBO is connected to a high-risk third country or a low-tax or tax-free country or territory. Therefore, the customer identification payment should mainly be used to identify residents, but in the case of non-residents, especially those coming from a high-risk third country, it can be used as an additional risk mitigation measure if the payment is made from a credit institution licensed in an EU Member State.

⁴⁰⁴ Section 12, Paragraph Two of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; Latvijas Republikas Saeimas un MK *Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-prolifācijas-finansēšanas-novēršanas-likums>.

- 4.11.16. As of 28 June 2021, Section 7, Paragraph Three of the Law on the Register of Natural Persons provides for a new approach to the identification of non-residents. The new procedures provide for that when a non-resident uses a public service with a mean of electronic identification issued by an EU Member State, an EEA State or the Swiss Confederation, they are automatically registered in the Register of Natural Persons being assigned a Latvian personal identity number. This procedure may lead to errors in the determination of the customer's risk profile; therefore, it is important for the subject of the AML/CTPF Law to pay attention to the non-resident's citizenship and scope of interest (countries of business and personal interest, other geographical risks).

Approach by SCI and Other Institutions

- 4.11.17. SCIs generally do not analyse in depth or collect data on the remote identification methods used by each subject of the AML/CTPF Law. While this data is available for some SCIs, a precise breakdown of the most popular methods of remote identification and those exposed to a higher risk is not available. SCIs should pay more attention to the analysis of the effectiveness of the used remote identification methods in order to decide on additional supervisory measures or risk mitigation measures, if necessary, for preventive purposes.
- 4.11.18. Preventive measures to mitigate risks should also be promoted for the services provided by the Latvian State Radio and Television Centre, which provides electronic signature and the national electronic identification tool in Latvia, i.e., a dialogue should be established with LEAs to understand the ways in which the service can be used for criminal purposes. This would contribute to raising awareness of the inherent vulnerability of the service and inform users and reporting entities on the best practice.
- 4.11.19. As part of the monitoring activities, the SCIs whose supervised reporting entities use remote identification should pay attention to whether the duty under the Law on Electronic Identification of Natural Persons to implement a national electronic mean of identification has been performed. This would facilitate a shift towards more secure customer identification with less emphasis on identification methods that comply with laws and regulations but are less secure.

Available Registry Data for Identity Verification

- 4.11.20. Availability of the registers can be viewed separately depending on each type of identification:
- 4.11.20.1. Face-to-face identification - the document is checked against the Register of Invalid Documents; the personal identity number can be checked against the person's name and whether the person is not deceased. The reporting entities referred to in Section 41 of the AML/CTPF Law may also obtain data from the Register of Natural Persons; however, it does not contain a photograph of the person.
 - 4.11.20.2. E-signature (LV, Smart-ID) or a means of electronic identification (eMobile, Smart-ID) or other eIDAS - in this process an identity document is usually not obtained as it is not used for identification; therefore, only validity of the tool for the person concerned can be verified.
 - 4.11.20.3. Self-portrait and photograph of a personal ID - the same as in face-to-face identification, but the process is done remotely with additional technical solutions used to compare the two photos.
 - 4.11.20.4. Identification payment - only to verify whether a person with such a name and surname has a personal identity number and is not deceased, but the national registers do not provide additional information on this person. The identification payment cannot be used to obtain a payment instrument; therefore, the reporting entities referred to in Section 41 of the AML/CTPF Law rarely use this method.
 - 4.11.20.5. Lack of additional control mechanisms (e.g., comparison of facial photos with registry data) when one means of identification is created or renewed with an already compromised means (stolen eID card is used to create a Smart-ID account) or a means of lower security (eMobile – with bank authentication).

Assessment of the availability of a trusted identification infrastructure: 0.9 (high), increasing.

4.12. Availability of Independent Information

Legal Framework

- 4.12.1. The legal framework in Latvia provides for the possibility for the reporting entities to use a number of national registers as well as other independent and reliable sources of information, and to exchange information with each other, including through customer due diligence tools, to a limited extent, as part of the customer due diligence process.
- 4.12.2. Pursuant to Sections 5¹ and 41 of the AML/CTPF Law, reporting entities have the right to receive records and information from the RoE, the SRS registers, the Criminal Records Register, the Land Register, the State Register of Vehicles and their Drivers and the Register of Natural Persons to the extent prescribed by the AML/CTPF Law, as well as to store and otherwise process said information. Credit institutions and insurance companies, insofar as they perform life insurance or other insurance activities related to the accumulation of funds, shall have the right to request and receive information from the above-mentioned registers free of charge in order to fulfil their obligations under the AML/CTPF Law.
- 4.12.3. The Bank of Latvia⁴⁰⁵ while explaining the statutory requirements set for the legal entities under its supervision in FCMC Recommendations No. 169 "Recommendations for the Establishment of ICS for the Prevention of ML/TPF and Sanction Risk Management, and for Customer Due Diligence"⁴⁰⁶, adopted on 21 December 2021, states that information from public and reliable sources is one of the ways in which an institution obtains information necessary for customer due diligence based on customer risk assessment. Use of reliable and independent sources referred to in the aforementioned recommendations is promoted within the context of the possibility of requesting less information from the customer as part of the customer due diligence, in line with the risk assessment. The Bank of Latvia's recommendations require that the use of a publicly available, reliable and independent source shall be specified in the policies and procedures of the reporting entities, specifying which sources the institution considers reliable. When determining whether a source is reliable and independent, the resources from which the source obtains information may be assessed, as well as the regularity with which the information is updated, the person who maintains (manages) the source, etc. Thus, the Bank of Latvia's recommendations require that reporting entities both assess whether the sources to be used are reliable and independent, and determine the use of these sources in their internal policies and procedures.
- 4.12.4. Other SCI guidelines mention the use of individual registers, public and trusted sources for certain customer due diligence activities, but do not require that the use of a publicly available, trusted and independent source must be set out in the policies and procedures of legal entities. Accordingly, the use of relevant sources is permissible under the regulatory framework, and information from the relevant national registers is available for a fee also to the reporting entities which are not under the supervision of the Bank of Latvia, but determination of their use in the internal policies and procedures is not expected.
- 4.12.5. In addition to the public registers defined in the AML/CTPF Law, the reporting entities also have access to the data of credit bureaus, credit register, and account register, according to their scope of activity. Law on Credit Bureaus⁴⁰⁷ has been in force since 1 January 2015 and according to Section 5 of the Law on Credit Bureaus, which lists who can be users of credit information, reporting entities can also receive information from credit bureaus in order to use accurate and complete information when assessing creditworthiness. Law on the Credit Register has been in force since 1 January 2012 and a number of reporting entities, such as credit institutions, consumer creditors, credit unions, merchants authorised to provide insurance or reinsurance, are entitled to receive the information contained therein for the purpose of assessing a person's creditworthiness. Both registers may also be used in connection with the enforcement of the duties under the AML/CTPF Law.

⁴⁰⁵ As of 1 January 2023, the FCMC 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 to the FCMC's property, financial resources, rights and obligations.

⁴⁰⁶ FCMC Regulation No. 169. *Recommendations for the Establishment of ICS for the Prevention of ML/TPF and Sanction Risk Management, and for Customer Due Diligence* Available at: <https://likumi.lv/ta/id/328819-ieteikumi-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-un-sankciju-riska-parvaldīšanas-iekšējas-kontroles-sistēmas-izveidei-un-klientu-izpētei>.

⁴⁰⁷ Law on Credit Bureaus. *Latvijas Vēstnesis*, 199, 08.10.2014 Available at: <https://likumi.lv/ta/id/269374-kreditinformācijas-biroju-likums>.

- 4.12.6. Account Register Law⁴⁰⁸ has been in force since 1 July 2017 and the Account Register established under it ensures the processing of personal account data, including in order to prevent use of the Latvian and international financial system for criminal activities and to ensure international cooperation in this area. The reporting entities - credit institutions, credit unions and payment service providers - provide the necessary information to the Account Register, which is further used by certain public authorities, LEAs, courts, and other public sector users for the purposes provided for in the Account Register Law. At the same time, the information contained in the account register is also available to credit institutions and payment service providers on a limited basis in order to obtain information on the number of accounts held by the customer, potential customer or the customer's UBO and the number of credit institutions and payment service providers these accounts have been opened with.
- 4.12.7. Pursuant to Sections 29, 38 and 44 of the AML/CTPF Law, in addition to publicly available information and restricted information from public information systems, reporting entities may in limited circumstances and to a limited extent, also exchange information necessary for customer due diligence. There are three ways in which the reporting entities (credit institutions and financial institutions) are entitled to share information obtained in the course of customer due diligence and related information: exchange of information between parties in a single transaction; exchange of information within a consolidated group; private-to-private sharing of information on customers with whom the business relationship was terminated or denied on the basis of the considerations referred to in the AML/CTPF Law. However, in accordance with Section 55 of the AML/CTPF Law, all the reporting entities are entitled to share information mutually and with public authorities within the framework of the FIU CCG. In view of the above, the AML/CTPF Law provides for very broad rights of access to information for each individual subject of the AML/CTPF Law, while limiting the exchange or acquisition of information between reporting entities, mainly focusing on credit and financial institutions or the exchange of information in the case of a specific individual transaction.
- 4.12.8. Amendments to the AML/CTPF Law entered into effect on 12 July 2021 with the purpose to expand the information exchange possibilities and mechanisms available. These amendments stipulated that in order to fully conduct customer due diligence and transaction monitoring and to verify reliability of the data provided by the customer taking into consideration the substantial public interest in preventing ML/TPF and taking into consideration the threats posed by these illegal activities to democratic society and public security, reporting entities and other subjects of the EU Member State law have the right to use the closed shared know-your-customer utility provided by a common outsourced service provider and to provide and obtain information to/from the open shared know-your-customer utility for the achievement of the purposes of the AML/CTPF Law. The aforementioned framework strengthened the legal basis for the development and use of such utilities, while the practical development of closed and open know-your-customer utilities is an initiative of the reporting entities, and private sector operators willing to provide such services. The conditions for licensing closed and open customer due diligence tools are provided for in Regulation No. 396 of the Cabinet of Ministers of 5 July 2022 "Regulations Regarding the Requirements for Updating Information in the Shared Know-Your-Customer Utility and the Licensing and Supervision of the Shared Know-Your-Customer Utility Service Provider".⁴⁰⁹
- 4.12.9. According to Paragraph 53 of the Transitional Provisions⁴¹⁰ of the AML/CTPF Law, the Cabinet of Ministers shall submit to the Parliament of the Republic of Latvia by 1 July 2023 a draft law that would unify the conditions of Section 5¹(2) and Section 41(2) of the AML/CTPF Law for ensuring access to information to the reporting entities from the information systems of the Republic of Latvia to fulfil the requirements of the AML/CTPF Law and would provide conditions for access to information from information systems of the Republic of Latvia in one place through the Data Distribution and Management Platform. The Data Distribution and Management Platform aims to provide a unified and high-speed data distribution solution or

⁴⁰⁸ Account Register Law. Latvijas Vēstnesis, 241, 10.12.2016 Available at: <https://likumi.lv/ta/id/287271-kontu-registra-likums>.

⁴⁰⁹ Regulation No. 396 of the Cabinet of Ministers Regulations Regarding the Requirements for Updating Information in the Shared Know-Your-Customer Utility and the Licensing and Supervision of the Shared Know-Your-Customer Utility Service Provider. Available at: <https://likumi.lv/ta/id/333782-noteikumi-par-informacijas-aktualizšanas-prasibam-kopigaja-klienta-izpetes-rika-un-kopiga-klienta-izpetes-rika-pakalpojuma-sniedzeja-licencesanuun-uzraudzibu>.

⁴¹⁰ Currently, the information is only available free of charge to credit institutions and insurance merchants insofar they conduct life insurance or other insurance activities linked to the accumulation of funds.

data aggregator solution (DAGR) to improve the performance of heavily used data requests,⁴¹¹ including for the performance of duties under the AML/CTPF Law.

- 4.12.10. It should be noted that according to Section 172 of the AML/CTPF Law, it is allowed to process information on customers in the open common customer research tool if this information has been obtained from state information systems containing restricted information that the reporting entities may use in accordance with the AML/CTPF Law or other regulatory enactments, except for information on convictions related to criminal offences committed (information from the Criminal Records). Such customers are considered to be legal persons or legal entities, as well as natural persons who hold a position in the customer's executive or supervisory body or are authorised to act on behalf of the customer, legal person or legal entity, as well as the customer's owner, UBO and persons through whom UBO exercises control.

Characteristics of the Current Practice

- 4.12.11. In practice, all the reporting entities are provided with the possibility to apply for and receive information within the scope of the AML/CTPF Law from the RoE, the SRS registers, the Criminal Records Register, the State Register of Vehicles and their Drivers, and the Register of Natural Persons. Accessibility of service level of all the aforementioned registers has been ensured without significant limitations, as confirmed by the information provided to the SCIs by the reporting entities: in cases where the information of the registers concerned was used, the technical quality of their accessibility was mostly assessed as adequate, and in fewer cases as mediocre.
- 4.12.12. All these registers also confirm that in practice requests for information from the reporting entities have been received and the requested information has been provided. At the same time, both the State Register of Vehicles and their Drivers, the Land Register and the SRS in the part on information on income of persons and income disbursers for the last 5 years indicate that information for the AML/CTPF purposes has been requested only by credit institutions. The Register of Natural Persons does not have information on requests for information for the purposes of the AML/CTPF Law by the different reporting entities at its disposal. However, the SRS PEP register and the registers kept by the RoE are publicly available⁴¹² and do not require authorisation, thus, it is not possible to determine whether and how many requests for information have been made specifically for the AML/CTPF purposes and which reporting entities have requested the information.
- 4.12.13. Both the holders of the Register of Natural Persons and the Land Register have indicated that in practice they encounter problems in verifying and controlling the justification for obtaining personal data, in order to establish whether the requested data from these registers have been requested only within the scope of the rights established by the AML/CTPF Law.
- 4.12.14. Although information from the above-mentioned registers has been requested in practice from the reporting entities, the subjects' own answers on the availability of information from the RoE, the SRS registers, the Criminal Records Register, the Land Register, the State Register of Vehicles and their Drivers and the Register of Natural Persons for the purposes of performance of duties under the AML/CTPF Law indicate insufficient awareness of the right to receive the relevant information, as well as in some cases insufficient knowledge of how the information should be used in practice within the context of customer due diligence.
- 4.12.15. Reporting entities under the supervision of the Bank of Latvia indicated that they had access to information for the performance of their duties under the AML/CTPF Law from the Register of Natural Persons in 49.3% of cases, from the SRS Register of PEPs in 90.7% of cases, from the RoE in 82.7% of cases, from the SRS Register of Income and Income Disbursers in 50.7% of cases, from the Criminal Records Register in 46.5% of cases, and from the Land Register in 58.7% of cases. However, the subjects use this information for their duties under the AML/CTPF Law from the Register of Natural Persons in 41.3% of cases, from the SRS Register of PEPs in 84.0% of cases, from the RoE in 72.0% of cases, from the SRS Register of Income

⁴¹¹ About the project: https://www.pmlp.gov.lv/lv/projekts/datu-izplatisanas-un-parvaldibas-platforma-dagr?utm_source=https%3A%2F%2Fwww.google.com%2F

⁴¹² Available at: <https://info.ur.gov.lv/#/data-search> and <https://www6.vid.gov.lv/PNP>.

and Income Disbursers in 45.3% of cases, from the Criminal Records Register in 37.3% of cases, and from the Land Register in 46.7% of cases.

- 4.12.16. In most cases, the information is available to and used by credit institutions. The reasons for the non-availability of information on the availability of registers or failure of active use thereof include both the irrelevance of their use to the activities of a particular subject of the AML/CTPF Law taking into consideration its customer profile as well as the lack of understanding of the usability of information from certain registers in the performance of the obligations under the AML/CTPF Law and the unavailability of information on how the information from the registers is available to the subject of the AML/CTPF Law.
- 4.12.17. The SCIs of the other sectors have mainly provided information that the reporting entities have access to information for the performance of duties from these registers, with certain limitations resulting from the specific scope of activities of certain reporting entities, with the exception of the Latvian Council of Sworn Advocates, which indicated that it would not provide a reply, as Section 41 of the AML/CTPF Law does not apply to the subjects under their supervision (Section 5¹ of the AML/CTPF Law was not mentioned in the response), whereas, the Latvian Council of Sworn Notaries indicated that information from the State Register of Vehicles and the Criminal Records Register is available only for the purposes of activity of the sworn notaries, but not for the performance of their duties under the AML/CTPF Law.
- 4.12.18. In general, reporting entities under the supervision of both the Bank of Latvia and other SCIs in relation to cases where they use information from specific registers, have assessed the quality of information (content) as sufficient, and less frequently as medium. When assessing the quality of content of the available information, it was indicated that the registers maintained by the RoE lack updates of the content in accordance with the information contained in the Register of Natural Persons, as well as the publication of the API technical documentation and descriptions of the conditions for obtaining information would be desirable. The Register of Natural Persons should also contain information on the type of residence permit (long-term or temporary) and the status of it. The availability of information should also be expanded to include, for the purposes of performance of the duties under the AML/CTPF Law information on representatives, a photograph of the person, the nationality of the person, the type of identity document, the date of death of the person, the country of residence of the person. It is recommended to improve the search functionality of the SRS register of PEPs and to ensure that the register is updated with all family members and related persons of PEPs as defined in the AML/CTPF Law. In relation to the accessibility of the Land Register, it is recommended to improve the search parameters by adding the possibility to search information by personal data instead of cadastral number, property Land Register number, property name or address, which have to be obtained first to retrieve the information from the system.
- 4.12.19. In the responses summarised by both individual reporting entities supervised by the Bank of Latvia and SCIs of other sectors, the reporting entities have frequently indicated that the possibilities of using information from the SRS registers, the Criminal Records Register, the Land Register, the State Register of Vehicles and their Drivers and the Register of Natural Persons to perform the duties of the AML/CTPF Law are affected by the availability of this information for a fee, which causes additional costs to the reporting entities.
- 4.12.20. Absolute majority of reporting entities support the availability of information from the above-mentioned registers in one channel (data form), taking into consideration the fact that this could mean a change of the current channels for receiving information, the need to create a new, but a single connection. In some cases, the need to ensure adequate performance, availability and sufficient transition time for reporting entities with existing connections to switch to the single channel has been highlighted.
- 4.12.21. By the end of the reporting period, no closed or open shared know-your-customer utility has been licensed in Latvia. Credit institutions, as well as licensed consumer creditors and other reporting entities actively and permissibly use the services of credit bureaus and credit register information. According to the financial sector, credit institutions and payment service providers have insufficient information on the availability of and procedures for requesting information from the account register.

- 4.12.22. In addition to the registers referred to in the AML/CTPF Law and were permitted by laws and regulations to credit bureaus, credit register and account register, reporting entities also use other sources of information useful for the compliance with the requirements of the AML/CTPF Law, according to the specific nature of the activities of particular reporting entities. For example, information available on the FIU website as to whether a person has been put on international or national sanctions lists, databases of information companies, registers of companies of other EU/EEA countries, the EU Justice website, other (foreign) databases such as Accuity, Refinitiv, Lexis Nexis, DowJones, the EU Council's public register of authentic identity and entry documents "PRADO" etc.

Assessment

- 4.12.23. Considering the above, it can be concluded that the most significant threats are:
- 4.12.23.1. Failure of reporting entities to understand what information is available from independent sources and how it is to be used within the scope of their obligations under the AML/CTPF Law, uncritical reliance on it, resulting in failure to disclose information relevant to customer due diligence;
 - 4.12.23.2. Failure to make use of the possibilities to obtain information in the cases stipulated in the AML/CTPF Law, which in turn creates an unnecessary burden for the reporting entities within the framework of customer due diligence, which in turn reduces the resources available for the compliance with the requirements set for the prevention of ML/TPF, as well as the quality of the performed customer due diligence.
- 4.12.24. Key vulnerabilities include:
- 4.12.24.1. Non-availability of information to the reporting entities on the possibilities of obtaining and using information;
 - 4.12.24.2. Fees for obtaining information from the national information systems established by the AML/CTPF Law for a number of reporting entities.
- 4.12.25. Availability of independent information to the reporting entities is very wide and the possibilities for its wider use continue to expand, supporting innovative solutions both in laws and regulations (closed and open shared know-your-customer utilities), which can potentially be more widely implemented by the private sector, and by continuing the practical measures for the compatibility of national information systems. At the same time, in order to ensure a wider and more effective use of independent information, taking practical steps should be continued to harmonise the conditions for making information available to all reporting entities, including with regard to free access to information. It is also necessary to provide all reporting entities with one-stop access to information on the possibilities of obtaining information and content of the information; in parallel, the knowledge and procedures of the reporting entities for using this information within the framework of customer due diligence should be improved.

Assessment of availability of independent information: 0.9 (high), increasing.

4.13. Availability of and Access to UBO Information

Legal Framework

- 4.13.1. Legal framework in Latvia establishes the primary duty of disclosure of the UBO itself by providing the information required by the AML/CTPF Law to the relevant legal entity or legal arrangement.⁴¹³ If there are reasonable grounds to doubt the information provided in accordance with the above procedure, or if such information has not been provided, the legal entity or legal arrangement (the relevant executive body) is obliged to independently ascertain its UBO and to keep and constantly update information on its UBO.⁴¹⁴

⁴¹³ Section 18¹, Paragraphs One and Two of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

⁴¹⁴ Section 18¹, Paragraphs Three, Four and Five of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

- 4.13.2. Consequently, the legal entity or legal arrangement is obliged to submit the information on the UBO for registration with the RoE immediately, but no later than within 14 days from the date of becoming aware of the relevant information.⁴¹⁵ It is not possible to register new legal entities or legal arrangements without filing information on its UBO at the same time. It is also not possible to register changes in the members (shareholders) and the executive body of a capital company without disclosing the UBO of the legal entity or legal arrangement or certifying that the information previously provided has not changed.⁴¹⁶
- 4.13.3. Amendments to the AML/CTPF Law which entered into effect on 29 June 2019, stipulated that the RoE shall terminate the activities of capital companies that had not submitted a separate application for registration of UBO by 1 December 2017 and whose UBO information was not registered in the manner prescribed by the AML/CTPF Law.⁴¹⁷ The RoE registers both the identifying information of the UBO and information on the persons (all of them) through whom the UBO exercises control over the legal entity or legal arrangement.⁴¹⁸
- 4.13.4. The RoE verifies the compliance adequacy of the submitted information by independently comparing it with the information in the Register of Natural Persons, the RoE itself, and other state information systems available to the RoE. Based on the RoE risk assessment and the established internal control system, the RoE requires the legal entity or legal arrangement to submit additional supporting documents to verify the reliability of the information submitted.⁴¹⁹
- 4.13.5. In addition to the disclosure obligations of legal entities and legal arrangements themselves, the AML/CTPF Law imposes a duty on every reporting entity, including service providers for the establishment and operation of a legal arrangement or legal entity, sworn advocates within the scope of their duties under the AML/CTPF Law, to establish the customer's UBO through customer due diligence and, based on a risk assessment to verify that the identified natural person is the customer's UBO.⁴²⁰
- 4.13.6. The AML/CTPF Law also stipulates that the reporting entities shall, using information or documents from the RoE ascertain the customer's UBO and in addition, based on a risk assessment, ascertain the customer's UBO in one or more of the following ways: by receiving a customer-approved notification of UBO; by using information or documents from information systems of the Republic of Latvia or a foreign country; by ascertaining the UBO independently, if information on it cannot be obtained otherwise.⁴²¹
- 4.13.7. On 7 January 2020 the legal framework of the Law On the Register of Enterprises of the Republic of Latvia entered into effect.⁴²² It stipulated that public information from the registers of the RoE, including all the registered information on current UBOs and other current entries on legal entities is available to anyone without authentication, including the reporting entities, free-of-charge online both on the website and in API format, and as of 1 October 2021 in a more limited open data format.⁴²³ Authentication also allows access to historical information about a legal entity or legal arrangement, including its historical UBOs. The non-public part of the registers of the RoE which includes the supporting documents submitted by the legal entity when registering the UBO independently and additionally requested by the RoE to verify the

⁴¹⁵ Section 18², Paragraph One of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

⁴¹⁶ Section 18², Paragraph Two of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

⁴¹⁷ Paragraph 49 of the Transitional Provisions of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

⁴¹⁸ Section 18¹, Paragraph Four, and Section 18², Paragraph One of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

⁴¹⁹ Section 18², Paragraph One of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums> and the Law on the Register of Enterprises of the Republic of Latvia. *Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 49, 06.12.1990; *Diena*, 3, 01.12.1990 <https://likumi.lv/ta/id/72847-par-latvijas-republikas-uznemumu-registru>.

⁴²⁰ Section 11¹, Paragraph One, Clause 2 of the Prevention Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

⁴²¹ Section 18 of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

⁴²² Law on the Register of Enterprises of the Republic of Latvia. *Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 49, 06.12.1990; *Diena*, 3, 01.12.1990 <https://likumi.lv/ta/id/72847-par-latvijas-republikas-uznemumu-registru>.

⁴²³ <https://www.ur.gov.lv/sanem-informaciju/>.

reliability of the UBO information is available to the FIU and SCIs without restrictions, but to other authorities, including reporting entities - upon a reasoned request.

- 4.13.8. It should be noted that the Ministry of Justice in cooperation with the RoE conducted an assessment of the legal framework of accessibility of the UBO register to every person, taking into consideration the findings of the judgement of the Court of Justice of the EU of 22 November 2022. Having assessed the above-mentioned judgement and the Latvian national legal framework, it was concluded that there were no grounds to change the current approach of ensuring access to information on the UBOs to any member of the public without the need to prove its legitimate interest.⁴²⁴
- 4.13.9. On 1 July 2020 in order to improve cooperation between the RoE, reporting entities, and LEAs in ensuring reliability of information on UBOs registered and to facilitate the provision of information to LEAs on possible criminal offences, requirement within the AML/CTPF Law in relation to the reporting entities, as well as the SCIs requiring to notify the RoE immediately but no later than within three working days when finding that information on UBOs obtained during a customer due diligence is not consistent with the information recorded in the registers kept by the RoE entered into effect. Upon receipt of the said notification, the RoE shall immediately, but not later than within one working day without taking a separate decision, register an alert that the registered information on the UBO may be false and forward the received information to LEAs. This alert is available to the reporting entities for use in customer due diligence, as well as to law enforcement authorities, supervisory and control bodies.⁴²⁵
- 4.13.10. According to Section 195¹ of the Criminal Law, knowingly providing false information to the reporting entities as well as withholding prescribed information on UBO or knowingly providing false information to a public authority or legal entity (e.g., that is required to disclose information to the RoE) is a less serious criminal offence under the Criminal Law.
- 4.13.11. In addition, during the reporting period, for the first time on 9 March 2020 and with a subsequent update on 19 November 2020, the RoE Guidelines for Reporting Allegedly False Information on UBOs to the RoE were approved in order to align the reporting approach of the reporting entities as well as the SCIs.⁴²⁶ Additionally, the Bank of Latvia, when explaining the statutory requirements to its supervised reporting entities has included a separate section in the FCMC Recommendations No. 169 "Recommendations for the Establishment of ICS for the Prevention of ML/TPF and Sanction Risk Management, and for Customer Due Diligence"⁴²⁷, adopted on 21 December 2021, which explains the process and the preferred course of action to be taken when customer due diligence reveals that information about UBOs may be false.
- 4.13.12. Furthermore, it should be noted that, during the reporting period amendments to the Commercial Law were adopted on 16 June 2022 and entered into effect on 1 July 2023, which obliged to ensure the availability of public shareholders' registers in the Commercial Register kept by the RoE.

Characteristics of the Current Practice

- 4.13.13. Since the entry of the legal framework into effect 133,839 legal entities and legal arrangements or 98.45% of the total number of legal entities registered in the registers kept by the RoE, have complied with the obligation to disclose legal entities and legal arrangements to the RoE.
- 4.13.14. Majority of legal entities that have disclosed their UBOs are capital companies - LLCs and JSCs - 128,197 LLCs and 788 JSCs representing 99% of the total number of the registered LLCs and JSCs. LLCs and JSCs that have not disclosed their UBOs are suspended from economic activity, or they are in the middle of liquidation, insolvency or other legal proceedings that do not

⁴²⁴ <https://www.ur.gov.lv/iv/jaunumi/aktualitates/tieslietu-ministrija-latvija-ari-turpmak-informacija-par-patiesajiem-labuma-guvejiem-bus-publiski-pieejama/>.

⁴²⁵ AML/CTPF Law, Section 18, Paragraphs 3¹ to 3⁵. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-prolifercijas-finansēšanas-noversanas-likums>.

⁴²⁶ RoE, *Guidelines for Reporting Allegedly False Information on UBOs to the RoE*. Available at: <https://www.ur.gov.lv/iv/patieso-labuma-guveju-skaidrojums/vadlinijas-zinosanai-par-iespejams-nepatiesu-plg/>.

⁴²⁷ FCMC Recommendation No. 169. *Recommendations for the Establishment of ICS for the Prevention of Money Laundering/Terrorism and Proliferation Financing and Sanction Risk Management, and for Customer Due Diligence*. Available at: <https://likumi.lv/ta/id/328819-ieteikumi-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-prolifercijas-finansēšanas-noversanas-un-sankciju-riska-parvaldšanas-ieksejas-kontroles-sistemas-izveidei-un-klientu-izpetei>.

provide for active economic activity. It should be noted that LLCs and JSCs also have the highest risks of being used for ML/TPF purposes, given their scope of activity and the number of registered entities.

- 4.13.15. The NGO sector has a lower rate of compliance with UBO disclosure requirements. Information on the UBO was submitted in 8,881 cases or 33% of the total number of NGOs representing a 15% increase in comparison with the previous reporting period. Information on the UBOs has not been reported on 18,123 NGOs representing 67% of the total number thereof. It should be noted that registration of new NGOs without disclosure of the UBOs is not possible. A more detailed assessment of legal entities and NGOs is contained in sections "[Risks for legal entities](#)" and "[Risks for NGOs](#)".
- 4.13.16. It should be underlined that after the full-scale military invasion of Ukraine by the armed forces of the Russian Federation on 24 February 2022, the RoE also provides publicly available information in aggregate form on legal entities registered in the registers kept by the RoE, whose UBOs or owners are subject to international sanctions imposed against Russia and Belarus.
- 4.13.17. It should be noted that during the reporting period in order to improve the understanding of legal entities and legal arrangements regarding the UBO disclosure requirements, the RoE has provided and regularly updates comprehensive explanations for each legal entity or legal arrangement regarding the UBO disclosure requirements according to the specifics of the particular type of entity.⁴²⁸
- 4.13.18. The reporting entities indicate that the information on the UBO available to the RoE is mainly used in all cases with exceptions where the customers of the reporting entities are not legal entities or legal arrangements. The vast majority of reporting entities indicate that the information is practically accessible and rate its quality both in terms of content and technical quality as adequate and in some cases excellent. Some of the suggestions call for greater accessibility to historical information, better synchronisation of information with related registers, such as the Register of Natural Persons as well as offering information on the website within a single page, including the possibility to add an indication of the time at which the information was viewed.
- 4.13.19. The reporting entities have indicated that they have access to the RoE guidelines for reporting allegedly misrepresented UBO information to the RoE, while only 33.3% of the reporting entities supervised by the Bank of Latvia indicated that they use the RoE information on legal entities with allegedly misrepresented UBOs. In some cases, this is based on the fact that the customers are only natural persons, but in other cases no justification is provided or it is not related to the use of the information in question within the context of customer due diligence.
- 4.13.20. During the reporting period the RoE received a total of 1,233 reports from reporting entities and 6 reports from SCIs regarding allegedly misrepresented information on UBOs. In 1,140 cases or 92% the reports were submitted by credit institutions and in 68 cases - by financial institutions. 96% of these reports were made on limited liability companies, 2.7% - on joint-stock companies.
- 4.13.21. 1,222 reports were forwarded by the RoE to the LEAs. In cases where the information was not forwarded to the LEAs, the main reasons given by the RoE were that at the moment of examination of the report a compliant UBO had already been registered, the subject of the AML/CTPF Law had withdrawn their own report before the report was examined, or it was found that the inadequate information was caused by error during the entry of data or clerical error.
- 4.13.22. However, the SP indicates that overall, during the reporting period based on the reports received from the RoE, a total of 502 criminal proceedings were initiated under Section 195¹ of the Criminal Law representing 41% of all the reports received. The main reason why initiating criminal proceedings was not possible was indicated by the Prosecutor General's Office - during the departmental examination provision of false information was not established - the

⁴²⁸ RoE. Explanation of UBOs. Available at: <https://www.ur.gov.lv/lv/patieso-labuma-guveju-skaidrojums/sia-un-as/>.

subjective aspect of the criminal offence was missing (Section 377, Clause 2 of the Criminal Procedure Law).

- 4.13.23. It should be noted that only in 79 cases the RoE has received information from the SP that there were no grounds to consider the information on the registered UBOs as false. This means that in all the other cases unless the subject of the AML/CTPF Law or the SCI withdraws the report, the RoE has no reason to remove the warning available to the reporting entities and the SCI that the information on the UBO is possibly false. This also applies to cases where initiation of the proceedings has reached statute of limitations.
- 4.13.24. The RoE has indicated that in practice unacceptable situations have been found in which information both about the fact of reporting and about the person submitting the report or the RoE official involved has been disclosed to the legal entity or legal arrangement itself which has been reported for non-compliance with the UBO information. Shortcomings in the competence and understanding of the SP officers about the process itself have also been established given that no specialisation for specific criminal cases based on the very complex legal framework of AML/CTPF is provided within the framework of the SP.
- 4.13.25. In total, 524 criminal offences have been registered with the SP under Section 195¹ of the Criminal Law during the reporting period. However, the SP has sent 69 criminal cases to the Public Prosecutor's Office for commencement of criminal prosecution during the reporting period, which represents 5.6% of the 1,222 reports received from the RoE regarding provided allegedly false information on UBOs. Furthermore, the SP informed that during the reporting period 503 criminal proceedings were initiated regarding the criminal offences referred to in Section 195 of the Criminal Law, 448 of them - against legal entities, including 6 related to the use of shell formations.
- 4.13.26. During the reporting period in 12 cases in addition to Section 195¹ of the Criminal Law criminal proceedings were initiated also regarding the offence under Section 195. The majority of such cases correspond to so-called *money mule* typology where a person is paid to have criminally obtained funds credited to their accounts, which are soon thereafter debited in cash or transferred onwards.

Assessment

- 4.13.27. Key threats:
- 4.13.27.1. Insufficient involvement of the provider of the establishment and operation services of legal arrangement or legal entity in the process of ensuring the relevance and update of UBO information, which creates a wide range of opportunities for the concealment of UBOs.
- 4.13.27.2. Over-dedication of resources to reporting and investigating alleged misrepresentation of information on UBOs in cases non-related to ML/TPF reduces the resources available for more substantial customer due diligence activities on the side of the reporting entities, as well as the capacity and resources available on the side of the LEAs.
- 4.13.28. Key vulnerability:
- 4.13.28.1. Reporting entities will not use the opportunity to report allegedly misrepresented information on UBOs given the inexpediency of the process.
- 4.13.28.2. Reporting entities will not use the possibility of alerts on allegedly misrepresented information on UBOs as part of customer due diligence, given its potential irrelevance to the actual situation.
- 4.13.29. During the reporting period availability and reliability of information on the UBOs and the quality of the information available have further improved compared to the previous reporting period. Measures have been implemented to ensure registration and reporting of allegedly false UBO information. The explanatory information available to legal entities and legal arrangements themselves has also been improved when disclosing the referred to information to the UBOs and ascertaining and verifying such information. Up-to-date, relevant and publicly available information on the UBO has been made available. Nevertheless, it is necessary to review effectiveness of the system in place, assessing both the proportionality and effectiveness of the responsibility determined and the scope for improving the process, primarily from the perspective of economy and effectiveness of the resources involved.

Assessment of the availability and reliability of information on the true beneficial owner: 1.0 (high), increasing.

5. National Terrorism Financing and Proliferation Financing Risk Assessment

5.1. Terrorism Financing

Threats

- 5.1.1. TF threats mean purposeful activities of a person or a group of persons with the aim to attract, transfer, store and/or use funds and other assets (regardless of whether they have been obtained legally or illegally) for the purposes of terrorism. TF threats may include domestic or international terrorist organisations and their supporters, their funds, as well as past, present and future TF activities, as well as individuals and groups of persons associated with the ideology of terrorist organisations and radicalised individuals.⁴²⁹
- 5.1.2. The FATF definition shows that the TF threat level correlates with the terrorism threat level, and, consequently, it is important to understand a country's terrorism threat level.
- 5.1.3. At the EU level, indicators characterising the level of terrorism are studied and summarised in the EUROPOL's annual report "Terrorism Situation and Trend Report". The following trends emerged during the reporting period:
- 5.1.3.1. Terrorism is still mainly carried out by individuals (group terrorism is rare).⁴³⁰
 - 5.1.3.2. Trends show that terrorism is getting younger, i.e., younger people are being recruited and becoming radicalised.⁴³¹
 - 5.1.3.3. Decentralised technologies, newly created online sites and computer game sites are increasingly used to disseminate propaganda.⁴³²
 - 5.1.3.4. Increasing number of people suffering from mental health problems (Covid-19 and self-isolation effects; increased time spent online and digital socialising; geopolitical instability leading to uncertainty and insecurity; uncertain socio-economic situation, including rising prices of goods and services, leading to a sense of insecurity about the future).⁴³³
 - 5.1.3.5. Russia's military aggression against Ukraine has, among other things, affected also the terrorist and extremist environment: (1) reaction among violent extremist actors, especially on the right-wing spectrum; (2) a number of foreign fighters have joined the hostilities, but the presence and participation of terrorists or extremists is assessed as low; (3) widespread disinformation and propaganda, contributing to the development of conspiracy theories.⁴³⁴
- 5.1.4. Analysis of the information which is at the disposal of the SSS indicates that, during the reporting period, compared to the previous one, the level of terrorism threats in Latvia has not changed and remained relatively low:
- 5.1.4.1. Terrorist attacks have not taken place in Latvia, and persons or organisations that might be classified as terrorist have not been detected.
 - 5.1.4.2. The available information does not indicate that the territory of Latvia might be used for support of activities of terrorist nature abroad.
 - 5.1.4.3. In addition, no indications have been detected that persons with a tendency towards terrorism have attempted to enter Latvia, import or obtain the weapons, explosives, hazardous substances necessary for an act of terror, or gather intelligence on potential targets for terrorism.
- 5.1.5. From the above, it can be concluded that the level of terrorism threat in Latvia is low, and, consequently, the threat of TF at the local level can be assessed as **low**.

⁴²⁹ FATF Terrorist Financing Risk Assessment Guidance, July 2019. P. 8. Available at: <https://www.fatf-gafi.org/en/publications/MethodsandTrends/Terrorist-financing-risk-assessment-guidance.html>.

⁴³⁰ EUROPEAN UNION TERRORISM SITUATION AND TREND REPORT 2023. P. 75. Available at: https://www.europol.europa.eu/cms/sites/default/files/documents/Europol_TE-SAT_2023.pdf.

⁴³¹ Ibid p. 4.

⁴³² Ibid p. 4.

⁴³³ EUROPEAN UNION TERRORISM SITUATION AND TREND REPORT 2022. P. 5. Available at: https://www.europol.europa.eu/cms/sites/default/files/documents/Tesat_Report_2022_0.pdf.

⁴³⁴ EUROPEAN UNION TERRORISM SITUATION AND TREND REPORT 2023. P. 4. Available at: https://www.europol.europa.eu/cms/sites/default/files/documents/Europol_TE-SAT_2023.pdf.

International Terrorist Organisations

- 5.1.6. According to the information provided by the SSS, there are still a number of terrorist organisations operating internationally and capable of carrying out terrorist attacks in other countries. Such terrorist organisations use supporters living abroad as a way of financing their activities, from which they obtain both money and goods in various ways.
- 5.1.7. According to the information provided by the SSS, significant international terrorist groups operate in Syria, Iraq, Egypt, North-West Africa (Algeria, Libya, Mauritania, Morocco, Tunisia, Western Sahara), Nigeria, Somalia, Cameroon, Yemen, Afghanistan, Pakistan and the North Caucasus.
- 5.1.8. In Syria and Iraq, presence of some *Islamic State* militant cells can be observed. In March 2019, the *Islamic State* lost the last significant territory under its control, but militant groups loyal to the *Islamic State* are still active in both countries. Currently, the main goals of the *Islamic State* are to rebuild its fighting capacity and to release its fighters from correctional facilities located in the region. The long-term presence of the *Islamic State* will depend on the ability of local fighters to acquire weapons and funding, and on the radicalisation and involvement of supporters based in European countries to carry out terrorist acts. The *Hay'at Tahrir al-Sham* terrorist group remains in control of the north-western region of Syria. The group's objectives are related to the change of power in Syria and it is expected to continue engaging in armed conflict with Syrian government forces.
- 5.1.9. In Egypt, the most significant terrorist threat comes from the *Islamic State* affiliates *Islamic State Vilayat Sinai* and *Islamic State Egypt*. The main target of attacks of these groups is the Egyptian security forces, but they have also been involved in attacks against objects of interest of the European countries.
- 5.1.10. Political situation in Libya remains fragile, with local government forces unable to fully control the security situation in the state territory. The *Islamic State* in Libya is currently the most significant terrorist threat. In Libya, militants loyal to the group currently carry out attacks against patrols of the armed forces and military facilities, as well as against objects of interest of the Western countries.
- 5.1.11. A number of *Islamic State* and *Al-Qaeda* affiliated groups continue to operate in the West African region, one of them being *Jama'at Nusrat al-Islam wal Muslimin*, which mainly engages in attacks against government's armed forces, local Christian communities and members of Western armed forces. In several countries in the region, such as Mali and Burkina Faso, the security situation has deteriorated significantly in recent years, leading terrorist groups to occupy large areas of the Sahara Desert and the adjacent Sahel region. Following the conclusion of the counter-terrorism operation led by the French Armed Forces, the region will continue to face a high level of terrorist threat for the foreseeable future. The region also remains at high risk of kidnapping Western citizens.
- 5.1.12. The most significant terrorist threat in Somalia comes from the *Al-Qaeda-linked* Islamist terrorist group *Harakat al-Shabaab al-Mujahideen*. The group regularly targets Somali government forces, but the group has been previously involved also in attacks against targets of foreign and international interest in Somalia and neighbouring Kenya. Most of the group's attacks target hotels, where most of the foreign targets of interest are located.
- 5.1.13. The armed conflict in Yemen continues, with terrorist groups *Al-Qaeda in the Arabian Peninsula* and the *Islamic State - Yemen* exploiting it for their own interests. The *Al-Qaeda in the Arabian Peninsula* is currently focused on the ongoing armed conflict in Yemen, but may resume planning attacks against targets in the West once it is over.
- 5.1.14. The most significant terrorist threat in Afghanistan and Pakistan comes from the Islamic terrorist group *Taliban*. After the *Taliban* took control of Afghanistan in 2021, the threat of terrorism still remains high. There are *Al-Qaeda* and *Islamic State* affiliates operating in the region, such as the *Islamic State Khorasan Province*, which is actively involved in attacks against the *Taliban* and previously also against objects of interest of Western countries in Afghanistan. The security situation in the region remains low, and there is a risk that terrorists could continue using the region in the near future to train their fighters and send them to Europe to carry out terrorist attacks.

Radicalisation of Individuals⁴³⁵

- 5.1.15. Experience of the foreign partner services indicates that the terrorists based in Syria and Iraq use their supporters residing in Europe to obtain aid for financing their activities. In this respect, it should be noted that, so far, no such activities have been detected in Latvia.
- 5.1.16. However, there is a theoretical threat that the radicalisation of individuals could result in them or their relatives/supporters using services provided by the Latvian financial sector. European security services consider that collection of online donations for TF will become more important and organised in the near future. Donations may be collected both by individuals and organisations connected to seemingly legal objectives. Identification of the end beneficiaries of money may be complicated if, for instance, it is linked to implementation of business, political or charity projects in the conflict zones and other territories in which terrorist groups operate. Internationally TF indicators through collection of donations mostly deal with unclear purposes of donation or unclear end recipient of the collected donations. Violations in collection and use of donations have not been registered in Latvia during the reporting period; however, there is a risk that collection of donations, including online, may become more significant and organised in near future.
- 5.1.17. So far, no cases of Latvian citizens financing foreign terrorist groups have been detected in Latvia.
- 5.1.18. In order to avoid possible radicalisation of persons or interest in financing the terrorist groups, the SSS conducts preventive activities and analysis of personal data to assess possible interest of persons in terrorism or support of its ideology. Regular analysis is performed to prevent both the threat of terrorism and its financing. SSS also continues increased inspections for activities of various associations and organisations.
- 5.1.19. During the monitoring of Muslim environment, the SSS has not identified any new trends that could contribute to the spread of radicalisation processes. At the same time, persons with signs of risk of radicalisation regularly come to the attention of the SSS and are the subject of increased attention. Furthermore, the SSS continues to pay increased attention to individuals who have previously come to the attention of the SSS and whose activity analysis indicates that they may be radicalised.
- 5.1.20. There is an existing threat that terrorist organisations may use the flow of refugees as well to send potential terrorists to Europe. Consequently, the SSS carries out an in-depth assessment of asylum seekers. The main countries of origin of asylum seekers during the reporting period were Belarus, Afghanistan, Russia and Iraq (Table 5.1.1). During the reporting period, no facts that would reveal affiliation of persons or their support to the terrorist groups and/or radical organisations were found during the inspections.

Table 5.1.1 - Countries of origin of asylum seekers

Asylum Seekers	
2020	Belarus
2021	Iraq, Afghanistan, Belarus, Russia
2022	Russia, Afghanistan, Belarus, Iran, Iraq
Persons who Have Received International Protection Status	
2020	Belarus
2021	Belarus, Afghanistan
2022	Afghanistan, Belarus, Russia

- 5.1.21. According to the statistics provided by the OCMA, the number of asylum seekers and refugees in Latvia has increased during the reporting period compared to the NRA 2020 reporting period. In 2020, 147 asylum seekers have applied for international protection in Latvia, in 2021 - 582 asylum seekers, but in 2022 - 546 (Table 5.1.2). However, Latvia may not be an attractive destination for immigrants and refugees, who may not be satisfied with the level of social guarantees provided. It should also be noted that the armed conflict caused by Russia has

⁴³⁵ The word "radicalisation" is used to describe the phenomenon of people adopting intolerant views, opinions and ideas that could lead to violent extremism.

resulted in a large number of Ukrainian civilians arriving in Latvia in 2022.⁴³⁶ These statistics are not reflected in Table 5.1.2, as Latvia has adopted and operates a special law on the status of Ukrainian civilians, therefore applying for refugee status is not required.

Table 5.1.2 - Number of asylum seekers, refugees and alternative statuses granted

Year	Asylum Seekers	Refugee Status	Alternative Status
2020	147	8	17
2021	582	80	25
2022	546	216	27

5.1.22. In 2021, the number of identified illegal border crossings increased, especially at the Belarusian-Latvian border.⁴³⁷ The main reason for the increase in numbers was the announcement by the President of Belarus on 26 May 2021 that Belarus will no longer impede the migration of persons to the EU (via the Republic of Belarus). Following this announcement, the Belarusian authorities took targeted measures to artificially create a large flow of migrants transiting through Belarus to the EU. Infrastructure of transport services was purposefully increased to provide the migration of persons, and information was disseminated on the facilitations created for entry in Belarus and the EU, in particular in the countries in the Middle East region.⁴³⁸ In order to strengthen the capacity to prevent and detect illegal border crossings, Order No. 518 of the Cabinet of Ministers dated 10 August 2021 "Regarding Declaration of the Emergency Situation" National Armed Forces were granted an obligation and the rights to take measures to detect and stop illegal crossings.⁴³⁹

Racially/Ethnically Motivated Terrorism

5.1.23. Overall, the threat of racially/ethnically motivated terrorism in Latvia is low. According to the information available to the SSS, there are no racially/ethnically motivated terrorist groups operating in Latvia, and therefore the TF risks within this context are low. At the same time, violent activities carried out by individual persons cannot be ruled out.

Vulnerability

5.1.24. The concept of TF vulnerability includes those things that can be exploited, supported or facilitated by elements causing TF threat. Vulnerability can include specific sectors, financial products or types of services whose features make them attractive to TF. Vulnerability may also include gaps in measures provided for prevention of TF or features of the jurisdictional context that may affect the ability of terrorist financiers to raise or transfer funds or other assets.⁴⁴⁰

Vulnerability of Financial Services

5.1.25. Same as in the NRA 2020 reporting period, the financial sector and financial services remain the most significant vulnerabilities within the context of TF in 2020-2022. The Latvian financial system is involved in a large volume of transactions, including with high-risk countries and their neighbours. However, given that the flow of funds to/from high TF risk countries is relatively small, the risks associated with these transactions are manageable (Table 5.1.3). The characteristics of the Latvian financial sector, i.e., the size of the sector, the volume of transactions and the speed of their execution, as well as the wide geography of transactions, point to the inherent vulnerability of the Latvian financial system to being used in TF schemes, for example, an account opened with a Latvian credit institution as one of the links in a chain of complex transaction structures with disguised UBO.

⁴³⁶ Refugees from Ukraine who benefit from temporary protection in the EU. Available at: <https://www.consilium.europa.eu/lv/infographics/ukraine-refugees-eu/>.

⁴³⁷ NCIM 2021, p. 53.

⁴³⁸ Ibid, p. 53.

⁴³⁹ IM. The state of emergency at the Latvian-Belarusian border is extended until 10 May 2023. Available at: https://www.iem.gov.lv/lv/jaunums/arkarteja-situacija-uz-latvijas-baltkrievijas-robezas-tiek-pagarinata-lidz-2023-gada-10-majam?utm_source=https%3A%2F%2Fwww.google.com%2F.

⁴⁴⁰ FATF Terrorist Financing Risk Assessment Guidance, July 2019, p. 8. Available at: <https://www.fatf-gafi.org/en/publications/MethodsandTrends/Terrorist-financing-risk-assessment-guidance.html>.

Table 5.1.3 - Cross-border payments of the customers of Latvian credit institutions 2020-2022

No.	Country of Registration of the Initiator's/Beneficiary's Bank	Incoming Payments	Outgoing Payments	Total	Ratio
1	Lithuania	41 749 780 589	40 442 716 862	82 192 497 451	25.10%
2	Estonia	25 890 016 933	22 149 974 214	48 039 991 147	14.67%
3	Germany	13 672 688 193	25 115 810 719	38 788 498 912	11.85%
4	Russia	9 680 878 754	8 774 064 570	18 454 943 325	5.64%
5	Great Britain	7 979 183 417	8 121 413 069	16 100 596 487	4.92%
6	Sweden	5 826 184 064	7 195 217 949	13 021 402 013	3.98%
7	Finland	6 857 952 351	5 724 707 235	12 582 659 586	3.84%
8	Poland	2 574 157 243	7 344 409 757	9 918 567 000	3.03%
9	Switzerland	3 948 893 036	3 205 581 637	7 154 474 672	2.18%
10	Ukraine	3 749 531 666	3 341 790 639	7 091 322 304	2.17%
11	Netherlands	4 023 918 099	2 642 215 778	6 666 133 877	2.04%
12	Denmark	4 540 982 853	2 093 280 946	6 634 263 798	2.03%
13	Norway	2 591 315 418	3 437 348 937	6 028 664 355	1.84%
14	USA	2 785 957 544	1 857 241 280	4 643 198 824	1.42%
15	Austria	2 309 665 068	1 766 307 775	4 075 972 843	1.24%
16	Belarus	2 126 754 194	1 582 245 619	3 708 999 812	1.13%
17	Italy	1 880 205 161	1 654 322 334	3 534 527 495	1.08%
18	France	1 106 829 002	2 413 751 438	3 520 580 440	1.08%
19	Belgium	975 011 961	1 972 577 584	2 947 589 545	0.90%
20	Ireland	1 547 663 170	1 248 903 076	2 796 566 247	0.85%
21	Other	14 296 575 848	15 248 331 547	29 544 907 395	9.02%

5.1.26. Information collected by the Bank of Latvia indicates that the majority of incoming and outgoing cross-border payments of customers of the credit institutions sector were made to or from the EU countries. Except payments within the EU, the overwhelming majority was made to or from Russia. At the same time, it should be noted that, towards the end of the reporting period, the share of payments to/from Russia decreased due to the sanctions imposed against Russia as a result of the military invasion of Ukraine. Outgoing payments made by foreign customers are mainly transferred to banks in the EU, but there are also payments to banks in United Kingdom, Switzerland, Ukraine, the USA, Belarus, China and Kazakhstan. It should be noted that none of these countries has been included in the EC list of high-risk countries⁴⁴¹ or in the FATF list of high-risk countries.⁴⁴²

5.1.27. According to paragraph 5.1.7 of this risk assessment, international terrorist groups are active in several countries around the world and capable of carrying out terrorist attacks in other countries, including by using supporters living abroad to finance their activities. Within this context, it is important to assess flows of the Latvian financial sector's incoming and outgoing payments with these countries. According to information provided by Latvian credit institutions, the flow of assets from/to countries where terrorist groups operate is small. During the reporting period, only 0.04% of the total amount of all incoming and outgoing payments were related to these countries (Table 5.1.4).

⁴⁴¹ The EC list of third countries which are inadequately combating ML/TF. Available at: https://ec.europa.eu/commission/presscorner/detail/lv/IP_19_781.

⁴⁴² Jurisdictions under Increased Monitoring – 21 October 2022. Available at: <https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Increased-monitoring-october-2022.html>.

Table 5.1.4 - Cross-border payments of customers of Latvian credit institutions to/from countries where terrorist groups operate, 2020-2022

No.	Country of Registration of the Initiator's/Beneficiary's Bank	Incoming	Outgoing	Total
1	Egypt	30 279 317	33 864 951	64 144 268
2	Morocco	20 274 898	17 705 345	37 980 243
3	Mauritania	191 301	12 384 504	12 575 805
4	Pakistan	782 384	8 239 002	9 021 386
5	Tunisia	4 720 953	3 454 525	8 175 478
6	Cameroon	3 734 840	367 686	4 102 526
7	Iraq	1 064 517	28 481	1 092 998
8	Yemen	443 940	5 960	449 900
9	Algeria	105 601	134 437	240 038
10	Afghanistan	42 790	193 069	235 859
11	Nigeria	46 582	27 000	73 582
12	Libya	67 143	2 397	69 540

- 5.1.28. Vulnerability is also lowered by the use of automated tools to identify TF by financial sector actors. For example, FCMC Recommendations No. 169 "Recommendations for the Establishment of ICS for the Prevention of Money Laundering/Terrorism and Proliferation Financing and Sanction Risk Management, and for Customer Due Diligence", among others, explain the requirements for IT solutions to prevent ML/TF/PF and manage the risk of breach and circumvention of sanctions. The legal framework requires credit institutions to automate the screening of customers and their UBOs, authorised persons and shareholders against sanction lists before entering into a business relationship and to generate alerts if a match is found. During the course of the business relationship, a sanction screening should be carried out regularly at least once a day to identify timely the risk of breach and circumvention of sanctions. With regard to the verification of payment information to manage the risk of breach and circumvention of sanctions, it is permissible that, where the customer's risk of breach and circumvention of sanctions is low, the institution carries out the verification of payment information following a risk-based approach by screening the initiator or beneficiary.
- 5.1.29. At the same time, it should be noted that the Bank of Latvia,⁴⁴³ when inspecting credit institutions, tends to identify deficiencies in their ICS, including deficiencies in customer due diligence, which may negatively affect the process of identifying suspicions of TF. However, it should be noted that, both internationally and nationally, no cases of TF using the Latvian financial system were identified during the reporting period.
- 5.1.30. The vulnerability of TF has been significantly reduced by the 2018 amendments to the AML/CTPF Law, which prohibited a number of reporting entities from entering into and maintaining a business relationship or conducting an occasional transaction with a shell arrangement if it simultaneously meets two of the three characteristics of a shell arrangement set out in the AML/CTPF Law⁴⁴⁴.⁴⁴⁵ Following changes in the regulatory framework, the Latvian banking sector saw a significant decline in the number of shell arrangements and the amounts of their deposits. During the reporting period, this trend continued, namely, the number of customers corresponding to one of the characteristics of a shell arrangement stipulated in the AML/CTPF Law continued to decrease, as did the size of their operations (Table 5.1.5).

⁴⁴³ As of 1 January 2023, the FCMC 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 to the FCMC's property, financial resources, rights and obligations.

⁴⁴⁴ Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing - Section 1, Clause 15.1. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Zinotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

⁴⁴⁵ Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing - Section 21¹. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Zinotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

Table 5.1.5 - Number of customers of Latvian credit institutions corresponding to one of the characteristics of a shell arrangement

Year	Number of Shell Arrangements	Amount of Deposits, EUR
2022	535	180 748 348
2021	660	213 108 819
2020	975	270 199 834

- 5.1.31. According to international experts, traditional ways of delivering money such as transfers of credit institutions, money remitters and *hawala*⁴⁴⁶ remain the preferred ways of TF.⁴⁴⁷ Use of the *hawala* method in Latvia has not yet been detected by the responsible authorities. At the same time, in 2022, the FIU received information that funds from drug trafficking may have been moved through Latvia using the *hawala* method, but these suspicions have not yet been confirmed.
- 5.1.32. During the NRA 2020 reporting period, amendments to the regulatory framework came into effect with the aim of ensuring the availability of correct and up-to-date information on the UBO of legal entities. Consequently, the amendments provided for an obligation for every legal entity registered with the RoE to disclose the UBO. In view of the above, by the end of 2022, 87.44% of legal entities had reported information on their UBOs, thus reducing the vulnerability associated with the potential involvement of Latvian capital companies owned by citizens of foreign countries and concealing UBOs in various types of TF activities. For more information, see the section ["ML/TPF risks for legal entities and legal arrangements"](#).
- 5.1.33. It should be noted that, although there were no cases registered where VC service providers registered in Latvia were used for TF activities during the reporting period, the possibilities offered by new technologies such as anonymity, encrypted communication and circumvention of financial control regimes may be attractive for obtaining, storing, and transferring funds for TF. This trend also applies to other technologies with similar characteristics, including online trading sites and the *Darknet*, which is freely available and, together with anonymised payment options, offers high level of anonymity in the trade of illicit goods. In view of the above, it is reasonable to assume that VC can also be used in the TF.
- 5.1.34. TF vulnerability exists also in the activities of consumer lenders. Factors suggesting this are: (1) possibility to receive a loan remotely; (2) fraud risk present; (3) possibility to transfer money to a third party; (4) service is available easily and quickly; (5) intended use of loan is unknown; (6) funds transferred to the credit card account may be quickly moved abroad. At the same time, it should be noted that, during the reporting period, the customers of consumer credit service providers were almost always residents (the share of non-residents in the customer portfolio is below 1%).
- 5.1.35. TF can also be done in cash. Cash transactions are more difficult to identify and to determine the purpose of use of the funds. During the reporting period, the FIU received reports of suspicious transactions related to suspected TF from financial institutions providing international money transfer services online or at customer service centres using cash. Connection to TF has not been identified in any of these cases.
- 5.1.36. TF can also be used through foreign currency purchase and sale cash transactions.⁴⁴⁸ The Bank of Latvia has identified suspicious characteristics and risk identifiers in purchase and sale transactions of foreign currency cash. Guidelines for identification of such transactions are available on the website of the Bank of Latvia, as well as an obligation has been imposed to perform customer due diligence if the amount of transaction exceeds the limit set by the AML/CTPF Law.⁴⁴⁹ During the reporting period, no reports from FCT on suspicious transactions in relation to TF have been received.

⁴⁴⁶Informal money transfer system by using intermediaries, without movement of physical cash across the border or via banks.

⁴⁴⁷EUROPEAN UNION TERRORISM SITUATION AND TREND REPORT 2023. P. 15. Available at: <https://www.europol.europa.eu/cms/sites/default/files/documents/European%20Union%20Terrorism%20Situation%20and%20Trend%20report%202023.pdf>.

⁴⁴⁸ The Bank of Latvia: [Guidelines for Prevention of ML and TF in the Sector of Foreign Currency Cash Purchase and Sale](#) Page 2

⁴⁴⁹ The Bank of Latvia: [Guidelines for Prevention of ML and TF in the Sector of Foreign Currency Cash Purchase and Sale](#) Page 7

- 5.1.37. An international study was carried out under the leadership of the FIU to improve the understanding of cash movements in and across the borders of Latvia 2019-2022.⁴⁵⁰ Taking into consideration the cash emission rates of credit institutions, customs cash declarations and case study, it was concluded that no increased TF risk arises from cash circulation in Latvia.
- 5.1.38. Besides the products and services described above that are at increased risk of being used for TF purposes, and in order to provide an understanding of how the identified risks apply to the sectors represented by the reporting entities, the section "[Terrorism Financing, Proliferation Financing and Sanctions Risk Scenarios](#)" provides risk scenarios and identifies the sectors of the reporting entities where they could be implemented.
- 5.1.39. In addition to the above, a positive assessment by the Executive Directorate of the Counter-Terrorism Committee of the UN Security Council was received during the reporting period. The experts assessed⁴⁵¹ Latvia's progress in implementing UN Security Council resolutions related to the prevention of terrorism and TF. The draft report (at the time of writing this NRA, the draft report is at the stage of approval) contains a positive assessment of the work Latvia has done to improve its AML/CTPF framework since the 2018 Moneyval evaluation:
- 5.1.39.1. legal framework of the AML/CTPF system has been significantly improved in a short period of time;
 - 5.1.39.2. effective mechanisms have been introduced (asset freezing mechanism, sanctions search engine, etc.) to prevent the use of the Latvian financial system for financial crime;
 - 5.1.39.3. the measures taken have significantly reduced the vulnerability of the Latvian financial system to abuse for TF;
 - 5.1.39.4. the level of inter-institutional cooperation and cooperation with the private sector was complimented;
 - 5.1.39.5. the experts consider all of the above to be a good practice, which they recommend to other UN Member States.
- 5.1.40. At the same time, it is important to underline that the experts have made recommendations on additional measures that Latvia should take to fully implement the requirements of the relevant resolutions, which, inter alia, have been taken into consideration within the framework of this risk assessment.

Reports on Suspicious Transactions

- 5.1.41. The number of TF-related suspicious transaction reports (STRs) submitted to the FIU has decreased during the reporting period compared to the NRA 2020 reporting period, with 1 TF-related suspicious transaction report received in 2020, 2 - in 2021 and 5 - in 2022. The average number of transactions included in a single report during the reporting period is 20. Most of the TF-related reports were received by the FIU from credit institutions and financial institutions providing international money transfer services.
- 5.1.42. The low number of reports can be explained by several factors:
- 5.1.42.1. Reporting trends depend, among other things, directly on the threat level of the TF. Given Latvia's low level of TF threat in both the previous and the current reporting period, it is natural that the number of TF-related suspicious transaction reports represents only a small proportion of all suspicious transaction reports received by the FIU.
 - 5.1.42.2. Although cross-border flows decreased significantly already during the NRA 2020 reporting period, the decline continued also during the NRA 2023 reporting period. According to SWIFT system data, during the period 2013-2017, flow of Latvia's financial sector with the CIS countries averaged 13.5 billion USD per month, but with offshore financial centres⁴⁵² - 9.8 billion USD per month. During the reporting period, flows with the CIS countries decreased by 89% year-on-year, while flows with offshore financial centres - by 93%.⁴⁵³ Accordingly, the risk that criminals and

⁴⁵⁰ Cash movements through the Baltic States. Available from the FIU.

⁴⁵¹ The evaluation visit took place in two parts, online from 28 June-2 July 2021 and face-to-face from 13-17 October 2022.

⁴⁵² As defined by the IMF in *Past IMF Staff Assessments on Offshore Financial Centres (OFCs)*. Available at: <https://www.imf.org/external/np/ofca/ofca.aspx>.

⁴⁵³ IMF compiled data, IMF Nordic Baltic Technical Assistance Project.

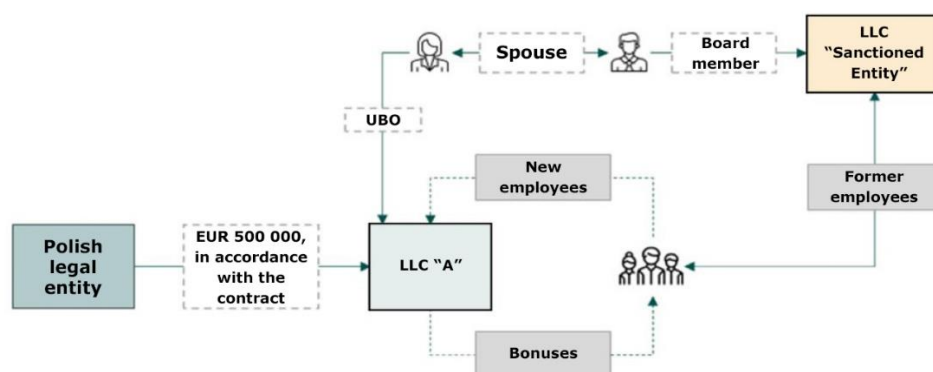
terrorist groups can use the Latvian financial system for conducting transfers as a part of a complex TF transaction chain has also decreased significantly.

- 5.1.43. This vulnerability is also mitigated by the fact that the number of reports on circumvention of international and national sanctions received by the FIU has increased significantly in 2022 ([Chart No. 6.1.3](#)). Given that there is a large overlap in the typologies of circumvention of sanctions (regardless of whether the EU sanctions are terrorism-related), this data mitigates the Latvia's national TF-vulnerability, as the reporting entities are able to identify the typologies of sanction circumvention. The fact that the reporting entities are able to identify suspected circumvention of sanctions other than those related to terrorism leads to the conclusion that the reporting entities also have sufficient capacity to identify suspected TF. The risks of sanctions being breached and circumvented are assessed in the chapter ["Assessment of the risks of sanctions being breached and circumvented"](#). Case study No. 5.1.1 provides an example of circumvention of EU sanctions against Russia, where the methods used could theoretically be used also for TF purposes.

Case Study 5.1.1 - Circumvention of Financial Restrictions

A Latvian credit institution suspects that its customer (hereinafter referred to as - LLC "A") is a fictitious intermediary that was allegedly established to work for the interests of a sanctioned entity (hereinafter referred to as - LLC "Sanctioned Entity"), including to pay salaries to former employees of the LLC "Sanctioned Entity". This is evidenced by the following facts and circumstances:

- LLC "A" is a start-up company providing IT services to a legal entity registered in Poland. Both the LLC "A" and the Polish legal entity were established shortly after the inclusion of the LLC "Sanctioned Entity" in Annex I to Regulation No. 269/2014.
- The employees of the LLC "A" are former employees of the LLC "Sanctioned Entity", as evidenced by publicly available information.
- These employees are to be paid substantial bonuses for the month in question, even though they only started working for the LLC "A" on the first day of the month.
- The UBO of the LLC "A" is, possibly, a nominee UBO, i.e., UBO of the LLC "A" is the spouse of the Board Member of the LLC "Sanctioned Entity".
- The LLC "A" is unable to provide documents supporting transactions at the request of a Latvian credit institution, including documents proving the origin of funds in the account of the cooperation partner (a Polish legal entity).
- The Latvian credit institution suspects that the transaction chain has been artificially extended. Suspicious transaction report has been filed with the FIU.



- 5.1.44. Historically, most of the TF-related suspicious transaction reports submitted to the FIU were based on matches in customer sanctions lists. From the reports received, it is clear that the understanding of the reporting entities has improved and continues to improve: TF-related suspicious transaction reports are based on TF typologies identified by the reporting entities during their research and transaction monitoring, and not only on the results of sanctions screening.

- 5.1.45. During the reporting period, reports of suspected TF included the following risk indicators and typologies, considered in the context of other facts and circumstances that characterise specific transactions or activities:
- 5.1.45.1. Breaking down a larger transaction into smaller transactions over a short period of time (one day).
 - 5.1.45.2. Several persons make transfers to the same beneficiary.
 - 5.1.45.3. Transactions take place between persons who have a common element (address).
 - 5.1.45.4. Publicly available data or data obtained as a result of research suggest a possible relation of the party involved in the transaction to TF.
 - 5.1.45.5. Transactions for the benefit of the customer have been carried out in the accounts of several individuals, including those seemingly unrelated to the customer.
 - 5.1.45.6. Transfers received in a natural person's account indicating such purposes of payment as "donation"; "gift", which are not in line with the intended use of the account.
 - 5.1.45.7. Transactions involving jurisdictions with a high terrorism risk and adjacent territories.
- 5.1.46. The dynamic period in the area of sanctions enforcement and the high level of reporting suggest that the understanding of reporting entities about the violation and circumvention of sanctions and, along with that, also of the terrorism financing, is at a high level during the reporting period. In order to mitigate the risks of TF and sanctions violations, the SCIs, the MoF, the SSS and the FIU have distributed methodological materials to the reporting entities during the reporting period, as well as provided regular trainings on these issues.
- 5.1.47. Despite the fact that the overall quality of reports received is satisfactory and the reporting entities demonstrate the application of a risk-based approach to the assessment of transactions, in the opinion of both national authorities and international experts,⁴⁵⁴ it is necessary to continue measures to improve the knowledge of reporting entities, thus also increasing the reporting rates of suspected TF.

Financial Intelligence and Criminal Proceedings

- 5.1.48. During the reporting period, the FIU received 5 requests from foreign services and 4 TF-related informative reports from foreign services. All the information received in relation to TF is dealt with on an urgent basis and is subject to an in-depth assessment as to the need to issue an asset-freezing order, to provide information to the pre-trial investigative authorities or to take other actions within the competence of the FIU. Requests from foreign partnering services received by the FIU within the context of prevention of TF are mostly related to verification of persons, informative reports or examinations of suspicious financial transactions received from analogous authorities in Europe. Reports on suspicious financial transactions have not had direct relation to TF, but rather a precautionary inspection, for example, when a person has transferred financial resources to an organisation or person who has received money from a third person who has been linked to terrorism or its financing.
- 5.1.49. During the reporting period, the SSS received risk information from the FIU 16 times in relation to possible TF (14 times in 2020, 2 times in 2021 and 2 times in 2022). In four of these cases, information was provided on persons or transactions with no connection to Latvia. TF was not confirmed in any of these cases.
- 5.1.50. During the reporting period, more precisely, in March 2021, the SSS initiated criminal proceedings regarding an alleged TF according to the elements of a criminal offence under Section 79², Paragraph One of the Criminal Law. The criminal proceedings relate to a 2018 FIU report on reviews carried out in 2015 through a financial institution providing international money transfer services. On 23 September 2022, the criminal proceedings were terminated.
- 5.1.51. Although only one criminal proceeding was initiated during the reporting period in Latvia, the experience gained by examining suspicious cases, including in relation to suspicion of TF, has provided knowledge on how to respond when detecting the cases of TF and shows that the responsible authorities respond to each suspicious case.

⁴⁵⁴ Assessment by the Executive Directorate of the Counter-Terrorism Committee of the UN Security Council.

- 5.1.52. Furthermore, it should be noted that, during the reporting period, the Public Prosecutor's Office of the Republic of Latvia received 5 requests for criminal judicial assistance from foreign countries (in 2020 - 2, in 2021 - 1, and in 2022 - 2 requests for criminal judicial assistance) related to the sections contained in Chapter 9¹ of the Criminal Law (Crimes related to terrorism). Whereas, the Public Prosecutor's Office of the Republic of Latvia has sent 2 requests for criminal judicial assistance abroad (1 in 2020 and 1 in 2021) regarding criminal offences under Section 77¹ of the Criminal Law (Unlawful participation in an armed conflict). In none of the cases a request for criminal judicial assistance related to the Sections of Chapter 9¹ of the Criminal Law has been sent. Statistics on requests for criminal judicial assistance are low, which, among other things, also confirms Latvia's low TF risks.
- 5.1.53. During the reporting period, work was carried out in the Terrorism Financing Investigations Coordination Working Group (TFICWG) established for the purpose of cooperation between investigative authorities. The objectives of this working group are (1) improvement of cooperation and coordination between authorities to prevent TF cases; (2) analysis of the identified TF cases and finding new signs of TF; (3) provisions of recommendations to the SCI and the reporting entities for more effective prevention of TF. The institutions represented at the Working Group meetings regularly exchange information on current developments, identified challenges and lessons learned at international level.
- 5.1.54. The SSS is developing guidelines for internal use on "Investigation of Terrorism Financing", aimed at ensuring a common approach and minimum level of evidence in TF investigations. They include the definition of TF, the criminal judicial characteristics of TF, TF investigations - initial and follow-up situations; the reason, basis and jurisdiction for opening an investigation; the circumstances to be proved; investigative activities; and description of the possibilities for international cooperation in TF investigations.

Terrorism Financing Risks

- 5.1.55. TF threats in Latvia are low. The level of terrorism threats in Latvia during the recent years has not changed and remains relatively low. TF threats at national level are low since the level of terrorism threats is low. Although there are several internationally known terrorist groups causing TF threats also in Latvia, abuse of the Latvian financial system in financing thereof has not been established during the investigations. The most significant TF threat in Latvia comes from local individuals who may become radicalised, but the SSS and other public authorities take a wide range of preventive actions to mitigate this threat.
- 5.1.56. The responsible public authorities consider the TF vulnerability in Latvia to be low. Latvia's financial sector is well-developed, and it provides the services that can be used for TF. However, it is to be concluded during the reporting period that understanding of the reporting entities about TF and circumvention of sanctions has improved significantly, and so has their ability to identify suspicions of TF and circumvention of sanctions (including sanctions not related to terrorism) and to report their suspicions to the FIU according to the AML/CTPF Law and the Sanctions Law. The state authorities' capacity and understanding about TF and circumvention and violation of sanctions has improved.
- 5.1.57. It is to be concluded that **TF risks in Latvia are low**. However, there is a risk that Latvia can be used for TF in the following ways (the list is not exhaustive):
- 5.1.57.1. In case of possible radicalisation of Latvian population, TF may take place as self-financing (incl. by use of financial services);
 - 5.1.57.2. In case of possible radicalisation of Latvian population, TF may take place by acquiring assets from family members or relatives (incl. by use of financial services);
 - 5.1.57.3. Criminals and terrorist groups can use the Latvian financial system for conducting transfers as a part of a complex TF transaction chain.

Characterisation of the NGO's Terrorism Financing Risk

- 5.1.58. As required by FATF's Recommendation 8, countries are obliged to regularly review the adequacy of their regulatory frameworks for organisations that may be abused for TF purposes. The FATF recommendations require countries to implement risk-proportionate measures to protect NGOs from being used for TF purposes.
- 5.1.59. In order to be aware of the risks of TF in the NGO sector and to protect it from being abused for TF purposes, this NRA assesses the risks of ML/TF in the NGO sector. Overall, the conclusion is that the TF risk for the NGO sector is low, as the overall level of TF risk in Latvia is low, while individual transactions by NGOs have an elevated TF risk. The set of Latvian NGOs with TF risks is defined in the chapter "[Risks of Non-Governmental Organisations](#)".

5.2. Proliferation Financing

Threat of Proliferation Financing

- 5.2.1. PF threat means a person, a group of individuals or subject of international law with potential of causing harm by attracting, moving, storing, or using funds and other assets (regardless of whether or not they have been obtained lawfully) for proliferation purposes. PF threat may include persons, groups of individuals or subjects of international law, their funds, as well as previous, current and future PF activities.
- 5.2.2. According to FATF's Recommendation 7, the states must implement targeted financial sanctions in compliance with the resolutions of the UN Security Council combating proliferation and its financing. The UN Security Council resolutions banning proliferation currently apply to 2 countries - North Korea and Iran - but precautions and restrictions also apply to other high-risk countries. Financial institutions and companies that have chosen to cooperate with or service customers conducting transactions with North Korea or Iran, or other high-risk countries should undertake precautionary measures and additional inspections when conducting transactions. When conducting such type of business, they should be aware of the high risks, and each case should be assessed individually.
- 5.2.3. The threat posed by North Korea and Iran are described in detail in the following chapters. However, it is important to note that, during the reporting period, increased proliferation risks related to other countries and certain geopolitical processes were also identified:
- 5.2.3.1. Since Russia's war in Ukraine on 24 February 2022, nuclear risks have increased at civilian nuclear sites in the region, including the occupied Zaporizhzhia NPP. The 10th Review Conference of the Treaty on the Non-Proliferation of nuclear weapons (NPT) in 2022 did not result in a final document because Russia objected to wording on nuclear security in Ukraine.
- 5.2.3.2. China continues to develop strategic arms systems, at the same time demonstrating an evasive attitude towards full participation in arms control, disarmament and non-proliferation mechanisms.
- 5.2.4. Under the FATF's Recommendation 1, countries should identify, assess and understand their inherent PF risks related only to the breach, non-imposition or circumvention of targeted financial sanctions under the FATF's Recommendation 7.
- 5.2.5. The PF risks in this risk assessment are assessed in a broader context than required by international standards, namely, risks of the circulation of goods of strategic significance (GSS) are also assessed. The uncontrolled proliferation of military technologies, biological, chemical and firearms, and other GSS poses a serious threat of terrorism and military clashes. In order to prevent the possible proliferation of weapons of mass destruction and their means of delivery, effective export, import and transit controls on goods of strategic importance are essential, which among other things, form an essential element of Latvia's foreign and security policy.⁴⁵⁵

⁴⁵⁵ Control of the Goods of Strategic Importance. Available at: <https://www.mfa.gov.lv/lv/strategiskas-nozimes-precu-kontrolle>.

- 5.2.6. Cases of PF are hard to identify, as subjects can be both individual natural persons and country. It is particularly important to check international, EU Member State, NATO Member State and Latvian national lists of persons suspected of involvement in terrorist activities or in the manufacture, possession, movement, use or proliferation of weapons of mass destruction, as well as to identify the customer's UBO.

North Korea

- 5.2.7. North Korea has conducted several ballistic missile and nuclear tests, thus clearly violating the resolutions approved by the UN Security Council and creating threat to security not only in the region of Asia, but on the global scale as well. North Korea is subject to a comprehensive sanctions' regime for its nuclear programme, including
- 5.2.7.1. export and import restrictions;
 - 5.2.7.2. arms embargo (to supply, sell or transfer, directly or indirectly, arms and related material of all types, including weapons and ammunition, military vehicles and equipment, paramilitary equipment and spare parts for the aforementioned elements, and to provide technical advice, assistance or training related to military activities);
 - 5.2.7.3. travel restrictions (prohibition of entry into or transit through the territory of the Member States imposed on sanctioned persons);
 - 5.2.7.4. financial restrictions (freezing of all funds and economic resources belonging to, owned, held or controlled by the sanctioned persons and entities, and a prohibition on making any funds and economic resources available to such persons and entities);
 - 5.2.7.5. prohibition on the provision of services (prohibition on the provision of technical assistance, brokering services, financing or financial assistance and other services related to the arms embargo).⁴⁵⁶
- 5.2.8. Under the Sanctions Law, the Cabinet of Ministers may impose national sanctions on its own initiative or on the basis of a proposal from the Minister for Foreign Affairs or a recommendation from the National Security Council. Latvia has imposed national sanctions – financial restrictions – in relation to facilitation of the North Korean political regime and programmes related to nuclear weapons, other weapons of mass destruction or ballistic missiles.⁴⁵⁷ On 25 July 2017, the Cabinet of Ministers adopted Regulation No. 419 "Regulations Regarding Imposition of National Sanctions in Relation to Subjects Linked to the Nuclear Programme and Political Regime Implemented by the Democratic People's Republic of Korea". On the basis of the above-mentioned Cabinet Regulations, the Cabinet issued 2 Orders imposing national sanctions against 3 persons (2 natural persons and 1 legal entity) for relation to proliferation and/or its financing in 2017⁴⁵⁸ and⁴⁵⁹ 2018.
- 5.2.9. EU practice shows that companies registered in the EU are often used for proliferation, including intermediary companies, such as consignment re-export that significantly hinders detection of proliferation. It should also be noted that, according to foreign experts, North Korea has become increasingly adept at sanctions evasion over time and has often used non-financial sector service providers to carry out these activities.⁴⁶⁰
- 5.2.10. During the reporting period, North Korea's nuclear programme, increasing number of missile tests and changes in its nuclear doctrine lowering the threshold for the readiness to use nuclear weapons continued to mark a negative trend in arms control.

⁴⁵⁶ EU's sanctions against the Democratic People's Republic of Korea. Available at: <https://www.mfa.gov.lv/lv/eiropas-savienibas-sankcijas-pret-korejas-tautas-demokratisko-republiku>.

⁴⁵⁷ National sanctions of the Republic of Latvia. Available at: <https://www.mfa.gov.lv/lv/latvijas-republikas-nacionalas-sankcijas>.

⁴⁵⁸ Order No. 390 of the Cabinet of Ministers of 31 July 2017 Regarding Imposition of Financial Restrictions in Relation to Subjects Linked to the Nuclear Programme and Political Regime Implemented by the Democratic People's Republic of Korea. Available at: <https://likumi.lv/ta/id/292553>.

⁴⁵⁹ Order No. 137 of the Cabinet of Ministers of 29 March 2018 Regarding Imposition of Financial Restrictions in Relation to Subjects Linked to the Nuclear Programme and Political Regime Implemented by the Democratic People's Republic of Korea. Available at: <https://likumi.lv/ta/id/298111-par-finansu-ierobeojumu-noteiksanu-attieciba-uz-subjektiem-kas-saistiti-ar-korejas-tautas-demokratiskas-republikas-istenoto-kodolprogrammu-un-politisko-rezimu>.

⁴⁶⁰ North Korean Proliferation Financing and Designated Non-Financial Businesses and Professions. Available at: <https://rusi.org/explore-our-research/publications/emerging-insights/north-korean-proliferation-financing-and-designated-non-financial-businesses-and-professions>

Iran

- 5.2.11. Two sanctions regimes against Iran are in force in the EU. One of them is related to the prohibition of proliferation (UN sanctions are also in relation thereto), the other - to human rights. The Iran sanctions cover a wide range of areas (arms embargo, various export and import restrictions, restrictions on the provision of services, restrictions on financial support, restrictions in the financial sector, restrictions in the transport sector, restrictions on the provision of specialised training, asset freezing, travel restrictions).⁴⁶¹
- 5.2.12. On 14 July 2015, the US, UK, France, Iran, Russia, China, Germany, with the participation of the EU High Representative for Foreign Affairs and Security Policy, reached agreement on a Joint Comprehensive Plan of Action to guarantee the peaceful nature of Iran's nuclear programme and ensure the lifting of sanctions imposed by the UN Security Council, the EU and the US in relation to the Iran's nuclear programme. On 16 January 2016, the EU lifted economic and financial sanctions imposed in relation to the Iran's nuclear programme, but some proliferation-related sanctions remained in effect, such as the arms embargo and sanctions related to missile technologies.
- 5.2.13. On 8 May 2018, the US decided to withdraw from the Joint Comprehensive Plan of Action and to renew sanctions against Iran. It is important to draw attention to the above, as the Sanctions Law and the laws and regulations deriving therefrom require compliance with sanctions imposed by an EU or NATO member state that have a significant impact on financial and capital market participants or financial and capital market interests.
- 5.2.14. During the reporting period, Iran has continued to evade its nuclear non-proliferation commitments, leading to an ever-diminishing prospect of a solution in the international negotiations on the resumption of the Joint Comprehensive Plan of Action.

Vulnerability of Proliferation Financing

- 5.2.15. The concept of PF vulnerability includes those things that can be exploited, supported or facilitated by PF threat actors. Vulnerability can include specific sectors, financial products or types of services whose features make them attractive to the PF. Vulnerabilities may also include gaps in measures provided for prevention of PF or features of the jurisdictional context that may affect the ability of proliferation financiers to raise or move funds or other assets.

Geographical Layout and Circulation of GSS

- 5.2.16. GSS mean military goods, including weapons and explosives, and dual-use items (civil and military), for example, equipment, materials, chemical substances, software, technologies and services. Trade in dual-use items is controlled because they may potentially be used for uncontrolled manufacturing of military technologies or weapons.⁴⁶²
- 5.2.17. Uncontrolled spread of GSS poses a serious threat of terrorism and proliferation. The transfer of certain GSS into the hands of terrorists could pose a significant threat to the security of European and other countries around the world, which is why effective controls on the export, import and transit of GSS are essential.
- 5.2.18. The development of laws and regulations on the circulation of GSS and the control of goods is implemented by the GSS Control Committee, chaired by the Secretary of State of the MoF, operating in a collegial manner and involving a number of Latvian authorities: Ministry of Foreign Affairs, Ministry of Economics, Ministry of Finance, Ministry of Health, Ministry of Defence, State Environmental Service, SP, SSS, CPB, SRS, FIU and the Bank of Latvia.⁴⁶³
- 5.2.19. Control of circulation of GSS in Latvia is stipulated by the Law on the Circulation of Goods of Strategic Significance and Regulation No. 657 of the Cabinet of Ministers of 20 July 2010 "Procedures for Issuing or Refusal to Issue a Licence for Goods of Strategic Significance and

⁴⁶¹ EU sanctions against Iran. Available at: <https://www.mfa.gov.lv/lv/eiropas-savienibas-sankcijas-pret-iranu>.

⁴⁶² Control of the Goods of Strategic Importance. Available at: <https://www.mfa.gov.lv/lv/strategiskas-nozimes-precu-kontrols>.

⁴⁶³ Regulation No. 866 of the Cabinet of Ministers of 4 August 2009 *By-laws of the Committee for Control of Goods of Strategic Significance*. Available at: <https://likumi.lv/ta/id/195928>.

Other Documents Related to the Circulation of Goods of Strategic Significance” stipulating that each import, export or transit transaction of GSS requires a licence for receipt of which an application must be submitted to the MoF.⁴⁶⁴ GSS are goods that are included in the lists of controlled goods of the above-mentioned law. Lists of controlled goods are developed in the international export control regimes – Nuclear Suppliers Group, Wassenaar Arrangement, Australia Group, Missile Technology Control Regime, which are transposed into Council Regulation (EC) No. 2021/821 of 20 May 2021 setting up a Union regime for the control of exports, brokering, technical assistance, transit and transfer of dual-use items and the EU Common Military List and are directly binding to Latvia. Cabinet Regulation No. 645 of 25 September 2007 “Regulations Regarding the National List of Goods and Services of Strategic Significance” stipulates the goods of strategic significance the control of which has been determined at the national level.

- 5.2.20. Latvia provides for administrative liability for infringements in the field of circulation of GSS.⁴⁶⁵ Criminal liability is provided for illegal movement of goods and substances the circulation of which is prohibited or specially regulated across the State border of Latvia, including violation of GSS circulation regulations.⁴⁶⁶
- 5.2.21. There is a risk that Latvian transport infrastructure and favourable geographical location⁴⁶⁷ may be used for transportation of GSS through Latvia to the countries against which sanctions have been imposed in relation to proliferation and to the countries of a high risk of terrorism with an aim of transferring the GSS to terrorist groups. So far, GSS transfer or sale to criminal groups has not been detected in Latvia.
- 5.2.22. During the reporting period, 65 criminal proceedings were initiated under Section 237¹ of the Criminal Law "Violation of the Provisions for the Circulation of Goods of Strategic Significance" (29 in 2020, 22 in 2021 and 14 in 2022).⁴⁶⁸ Descriptions of case study below provide more detailed information on the violations of the provisions for the circulation of goods of strategic significance detected during the reporting period and the criminal proceedings initiated.

Case Study No. 5.2.1

A Latvian logistics company purchased a dual-use grinding machine from the US and informed the US manufacturer that the end-use country of the product was Latvia. Upon receipt of the goods, an export declaration was drawn up for export of the machine to Russia. Upon request for technical parameters of the product, parameters were provided suggesting that the product was not dual-use and that its export to Russia was allowed. Upon contacting the US manufacturer, it was found that the Latvian company had provided the manufacturer with a false end-user certificate and the export control department with false technical parameters, as the product was dual-use. The case was investigated, and criminal proceedings were initiated, and the goods were returned to the US.

Case Study No. 5.2.2

A citizen of Russia, active in the trade in medical goods in Latvia and the EU, bought missile guidance and navigation equipment from the US. The goods did not qualify for dual-use status, but they are used in the military sphere. A Latvian company wanted to export them to Russia. After the cargo was detained, the Latvian firm informed that the goods were intended for 3D printers, which produce medical equipment. On the basis of suspicions about the true end-use, coordination with the US export control

⁴⁶⁴ Cabinet Regulation No. 657 of 20 July 2010 *Procedures for Issuing or Refusal to Issue a Licence for Goods of Strategic Significance and Other Documents Related to the Circulation of Goods of Strategic Significance*. Available at: <https://likumi.lv/ta/id/214394-kartiba-kada-izsniedz-vai-atsaka-izsniegt-strategiskas-nozimes-precu-licences-un-citus-ar-strategiskas-nozimes-precu-apriti-saj>.

⁴⁶⁵ Law on the Circulation of Goods of Strategic Significance - Section 20. *Latvijas Vēstnesis*, 107, 05.07.2007 Available at: <https://likumi.lv/doc.php?id=159963>.

⁴⁶⁶ Criminal Law - Section 190¹, Section 237¹. *Latvijas Vēstnesis*, 199/200 (1260/1261), 08.07.1998 Available at: <https://likumi.lv/ta/id/88966>.

⁴⁶⁷ Latvia is a suitable place for organisation of transit and logistics among the countries of the EU, CIS, and Asian markets. The border of Latvia with Belarus and Russia is also the external border of the EU. Potentially interesting is also the option of Northern-Southern Corridor, connecting the Baltic Sea region with India.

⁴⁶⁸ Data extracted from the MoI Information Centre DWH database.

authorities and the manufacturer led to the confiscation and return of the goods to the US. Duration of the operation - 6 months until the goods were returned.

Case Study No. 5.2.3

An EU Member State wanted to send GSS - aerial bombs - to Turkmenistan in transit through a Latvian port. The bombs were taken by ship to the port of Riga to be unloaded in Riga and transported overland by Russian carriers to Turkmenistan (the ship's cargo consisted only of aviation bombs). Following a risk assessment, the master of the vessel was warned against unloading cargo in Riga and entering the port of Riga. Despite the warning, the ship anchored off Riga and spent a month trying to get permission to unload the cargo. The vessel was refused entry into the port and the cargo was transferred by ship to the original exporter.

Case Study No. 5.2.4

A citizen of Belarus, who owns companies in several EU countries, registered an LLC in Latvia with the intention to transit EU technology through Latvia to Belarus to supply the military industry. An initial attempt to export a dual-use item resulted in a refusal, followed by attempts to export items that are close to dual-use items or have uses, including in the military industry. Criminal proceedings were initiated in these cases.

5.2.23. During the reporting period, the Committee for Control of GSS issued 2,670 licences (Table 5.2.1). In three years, 80,172 requests for the identification of goods have been processed. When assessing the risks of the end recipient country, international commitments and restrictions, as well as regional stability and security, the Committee for Control of GSS has refused to transport cargoes in 183 cases in 2022.

Table 5.2.1 - Number of licences issued by the Committee for Control of GSS

Year	Export Licence	Import Licence	Transit Licence	Movement of Goods from the EU to Latvia	Movement of Goods from Latvia to the EU	Total
2020	126	90	44	242	64	566
2021	168	207	40	292	141	848
2022	298	278	15	401	264	1256

5.2.24. In 2020-2022, the proportion of GSS in transit decreased compared to the previous reporting period (Table 5.2.2). During the reporting period, dual-use items were mainly moved in transit to the United Arab Emirates, Belarus and Kazakhstan (Table 5.2.3). Dual-use items that are moved in transit to these countries have been inspected in detail by the Committee for the Control of GSS, and appropriate licences have been issued. During the reporting period, cases of attempts to illegally transport dual-use items using Latvian transit routes were detected (Case Study No 5.2.4).

Table 5.2.2 - GSS import, export and transit ratio

Direction	Amount (EUR million)	Ratio (%)
2017-2019		
Import	172.263	37
Export	246.955	54
Transit	40.454	9
Total 2017-2019	459.671	100
2020-2022		
Import	154.055	24.3
Export	458.526	72.4
Transit	20.317	3.2
Total 2020-2022	632.898	100

Table 5.2.3 - Transit of dual-use items through Latvia for 2020, 2021 and 2022

Transit of National Use Items (%)	Amount (EUR million)	Ratio to Total Transit of Dual-Use Items (%)
United Arab Emirates	0.5	2.47
Belarus	5.72	28.23
Kazakhstan	0.005	0.2
Russia	8.461	41.76
Sri Lanka	0.073	0.36
Tunisia	0.098	0.48
Uganda	2.74	13.52
Ukraine	0.155	0.76
Vietnam	2.511	12.39
Total Transit	20.263	100

5.2.25. In the area of exports, the highest number of licences was issued in relation to Ukraine. Military goods have been shipped to Australia, Switzerland, Great Britain (20 licences), Norway, New Zealand, South Africa, the USA (29 licences) and Ukraine (30 licences). Dual-use items have been exported to Ukraine (23 licences), China (22 licences), Israel (11 licences), Hong Kong (6 licences), Turkey (5 licences), Nigeria, Mexico, Malaysia, Indonesia, India, Thailand, Taiwan, Tajikistan, Singapore, Saudi Arabia, Uzbekistan, Philippines, South Korea, Armenia, Argentina, United Arab Emirates and South Africa. The high number of export licences to China can be explained and is attributable to only one type of items and one Latvian producer (Table 14.3). Licensing processes are monitored and controlled.⁴⁶⁹

5.2.26. Following the Russian hostilities in Ukraine in 2022, significant changes in exports of GSS can be observed. The volume of GSS intermediaries has fallen significantly. Use of Latvian logistics companies as intermediaries for the re-export of dual-use items (metalworking machine and chips) manufactured in the EU and the USA to third countries - in particular to Russia and Belarus - was identified in the past. There was also a significant drop in the activity of Latvian intermediaries that exported aviation spare parts manufactured in Russia (Latvian National List items), given that they were included in the EU sanctions.

⁴⁶⁹ Control of the Goods of Strategic Importance. Available at: <https://www.mfa.gov.lv/lv/strategiskas-nozimes-precu-kontrolle>.

- 5.2.27. In view of the above, it is important to note that Latvia has not issued any GSS licences for exports to Russia and Belarus after 24 February 2022, although other EU countries continue to supply these goods under the exemptions specified in the sanctions. In 2022, majority of export licenses issued were intended directly for GSS of Latvian producers, with the exception of military shipments to Ukraine, where partner countries' military goods are exported. The main areas of products manufactured in Latvia are UAVs, radiation monitoring equipment, navigation equipment, thermal cameras for unmanned airborne vehicles, optical components, ammunition and thermal sights. Increase in production of these items and other GSS during the reporting period is also the reason for the increase in exports ([Table 14.3](#)).
- 5.2.28. Overall, there were no significant breaches or attempts to circumvent EU sanctions in the area of GSS during the reporting period, as Russia and Belarus were not the main markets for Latvian producers in the area of GSS, even before the imposition of comprehensive sanctions in connection with the Russian military aggression in Ukraine. It was noted that, after 24 February 2022, there were attempts to find new markets in Central Asia and China for non-strategic supplies of chips, which could indirectly indicate that they would fall into Russian hands. This trend has now significantly declined ([Table 14.3](#)).

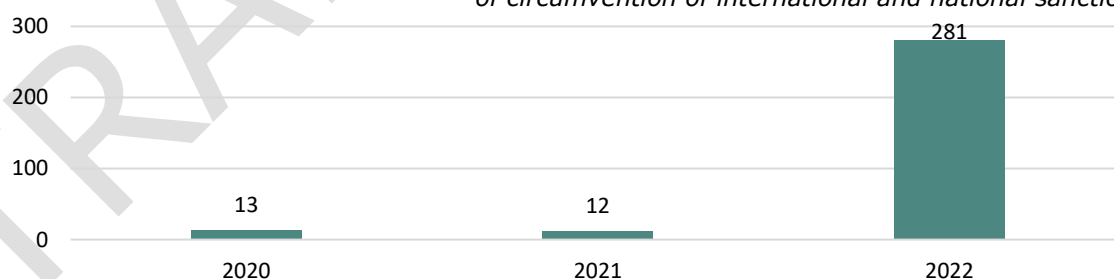
Vulnerability of Financial Services

- 5.2.29. Vulnerability of financial services has been assessed and described in depth in the chapter "[Terrorism Financing](#)". Vulnerabilities described and the risk mitigation measures implemented are also applicable to the vulnerability of the financial sector to being used for PF purposes.⁴⁷⁰

Reports on Suspicious Transactions

- 5.2.30. During the reporting period, the FIU received 1 suspicious transaction report where the credit institution suspected a PF. Although the number of reports received during the reporting period is low, the competent authorities consider that this is due to a number of factors, namely the average low threat of PF in Latvia, as well as the decrease in cross-border flows (further explanation given in Clause [5.1.1](#)).
- 5.2.31. This vulnerability is mitigated by the fact that the entities subject to the AML/CTPF Law have demonstrated a high level of ability to identify suspected circumvention of sanctions unrelated to the PF during the reporting period. In 2022, the number of reports of circumvention of international and national sanctions received by the FIU increased significantly, mostly related to sanctions imposed against Russia in response to its military invasion of Ukraine (Chart 5.2.1). For more information, see "[Assessment of the Risks of Breaches and Circumvention of Sanctions](#)".

Chart 5.2.1 - Reports received by the FIU regarding suspicion of circumvention of international and national sanctions



- 5.2.32. Given that there is a large overlap in the typologies of circumvention of sanctions (regardless of whether the sanctions are proliferation-related), this data reduces the vulnerability of Latvia's national PF, as the reporting entities are able to identify the typologies of circumvention of sanctions. The fact that the reporting entities are able to identify suspicion related to circumvention of non-proliferation-related sanctions leads to the conclusion that the reporting entities also have sufficient capacity to identify suspected PF.

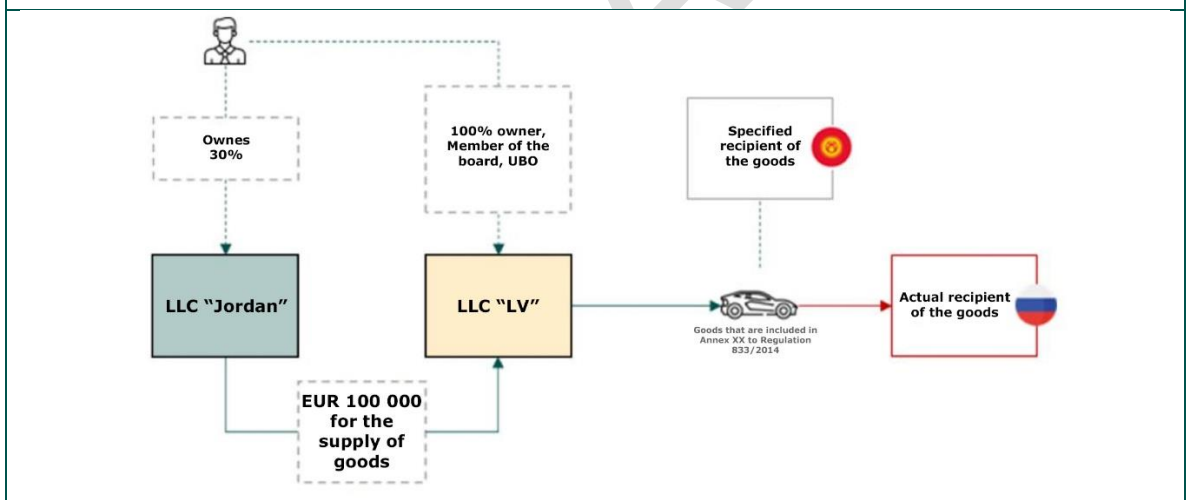
⁴⁷⁰ Other potential vulnerabilities are described in the Sanctions chapter and in the High Risk Services chapter.

Case Study 5.2.5 - Circumvention of Sectoral Sanctions

The FIU has received information about the possible delivery of a luxury car worth more than EUR 50,000 to Russia. Pursuant to Regulation 833/2014, sale, delivery, transfer or export of such items to any natural or legal person, entity or body in, or for use in, Russia is prohibited. This is evidenced by the following facts and circumstances:

- LLC "Jordanija", a company registered in Jordan, requested payment of the amount in excess of EUR 100,000 for a customer of the Latvian credit institution LLC "LV" for the purchase of a vehicle.
- The application stated a citizen of Kyrgyzstan as the final recipient, although the purchase price is paid by the LLC "Jordanija".
- The business activities of the LLC "LV" are not related to the sale of cars.
- In order to justify the transaction, the LLC "LV" submitted documents to the Latvian credit institution with signs of fictitious documents and forgery. At the same time, no import declaration has been submitted to certify the car's import into Kyrgyzstan.
- There is no public information available that the car is registered in Kyrgyzstan. At the same time, there is public information available that the car with the vehicle identification number in question is registered in Russia.
- The ownership structure of the LLC "Jordanija" shows that the LLC "Jordanija" is partly owned through several legal entities by a natural person who is also a Board Member 100% shareholder and a UBO of the LLC "LV".

After analysing the suspicious transaction report submitted by the Latvian credit institution and carrying out additional financial intelligence, FIU forwarded information to the competent law enforcement authority.



- 5.2.33. Despite the above and the fact that the overall quality of the reports received is satisfactory and the reporting entities demonstrate the application of a risk-based approach to the assessment of transactions, further measures are required to improve the knowledge of the reporting entities, thereby also increasing the rate of reporting of suspected PF.

Financial Intelligence and Criminal Proceedings


- 5.2.34. The FIU did not receive any requests or informative reports from foreign services related to the PF during the reporting period. Information related to PF would be dealt with on an urgent basis and assessed in depth with regard to the need to order the freezing of assets, the provision of information to pre-trial investigative authorities or other actions within the competence of the FIU.
- 5.2.35. During the reporting period, the FIU issued freezing orders in the amount of EUR 235,571.53 on the basis of information at its disposal which suggests that a criminal offence - breach of

sanctions - has been committed. It should be noted that none of these asset-freezing orders apply to funds related to the PF or to the violation of proliferation-related sanctions. The freezing orders are related to the circumvention of sanctions imposed against Russia and Belarus in connection with the military aggression in Ukraine.

- 5.2.36. During the reporting period, in 4 cases, the FIU has provided information (opinion of the competent authority) to the SSS, where the information provided has given rise to reasonable suspicion that the criminal offence "Violation of Sanctions Imposed by International Organisations and the Republic of Latvia" as defined in Section 84 of the Criminal Law has been committed. There were also 26 risk information reports, and, in 4 cases, additional information was provided to criminal proceedings already under way. None of these reports are about PF or violations of proliferation-related sanctions.
- 5.2.37. During the reporting period, no criminal proceedings were initiated under Section 73¹ of the Criminal Law "Financing of Manufacture, Storage, Movement, Use and Distribution of Weapons of Mass Destruction". Whereas, for statistics on the increasing number of criminal proceedings initiated under Section 84 of the Criminal Law "Violation of Sanctions Imposed by International Organisations and the Republic of Latvia" during the reporting period, see the chapter ["Assessment of risks of violation and circumvention of sanctions"](#).
- 5.2.38. It should also be noted that, during the reporting period, the Public Prosecutor's Office of the Republic of Latvia has neither received from a foreign country nor sent to a foreign country any request for criminal legal assistance regarding criminal offences provided for in Sections 73 and 73¹ of the Criminal Law. This also shows, among other things, that the risks of PF in Latvia are not high.
- 5.2.39. Overall, it can be concluded that the reporting entities are able to identify typologies of sanctions evasion (regardless of whether the sanctions are proliferation-related), the FIU is able to perform its statutory duties to stop the flow of possible proceeds of crime when it is related to a possible sanctions violation and to provide information to pre-trial investigative authorities. As noted above, there is considerable overlap between the typologies of PF and sanctions evasion. Consequently, the authorities make a factual assumption that the vulnerability of the Latvian national PF is not high, as both the reporting entities, the FIU and the investigative authorities are able to prevent and combat sanctions evasion. Consequently, the public authorities believe that if suspicions of PF are identified, the public authorities will be able to investigate them in a professional manner.

Risks of Proliferation Financing

- 5.2.40. The responsible public authorities consider the risk of PF in Latvia to be moderately low. PF threats are caused by the persons and subjects of international law with potential of causing harm by attracting, moving, storing, or using proceeds and other assets (regardless of whether or not they have been obtained lawfully) for proliferation. The main identified international PF threats are posed by North Korea and Iran, while theoretically there are also other PF threats. North Korea and Iran are subjected to sanctions and thus their persons, that are related to proliferation, are forced to conduct transactions through complex payment schemes by using services of very vulnerable financial institutions.
- 5.2.41. The responsible public authorities consider the vulnerability of PF in Latvia to be moderately low. The Latvian financial sector is well-developed, and it provides the services that can be used for PF. Latvia is a suitable place for organisation of transit and logistics among the countries of the EU, CIS, and Asian markets. There is a risk that Latvian transport infrastructure and favourable geographical location may be used for transportation of GSS through Latvia to the countries against which sanctions have been imposed in relation to proliferation and to the countries of a high risk of terrorism with an aim of transferring the GSS to terrorist groups. At the same time, there are effective control mechanisms for GSS circulation in Latvia.
- 5.2.42. It has been established that PF risks in Latvia are **medium low**. There is a risk that Latvia can be used for PF in the following ways (the list is not exhaustive):
- 5.2.42.1. Criminals may use the Latvian financial system for transfers as a part of a complex PF transaction chain or to violate the sanctions in relation to proliferation.

- 
- 5.2.42.2. Criminals may use the Latvian financial system for transfers as a part of a complex transaction chain when transporting GSS through other countries while transferring financial assets through financial service providers registered in Latvia.
 - 5.2.42.3. Criminals may use the Latvian transport infrastructure and favourable geographical location when transporting the GSS through Latvia to the countries against which sanctions have been imposed and to the countries of a high terrorism risk with an aim of transferring the GSS to terrorist groups.

TRANSLATION

6. Assessment of the Risks of Sanctions Violation and Circumvention

- 6.1.1. NRA 2023 identifies the risks of sanctions violation and circumvention inherent to Latvia. According to the WB methodology used to develop the NRA 2023, and through according adaption, this assessment of risks of sanctions violation and circumvention for the purposes of determination of risk level also analyses the threat of and vulnerability to sanctions violation and circumvention, as well as determines the level thereof.
- 6.1.2. The level of threat and vulnerability of sanctions violation and circumvention inherent to Latvia is based on an assessment of the following aspects: legal framework; financial flows; geographical location; monitoring of sanctions implementation; sufficiency of resources and capacity; reporting indicators on sanctions violation and circumvention, etc. Furthermore, measures taken during the reporting period for the mitigation of risks of sanctions violation and circumvention have been assessed, as well as measures to be taken further have been defined.
- 6.1.3. Taking into consideration the fact that the regulatory framework classifies sanctions according to their content, i.e., financial restrictions; civil legal restrictions; entry restrictions; restrictions on the movement of goods of strategic importance and other goods; restrictions on the provision of tourism services, and not all of the listed types of sanctions have the same high risks of violation, they should be assessed separately.
- 6.1.4. It should be noted that the NRA 2023 assessed in depth the risks of violation of financial restrictions and restrictions on the movement of goods of strategic importance and other goods, or sectoral sanctions, because these types of sanctions have prevailed in the reporting period in terms of their frequency and complexity of implementation, their implementation has required significant resources from both private and public law entities, as well as certain gaps have been identified in the system of sanctions implementation at the level of the EU, including Latvia.

Regulatory Framework

- 6.1.5. A detailed description of the regulatory framework for enforcement of sanctions is provided in the FIU's 2022 Risk Assessment "Risks of Money Laundering, Terrorism and Proliferation Financing and Sanctions Violations in the Public Sector", available on the FIU's website.⁴⁷¹

Threats

- 6.1.6. The threat of sanctions violations may be posed by subjects of sanctions whose interests lie in circumventing the restrictions imposed by sanctions, as well as by persons other than subjects of sanctions who may seek, for profit or otherwise, to assist subjects of sanctions to carry out prohibited transactions or to continue their economic activities in sectors that are subject to sectoral sanctions.
- 6.1.7. During the reporting period, the current national threat of sanctions violations arising from sanctions imposed in relation to terrorism or proliferation have been assessed within the framework of this NRA and are described in the chapter "[National Terrorism Financing and Proliferation Financing Risk Assessment](#)".
- 6.1.8. Although the EU has more than 40 different sanctions regimes in force against various subjects of sanctions,⁴⁷² taking into consideration the current geopolitical situation and Latvia's geographic location, it is undoubtedly the EU sanctions imposed on Latvia's neighbours - Russia and Belarus - that pose the most significant threat of sanctions violations in Latvia.
- 6.1.9. Within the context related to the geographical location of Latvia, the fact that a large number of foreigners who have been previously granted TRPs in Latvia are Russian and Belarusian nationals creates threat of sanctions violation and circumvention. As at 1 July 2021, 44,361

⁴⁷¹ Risks of ML and sanctions violation in the public sector. Available at: https://fid.gov.lv/uploads/files/2022/Publisk%C4%81%20sektora%20risku%20nov%C4%93rt%C4%93jums_08062022.pdf.

⁴⁷² EU Sanctions Map. Available at: <https://www.sanctionsmap.eu/#/main>.

foreigners held valid TRPs issued in Latvia. Of these, 22% (9,795) were issued to Russian nationals and 5% (2,353) to Belarusian nationals.⁴⁷³ Russian and Belarusian nationals (residing both Latvian and abroad) also own capital shares in several Latvian companies.⁴⁷⁴ By the end of 2022, Russian citizens are most frequently registered as non-resident UBOs of legal entities registered in Latvia (3,287 or 22% of all registered non-resident UBOs).⁴⁷⁵ These factors indicate a strong presence of nationals of these countries (especially Russia) in the Latvian financial system and access to the necessary infrastructure to take possible actions for sanctions violation and circumvention.

Threat of Sectoral Sanctions Violation and Circumvention

- 6.1.10. Due to its geographical location, Latvia has historically developed close economic cooperation with both Russia and Belarus (Table 6.1.1), which poses a significant risk of violation of sectoral sanctions. At the end of the reporting period, the value of exported goods is on a downward trend, while the value of goods imported from Russia in 2022 has slightly increased compared to 2021. It is important to note that the share of imports and exports to these countries (of Latvia's total imports and exports) is declining.
- 6.1.11. In 2021, the most frequent imports from Russia were mineral products (EUR 623 million, 35%), as well as iron and steel goods (EUR 459 million, 26%), but, in 2022 - mineral fuels, mineral oils and their distillation products; bituminous substances; mineral waxes (EUR 1 billion, 51%) and cereals (EUR 78 million, 3.9%). Whereas, the most frequently imported products from Belarus in 2021 were wood and wood products (EUR 149 million, 60%), but in 2022 - animal, vegetable or microbial fats and oils and their cleavage products; ready edible fats; animal or vegetable waxes (EUR 48 million, 7%).

Table 6.1.1 - Exports and imports with Russia and Belarus in 2021 and 2022⁴⁷⁶

	Country	Year	Rank among countries to which Latvia exported/imported goods	Value of exported/imported goods (EUR)	Share of total value of exported/imported goods
Export	Russia	2021	5th place	1.1 billion	7.3%
		2022	4th place	1.20 billion	5.6%
	Belarus	2021	20th place	0.1 billion	1.1%
		2022	22nd place	0.18 billion	0.9%
Import	Russia	2021	4th place	1.7 billion	9.1%
		2022	5th place	1.8 billion	6.9%
	Belarus	2021	12th place	0.4 billion	2.4%
		2022	16th place	0.30 billion	1.1%

- 6.1.12. The flow of payments made by the customers of Latvian credit institutions to Russian credit institutions after the financial sector overhaul has a clear downward trend (Chart 6.1.1 and Chart 6.1.2). This trend continued also during the reporting period, which was also significantly affected by the EU sanctions imposed against Russia. While in 2021 Russian credit institutions were still among the most frequent recipients and senders of payments (Russia ranked 4th after Lithuania, Estonia and Germany), in 2022, Russian credit institutions that received and sent payments ranked only 12th.⁴⁷⁷

⁴⁷³ Number of TRPs as of 1 July 2021. Available at https://www.pmlp.gov.lv/uzturesanas-atlaujas?utm_source=https%3A%2F%2Fwww.google.com%2F.

⁴⁷⁴ At the same time, it should be noted that, during the reporting period, Russian and Belarusian citizens were prohibited from obtaining a TRP in Latvia by investing in capital companies.

⁴⁷⁵ Information provided by the RoE.

⁴⁷⁶ Central Statistical Bureau, Official Statistics Portal, *Exports and imports by countries, groups of countries and territories*. Available at: https://data.stat.gov.lv/pxweb/lv/OSP_PUB/START_TIR_AT_ATD/ATD020.

⁴⁷⁷ Data provided by the Bank of Latvia.

Chart 6.1.1 - Cross-border payments made by the customers of Latvian credit institutions to Russian credit institutions, EUR billion

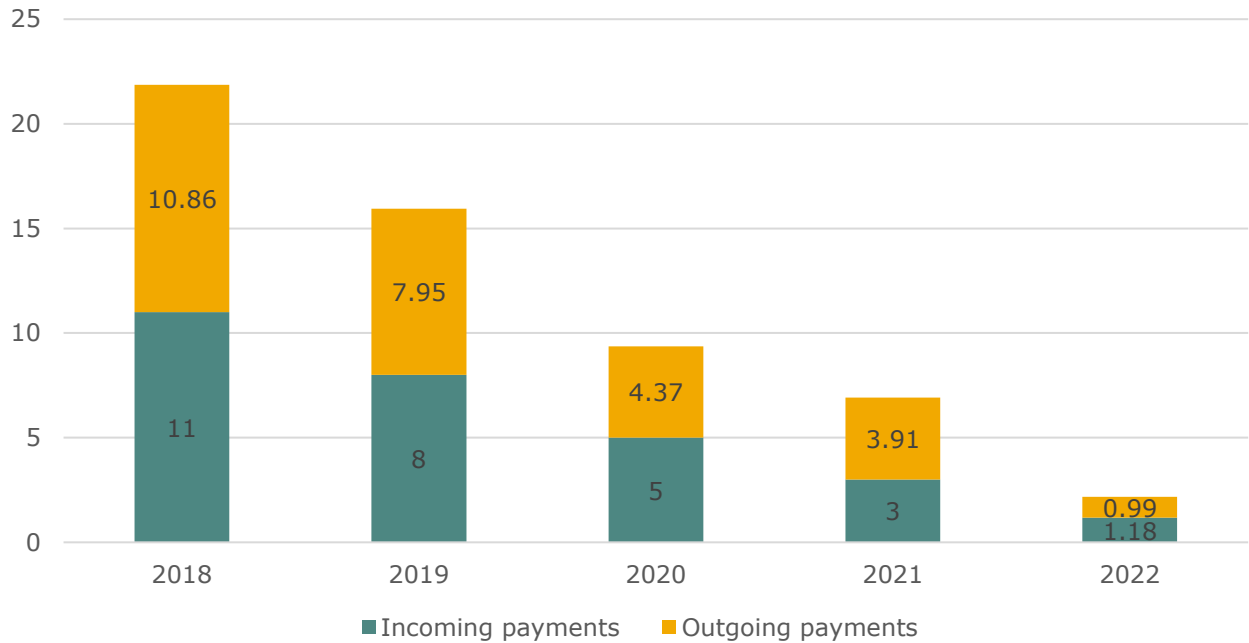
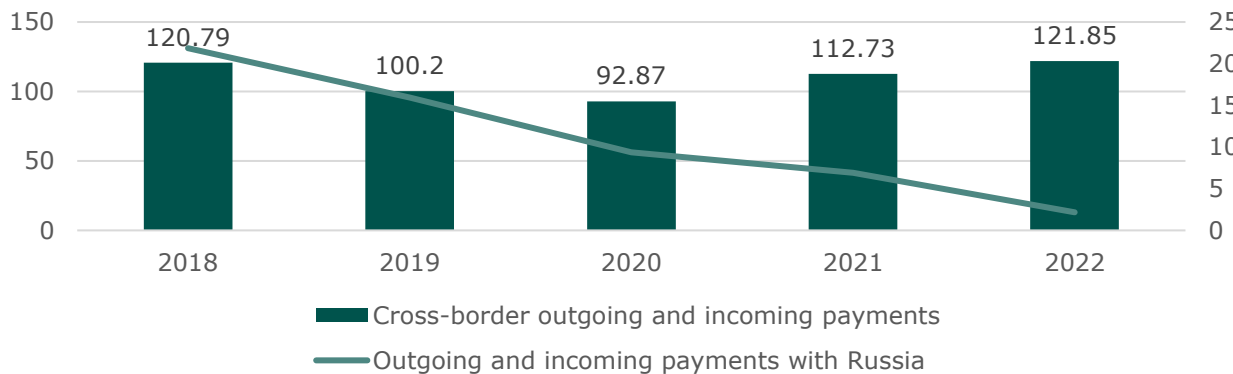


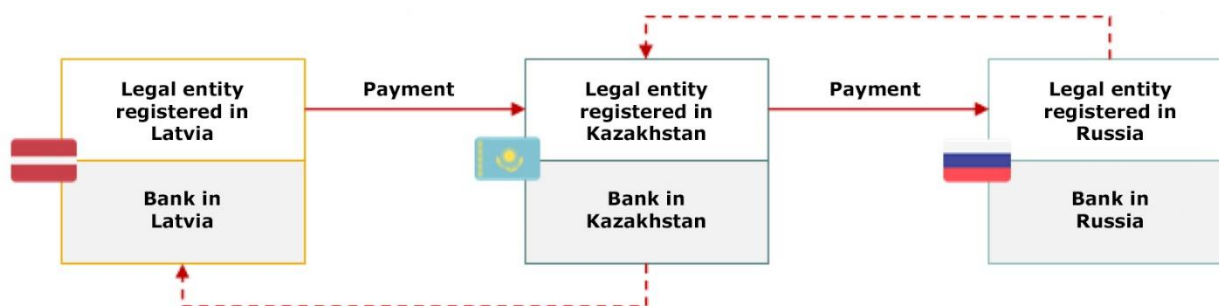
Chart 6.1.2 - Customers of Latvian credit institutions cross-border payments, EUR billion



6.1.13. After the sanctions entered into effect, the Bank of Latvia monitored the flow of payments to and from countries that could potentially be used to circumvent the sanctions. The monitoring data showed a significant drop in payments to and from Russia, but, at the same time, there was a trend of increased payment flows to countries such as Kazakhstan, Azerbaijan, Turkey, Armenia and China in the second quarter of 2022. The Bank of Latvia has also analysed changes in export/import data of 2020-2022 to/from Russia, Belarus and Central Asia. There is a significant increase in 2021 and 2022 to the same countries where the increase in payment flows is observed. The trend remained similar in the third and fourth quarters of 2022. The second and third quarters of 2022 showed an increase in payments to and from the UAE. As a part of their transaction monitoring, credit institutions are focusing on the risks stemming out of this trend, which has led to the identification of specific typologies of sanctions circumvention (Schematic representation 6.1.1).⁴⁷⁸

⁴⁷⁸ A year in the sign of sanctions against Russia: risks still remain high. Available at: <https://www.bank.lv/component/content/article/678-aktualitates/raksti/16386-gads-krievijai-piemeroto-sankciju-zime-riski-joprojam-saglabajas-augsti>.

Schematic representation 6.1.1 - Schematic representation of the typology of sanctions circumvention



- 6.1.14. The fact that Latvia is exposed to a high threat of sectoral sanctions violation and circumvention is evidenced also by the volume of cargoes rejected at the Latvian border. As a result of the sanctions imposed against Russia and Belarus and the resulting increased border controls on goods subject to sanctions, operational activities carried out by the SRS Customs Department resulted in the rejection of 3,257 shipments of goods in 2022, preventing the export, import or transit of certain types of goods to Russia and Belarus.⁴⁷⁹
- 6.1.15. According to the information provided by the SRS Customs Department the following methods of sectoral sanctions violation and circumvention are frequently detected:
- 6.1.15.1. Traders try to import sanctioned goods into the EU using incompatible Combined Nomenclature product codes. This mainly applies to timber from Russia and Belarus, as EU sanctions prohibit the import of raw timber or building materials, but allow the import of timber constructions, so traders try to import timber by declaring it as ready-built constructions.
 - 6.1.15.2. EU traders tried to export goods to Russia at a reduced value to avoid being subject to the luxury goods sanctions (value of the goods may not exceed EUR 300).
 - 6.1.15.3. Traders use double sets of documents to submit one set in Latvia and another in Russia (e.g. according to the documents submitted to the SRS Customs Department, goods are destined e.g. for Kazakhstan, but the goods are actually destined for Russia).
 - 6.1.15.4. Carriers are issued with several accompanying documents containing different information on descriptions and codes, consignors, consignees, and delivery addresses in order to avoid customs controls in the area of sanctions.
- 6.1.16. Taking into consideration all of the abovementioned, the threat of sectoral sanctions violation and circumvention in Latvia should be assessed as **high**.

Threat of Violating and Circumventing Financial Restrictions

- 6.1.17. When assessing the size of deposits from sanctioned countries, it should be noted that deposits from domestic and EU customers prevail in Latvian credit institutions accounting for 95.4% of total deposits in December 2022. According to the information provided by the Bank of Latvia, the volume of deposits of the CIS countries, including Russia and Belarus, in Latvian credit institutions is relatively small.
- 6.1.18. Deposits of natural persons and legal entities subject to sanctions are subject to the requirements of Section 5(1) of the Sanctions Law, i.e., all funds and financial instruments owned, possessed, held or controlled, directly or indirectly, in whole or in part, by the sanctioned person, including those transferred to third parties, are subject to freezing. According to the information compiled by the Bank of Latvia, the amount of such funds frozen in Latvian credit institutions as at the end of the day on 30 December 2022 was approximately EUR 81.4 million. 6 natural persons who are directly exposed to sanctions and 35 legal entities which are not directly included in the sanctions lists have been identified, but ownership or control of these legal entities by persons included in the sanctions lists has been established,

⁴⁷⁹ In 2023 (until 1 June), the SRS Customs Department has prohibited cross-border movement of sanctioned goods in 1,680 cases. Available at: <https://nra.lv/latvija/419497-vid-sacis-170-kriminalprocesus-par-sankciju-pret-krieviju-un-baltkrieviju-parkapsanu.htm>.

resulting in the freezing of their funds and securities.⁴⁸⁰ The frozen assets are frozen in relation to the 2022 sanctions against Russia and Belarus. This demonstrates the ability of the institutions involved in the sanctions enforcement system to enforce financial restrictions, which significantly reduces the risks of sanctions violation and circumvention.⁴⁸¹

- 6.1.19. Similarly, Section 5, Paragraph Two of the Law on Sanctions stipulates that the subject of sanctions, in relation to whom civil legal restrictions have been imposed, is prohibited from acquiring and alienating tangible and intangible property to which ownership or other property rights should be registered, corroborated or made public in public registers. Civil legal restrictions shall be applied in such a way as to prevent the subject of the sanctions from obtaining financial or economic benefit (funds, goods, services) through the use of economic resources.⁴⁸² According to the information available on the website of the Ministry of Justice, which has a coordinating role in the imposition of sanctions in relation to the registers maintained by the State, the acquisition and disposal of 82 vehicles (cars, boats, tractor-type machinery), 77 immovable properties, 34 capital shares of legal entities and other items are subject to the above prohibitions.⁴⁸³
- 6.1.20. Furthermore, it should be noted that the reforms of financial sector have been performed, including the improvement of the regulatory framework and supervisory and control mechanisms, has, inter alia, significantly reduced the threat of violation and circumvention of international and national sanctions. This is evidenced by the fact that a significant part of the financial resources of non-resident legal entities belonging to sanctioned entities, which have the characteristics of a shell arrangement, are frozen in credit institutions under liquidation.
- 6.1.21. Due to its geographical location, Latvia has historically developed close economic cooperation with both Russia and Belarus, which poses not only a threat of violating sectoral sanctions, but also a threat of violating financial sanctions. Thus, the threat of violating financial restrictions is not only posed by subjects of sanctions who have an interest in circumventing the restrictions stipulated by the sanctions, but also by persons other than subjects of sanctions who may seek to engage in transactions contrary to the financial sanctions, for profit or other purposes. Persons owning various companies in Russia and outside its territory (including in EU Member States), credit institutions, thus increasing the risk that Latvian persons, when carrying out economic activities related to Russia or Belarus, may directly or indirectly transfer funds or economic resources also to a person subject to financial sanctions.
- 6.1.22. Taking all of the above into consideration, the risk of violating and circumventing financial restrictions in Latvia should be assessed as **medium**.

Vulnerability

- 6.1.23. The concept of vulnerability to sanctions violation can be understood as those things that can be exploited, supported or facilitated by elements that pose a threat of sanctions violation. Vulnerability can include specific sectors, financial products or types of services whose characteristics make them attractive for sanctions violation. Vulnerability may also include insufficiencies in measures designed to prevent the sanctions violation or features of the jurisdictional context that may affect the ability of sanctions violators to raise or move funds or other assets.
- 6.1.24. A factor to consider when assessing the level of vulnerability is the ability of persons in charge of reporting to identify and report suspected sanctions violations and circumvention. The obligation to report violation or circumvention of international or national sanctions is laid down in Section 17 of the Sanctions Law. Persons under the supervision of competent authorities (e.g. credit institutions, external accountants, sworn notaries, etc.) are obliged to: (1) immediately, but not later than on the next working day, report to the SSS the violation or attempted violation of international or national sanctions and the funds frozen as a result

⁴⁸⁰ It should be noted that this data refers to amounts frozen directly in light of the EU sanctions against Russia and Belarus in 2022 only, and not other international sanctions.

⁴⁸¹ Update on the amount of funds frozen in Latvian financial institutions. Available at: <https://www.bank.lv/darbibas-jomas/uzraudziba/finansu-noziegumu-noversana/sankcijas-pret-krieviju-un-baltkrieviju#latvijas-finansu-iestades-iesaldeto-lidzeklu-apmers-12-05-2023>.

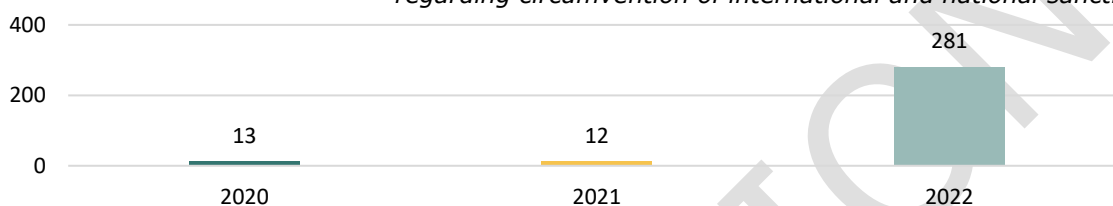
⁴⁸² Regulation of the Cabinet of Ministers No. 327 *Procedures for the Proposition and Enforcement of International and National Sanctions*, Paragraph 3. *Latvijas Vēstnesis*, 142, 15.07.2019 Available at: <https://likumi.lv/ta/id/308141-starpautisko-un-nacionalo-sankciju-ierosinasanas-un-izpildes-kartiba>.

⁴⁸³ Data on sanctions imposed in registers maintained by the State. Available at: <https://www.tm.gov.lv/lv/dati-par-piemerotajam-sankcijam-valsts-uzturetajos-registros>.

thereof and inform the relevant competent authority thereof; (2) if there is a suspicion of circumvention of international or national sanctions or an attempt to circumvent financial restrictions, report it to the FIU in accordance with the procedure stipulated in the AML/CTPF Law.

- 6.1.25. Number of reports received by the FIU regarding suspected or attempted circumvention of international and national sanctions has increased significantly since the invasion of Ukraine by Russian forces in February 2022, with 281 such reports received in 2022 (Chart 6.1.3). Reports of suspected or attempted circumvention of international and national sanctions are given the highest priority by the FIU and each such report received is assessed and analysed by the FIU in depth.

Chart 6.1.3 - Suspicion reports received by the FIU regarding circumvention of international and national sanctions



- 6.1.26. When assessing the reports received by the FIU regarding suspected or attempted circumvention of international and national sanctions, it can be concluded that the vast majority (around 70%) concern suspected violation and circumvention of sectoral sanctions. This, inter alia, confirms the conclusions of the threat section that Latvia is exposed to a higher risk of violating and circumventing sectoral sanctions than financial restrictions.
- 6.1.27. In order to ensure a common understanding of the imposition of sanctions, as well as to strengthen the awareness and capacity of the authorities responsible for reporting to identify suspicious transactions that may be indicative of sanctions violations and circumvention, the material "Indicators of circumvention of sanctions imposed against Russia" was developed in 2022.⁴⁸⁴ The publicly available material includes indicators arising from suspicious transaction reports which are at the disposal of the FIU, as well as findings of other institutions and five Latvian credit institutions.
- 6.1.28. In order to reduce the vulnerability related to the ability of the subjects in charge of reporting to inform the competent authorities about potential cases of sanctions violation and circumvention, as well as to provide the necessary methodological support in the interpretation of the regulatory framework, namely, when to report to the SSS and when to report to the FIU, guidelines "Reporting suspicious transactions and refraining from conducting transactions" have been developed. 2nd updated version".⁴⁸⁵
- 6.1.29. Overall, the awareness and knowledge of the subjects in charge of reporting on violation and circumvention of sanctions continued to grow during the reporting period, which is an important vulnerability mitigating factor. The regularly received reports received by the FIU and the SSS demonstrate the ability of whistleblowers to spot a typical transaction and identify suspicions that may indicate on possible violation and circumvention of sanctions. The rapid increase in the number of reports in 2022 is also a positive sign, namely, the ability of subjects in charge of reporting to respond to new rounds of sanctions adopted by the EU, which broadened the scope of restrictions and the range of persons subject to sanctions.
- 6.1.30. In 2022, based on reports received on suspected or attempted circumvention of international and national sanctions, the FIU sent to the LEAs 23 competent authority opinions, 5 risk information reports and, in 4 cases, additional information to ongoing criminal proceedings.

⁴⁸⁴ Material "Indicators of circumvention of sanctions imposed against Russia". Available at: https://fid.gov.lv/uploads/files/2022/Pret_Krieviju_noteikto_sankciju_apiesanas_indikatoru.pdf

⁴⁸⁵ Guidelines on Suspicious Transaction Reporting and Refraining from Transactions. 2nd updated version. Available at: https://fid.gov.lv/uploads/files/2023/vadlinijas/FID_Zi%C5%86o%C5%A1anas%20vadl%C4%ABnijas_2.%20redakcija_21022023.pdf.

- 6.1.31. In 2022 and in the second quarter of 2023, the SRS TCPD initiated 170 criminal proceedings under Section 84 of the Criminal Law "Violation of Sanctions Imposed by International Organisations and the Republic of Latvia" (114 in 2022 and 56 in the first two quarters of 2023).
- 6.1.32. During the reporting period, 9 criminal proceedings were initiated under Section 84 of the Criminal Law "Violation of Sanctions Imposed by International Organisations and the Republic of Latvia". In 2020, 2 criminal proceedings were initiated, one of which was referred to the public prosecutor's office for commencement of prosecution against 14 natural persons and 1 legal entity, and the other is in the records of the SSS. In 2021, 1 criminal proceeding was initiated, and it is currently in the records of the SSS. Whereas, in 2022, 6 criminal proceedings were initiated - (1) 1 criminal proceedings against 1 natural and 1 legal entity resulted in a judgement of conviction; (2) 2 criminal proceedings were dismissed; (3) 3 criminal proceedings are in the records of the SSS.
- 6.1.33. While the competent authorities of the sanctions enforcement system have been able to react promptly and grant the necessary resources to ensure continuous and proactive cooperation in response to the most rapidly deployed EU sanctions to date, the absence of a centralised competent authority is a major vulnerability. Currently, the enforcement system of sanctions is decentralised in Latvia, i.e., responsibilities are divided among several competent authorities. In some cases, this creates obstacles to swift action to enforce sanctions and has a negative impact on the development of a common and structured practice on various enforcement issues, such as decision-making on authorisations for exemptions from sanctions; decision-making on sanctions against legal entities based on ownership or control criterion; absence of a single authority to provide advisory support to natural persons and legal entities on sanctions-related issues, etc.
- 6.1.34. Given that Latvia has so far operated a decentralised sanctions enforcement mechanism, several new cooperation formats have been introduced in response to the unprecedented pace and scale of the imposition of sanctions:
- 6.1.34.1. In order to develop a common approach to the imposition of sanctions, an informal institutional coordination platform - the Sanctions Consilium - has been established, where institutions exchange experience and harmonise their understanding of issues related to imposition of sanctions.
- 6.1.34.2. A Sanctions Working Group, bringing together experts from the public and private sectors, has been established in accordance with the procedure laid down in Section 55(2) of the AML/CTPF Law.⁴⁸⁶ The Working Group was set up and is operating with the aim to develop a common understanding of circumvention and violation of sanctions, as well as to discuss trends and typologies of circumvention of sanctions in regular and proactive manner.
- 6.1.34.3. In order to develop a common approach to the application of sanctions at the level of the Baltic States, an informal coordination platform of the competent authorities of the Baltic States - the Sanctions Working Group - was established in 2022 on the initiative of the Bank of Latvia; within the framework of this platform, every two weeks, representatives of the responsible authorities from Latvia, Estonia and Lithuania share their experiences, inform on current developments, and address common problem situations, identify trends in sanctions violation and circumvention, and, where possible, harmonise their understanding of the imposition of sanctions on various issues.
- 6.1.34.4. In addition, *ad hoc* meetings of competent authorities or working groups are organised to address specific sanctioning issues requiring the involvement of different authorities.
- 6.1.34.5. During the reporting period, the Sanctions Coordination Council continued active work. It is a consultative body set up by the Cabinet of Ministers to facilitate the exchange of information between public authorities and the private sector to share good practice in compliance with and imposition of sanctions. The Council is made up of 34 representatives from the public and private sectors.⁴⁸⁷

⁴⁸⁶ The FIU, the public prosecutor's office, the SSS, the Bank of Latvia, the SRS, "Swedbank" JSC (AS), "Luminor Bank" JSC (AS) Latvian Branch, JSC (AS) "SEB banka", JSC (AS) "Citadele banka", "BluOr Bank" JSC (AS).

⁴⁸⁷ During the reporting period. Available at: <https://www.mfa.gov.lv/lv/sankciju-koordinacijas-padome>.

- 6.1.34.6. The competent authorities in the field of sanctions enforcement have implemented various awareness-raising activities both for the special subjects of the Sanctions Law and for the public. For example, the MoFA⁴⁸⁸ and the Bank of Latvia⁴⁸⁹ collect and maintain together various information materials on their websites, including guidelines and advice, as well as summaries of "frequently asked questions and answers" on sanctions.⁴⁹⁰ Seminars on various issues related to the implementation of sanctions are also regularly organised, for example, a seminar on sanctions in transactions with countries at high risk of sanction circumvention, organised by the competent authorities (Bank of Latvia, FIU, SRS Customs Department) in cooperation with the Finance Latvia Association and the Latvian Chamber of Commerce and Industry. This seminar was not only streamed on YouTube platform, but the recorded video was also publicly available on the Finance Latvia Association's website for all interested parties.⁴⁹¹ It should be noted that other competent authorities have also taken various information measures, and the measures described are only illustrative.
- 6.1.34.7. The FIU provides information to the SRS Customs Department on weekly basis on natural persons and legal entities included in the reports of suspected circumvention of sanctions received by the FIU. Representatives of the SRS Customs Department have acknowledged that it is a valuable source of information when carrying out operational activities at the border.
- 6.1.34.8. Cooperation and information exchange with the SSS is also strengthened through bi-weekly meetings to discuss specific cases of sanctions violation and circumvention and their progress.
- 6.1.35. It is important to draw attention to a number of shortcomings and the lack of harmonisation of the regulatory framework in the sanctions enforcement system at the EU level, which, naturally, have a direct negative impact on and complicate the sanctions implementation practice also at the Latvian level. Regulatory requirements vary considerably and are not consistent across jurisdictions:
- 6.1.35.1. Violation of the EU sanctions is not a criminal offence in all EU Member States. This creates situations where business is relocated to jurisdictions with more liberal sanctioning requirements.
- 6.1.35.2. Third countries' refusal to impose sanctions on Russia and Belarus, which significantly expands the possibilities to circumvent the EU sanctions.
- 6.1.35.3. Different approach and understanding when determining ownership of persons included in the sanctions lists or control in legal entities not directly included in the sanctions lists.
- 6.1.36. It is important to draw attention to the risk exposure of entrepreneurs to be involved in violation and circumvention of sectoral sanctions. Although all the persons, including every company, are obliged to fully comply with EU sanctions under EU regulations and national laws and regulations, the regulatory framework does not require an assessment of the risks of sanctions violation and circumvention inherent to economic activity. There is a risk that entrepreneurs may be involved in schemes of sectoral sanctions violation and circumvention through ignorance, lack of information or inability to navigate the restrictions. This also applies to the threat of financial restrictions. The Finance Latvia Association's website has published an informative material "Five steps for companies to comply with sanctions", which provides advice to help companies comply with the EU sanctions imposed against Russia and Belarus, as well as to help identify possible risks of sanctions violation and circumvention.⁴⁹²

⁴⁸⁸ MoFA: Information materials. Available at: <https://www.mfa.gov.lv/lv/informativie-materiali>.

⁴⁸⁹ Bank of Latvia: Sanctions against Russia and Belarus. Available at: <https://www.bank.lv/darbibas-jomas/uzraudziba/finansu-noziegumu-noversana/sankcijas-pret-krieviju-un-baltkrieviju>.

⁴⁹⁰ MoFA: Information materials. Available at: <https://www.mfa.gov.lv/lv/informativie-materiali>.

⁴⁹¹ Finance Latvia Association. Video Seminar on sanctions in transactions with countries at high risk of sanctions evasion. Available at: <https://www.financelatvia.eu/news/video-seminars-par-sankcijam-darjumos-ar-paaugstinata-sankciju-apsesanas-riska-valstim/>.

⁴⁹² Finance Latvia Association. Five steps for companies to comply with sanctions. Available at: <https://www.financelatvia.eu/news/pieci-soli-sankciju-ieverosana-uznemumiem/>.

Vulnerability to Sanctions Violation and Circumvention

- 6.1.37. In accordance with Section 397(7) of the Criminal Procedure Law, officials authorised by the SRS TCPD investigate criminal offences in the field of state revenue and customs affairs, including cases of sectoral sanctions violation and circumvention. The workload of the SRS TCPD investigations and support units has increased significantly due to the increasing number of criminal proceedings initiated and investigated regarding breach of the EU sanctions. In this context, it is important to note that, although the volume of work and load of the SRS TCPD has increased significantly, its capacity and resources have not been strengthened.⁴⁹³ The workload of the SRS Customs Department has also increased, taking into consideration the increased controls on the Latvia's external border with the EU.
- 6.1.38. The fact that the sectoral sanctions imposed on sectors of the Russian and Belarusian economies are inconsistent creates significant risks of sanctions violation and circumvention. In other words, the items included in the sanctions lists that are subject to export, import or transit restrictions are different. For example, Regulation No. 833/2014⁴⁹⁴ stipulates that the EU is prohibited from directly or indirectly purchasing, importing or transferring coal and other products listed in Annex 22 of that Regulation, including peat briquettes falling within CN code 2703 00 00, if they originate in or are exported from Russia. At the same time, Regulation No. 765/2006⁴⁹⁵ does not prohibit import of the product in question, peat briquettes, from Belarus.
- 6.1.39. Taking into consideration all of the above, the vulnerability to sectoral sanctions violation and circumvention in Latvia should be assessed as **medium-high**.

Vulnerability to Violation and Circumvention of Financial Restrictions

- 6.1.40. Private-law bodies play a particularly important role in enforcing financial restrictions. In practice, the enforcement of financial restrictions may take the form, for example, of a credit institution freezing all funds in the account of a natural person subject to financial restrictions.
- 6.1.41. In order to reduce the vulnerability of private-law bodies (e.g. credit institutions, outsourced accountants, sworn notaries, etc.) to being involved in sanctions violation or circumvention, Section 13.¹ of the Sanctions Law obliges them to carry out an assessment of the risk of sanctions violation and circumvention and to establish an ICS.⁴⁹⁶ These duties are supervised by the relevant competent authority (for example, credit institutions are supervised by the Bank of Latvia). Violations of requirements of international and national sanctions are subject to liability, which may manifest as suspension of activity of the private-law body or imposition of a large fine. It is also important to take into consideration the significant reputational risks arising from possible direct or indirect involvement in activities related to sanctions violation and sanctions circumvention.
- 6.1.42. Vulnerability of the aforementioned participants of financial sector is, among other things, mitigated by the use of automated sanctions compliance tools (e.g. screening of customers, their UBOs and others against sanctions lists or *sanctions screening*). However, it is important to note that in cases where subjects of sanctions exercise ownership or control of an undertaking only indirectly, for example through a complex ownership structure involving a chain of companies or fiduciaries, such control can only be established through due diligence measures. For example, changes to the ownership structure of companies registered in Latvia may be sought in other jurisdictions where companies involved in the ownership structure of Latvian companies are registered, which may also have different understanding of the imposition of sanctions or where EU sanctions are not imposed at all. This can lead to different understandings of whether or not a company should be exposed to financial restrictions.

⁴⁹³ In addition to the additional workload related to the increased institution and investigation of criminal proceedings regarding breach of the EU sanctions, the 2020 SAO Audit Report *Assessment of Factors Impeding the Investigations and Trials of the Criminal Offences in the Area of Economics and Finances* indicates that the SRS TCPD has a significant backlog of criminal proceedings regarding criminal offences in the area of finances and economics. Available at: <https://www.lrvk.gov.lv/lv/getrevisionfile/29451-9N0xF5QxFfijkjVCe1yEvqXHRvSShChAF.pdf>.

⁴⁹⁴ Council Regulation (EU) No. 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's activities destabilising the situation in Ukraine. Available at: <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:02014R0833-20230205>.

⁴⁹⁵ Council Regulation (EC) No. 765/2006 of 18 May 2006 concerning restrictive measures against Belarus. Available at: <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3A02006R0765-20170228>.

⁴⁹⁶ Section 13¹ of the Sanctions Law. *Latvijas Vēstnesis*, 31, 15.02.2016 Available at: <https://likumi.lv/ta/id/280278-starptautisko-un-latvijas-republikas-nacionalo-sankciju-likums>.

6.1.43. The 2018 amendments to the AML/CTPF Law, which prohibited a number of reporting entities from entering into and maintaining business relationship or conducting an occasional transaction with a shell arrangement if it simultaneously meets two of the three characteristics of a shell arrangement under the AML/CTPF Law, have also significantly reduced the vulnerability to sanctions violation and circumvention. Following changes in the regulatory framework, the banking sector of Latvia saw a significant decline in the number of shell arrangements and the amount of their deposits. During the reporting period, this trend remained, namely, the number of customers conforming to one of the statutory characteristics of a shell arrangement continued to decrease, as, consequently, did the amounts of their activities (Table 6.1.2).⁴⁹⁷

Table 6.1.2 – Number of shell arrangements

	2020	2020, %	2021	2021, %	2022	2022, %
Total number of customers	2,660,025	-	2,580,817	-	2,573,716	-
Shell entities	975	0.04	660	0.03	535	0.02
including in Latvia	52	0.002	56	0.002	47	0.002
including in other EU countries	225	0.01	152	0.01	134	0.01

6.1.44. A number of solutions introduced in Latvia, freely available to those responsible for enforcement of sanctions, significantly facilitate the implementation of financial restrictions, thereby also reducing the risks of non-compliance:

6.1.44.1. The UBO register, which makes information on a legal entity's UBOs available in the form of open data, is an essential tool for the successful enforcement of financial restrictions. Along with the entry of the sanctions into effect, the UBO register has made it possible to identify those legal entities whose UBOs are the subjects of sanctions, thus implementing the restrictions set out in the regulatory framework applicable to legal entities owned or controlled by the subjects of sanctions.

6.1.44.2. The MoJ, which has the coordinating role in the imposition of sanctions in relation to the registers maintained by the State, publishes the EU sanctions imposed and implemented by these registers⁴⁹⁸ in order to provide the public and the media with transparent and truthful information on the sanctions applied, to ensure effective application of sanctions and to enable individuals to protect their legitimate interests and comply with the requirements set out in the regulatory enactments in relation to transactions with specific subjects and objects.⁴⁹⁹

6.1.44.3. In order to provide information on the subjects of sanctions (natural persons or legal entities or other identifiable subjects) subject to international and national sanctions, the FIU maintains lists of the subjects of sanctions on its website <https://sankcijas.fid.gov.lv/en>. This list is regularly updated and ensures that information on subjects of sanctions is available at the same place. Besides, following the entry of new sanctions into effect, the FIU shall update the sanctions list and forward the updated list to the competent authorities without delay.

6.1.45. Taking into consideration all of the above, the vulnerability to violation and circumvention of financial restrictions in Latvia should be assessed as **medium**.

⁴⁹⁷The data provided by the Bank of Latvia concerns those shell arrangements the cooperation is allowed with, as they do not meet certain criteria for prohibiting such activities.

⁴⁹⁸ Court Administration, RoE, Patent Board, State Joint-Stock Company "Ceļu satiksmes drošības direkcija" (Road Traffic Safety Directorate), State Joint-Stock Company "Latvijas Jūras administrācija" (Latvian Maritime Administration), State Technical Supervision Agency, Agricultural Data Centre, State Agency "Civilās aviācijas aģentūra" (Civil Aviation Agency).

⁴⁹⁹ Data on sanctions imposed in registers maintained by the State. Available at: <https://www.tm.gov.lv/lv/dati-par-piemerotajam-sankcijam-valsts-uzturetajos-registros>.



Risks

- 6.1.46. Taking into consideration the fact that the threat of violation and circumvention of financial restrictions in Latvia is medium and the vulnerability to violation and circumvention of financial restrictions is medium, it should be concluded that **the level of risk of violation and circumvention of financial restrictions should be assessed as medium.**
- 6.1.47. Taking into consideration the fact that the threat of sectoral sanctions violation and circumvention in Latvia is high and that the vulnerability to sectoral sanctions violation and circumvention is medium-high, it can be concluded that **the risk level of sectoral sanctions violation and circumvention should be assessed as medium-high/high.**

TRANSLATION

7. Scenarios of Risks of Terrorist Financing, Proliferation Financing and Sanctions Violation and Circumvention

- 7.1.1. In order to develop an understanding of how the risks identified in the chapters "National Terrorism Financing Risk Assessment", "National Proliferation Financing Risk Assessment" and "National Sanctions Violation and Circumvention Risk Assessment" apply to the sectors represented by the reporting entities, this chapter provides scenarios for TF, PF and sanctions violation and circumvention risks, and identifies the sectors of the Deterrence Law Entities where they are likely to be realised. The scenarios included are identified in the practice for prevention of violation and circumvention of TF, PF and sanctions in the EU Member States and other countries. Some of the methods included in the scenarios are more common, while others are very rare. At the same time, it is important to note that criminals are finding new ways and methods to carry out criminal activities, so the list of scenarios should not be considered exhaustive.

Scenarios of Terrorism Financing Risks

7.2. National Terrorism Financing Risks

- 7.2.1. TF1. In case of possible radicalisation of the residents of Latvia, TF may take place as self-financing (incl. by using financial services).
- 7.2.2. TF2. In case of possible radicalisation of Latvian population, TF may take place by acquiring assets from family members or relatives (incl. by using financial services).
- 7.2.3. TF3. Criminals and terrorist groups can use the financial system of Latvia for conducting transfers as a part of a chain of complex transactions for terrorism financing.

7.3. Terrorism financing risks in various sectors

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.1.	Credit institutions	Cash withdrawal abroad	Payment cards issued by Latvian financial institutions are used to make withdrawals in high TF-risk jurisdictions, their neighbouring countries or territories close to them.	TF1, TF2	Low

- 7.3.2. The reports received by the FIU during the reporting period, as well as the discussions with credit institutions during the CCG meetings confirm that the sector is aware of this risk scenario and monitors transactions in line with the risks inherent in their geography.

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.3.	Credit institutions, FCT	Currency exchange in cash	Cash is exchanged for foreign currency to be delivered to high TF-risk areas to finance foreign fighters. ⁵⁰⁰	TF3	Low

⁵⁰⁰ European Commission, Commission staff working document accompanying the document "Report from the commission to the European Parliament and the council on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities". Page 60. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022SC0344&from=EN>.

7.3.4. The SNRA concludes that a currency swap from USD to EUR is particularly attractive for these activities.⁵⁰¹ According to the AML/CTPF Law, FCT and credit institutions are obliged to carry out customer due diligence, including customer identification, for foreign currency cash purchase or sale transactions with the amount or total amount of several seemingly related transactions exceeding EUR 1,500.⁵⁰²

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.5.	PI/EMI, credit institutions	Cross-border money remittance	A money remittance is made in Latvia for the purpose of TF using a Latvian PI/EMI or representatives of a foreign PI/EMI.	TF2, TF3	Low

7.3.6. Terrorist groups have been found to prefer small cross-border money remittances to various jurisdictions in order to avoid suspicion.⁵⁰³ PI/EMIs that provide a wide geography of remittances are more vulnerable - in the case of Latvia, these are foreign PI/EMIs. For example, "Latvijas Pasts" as a PI provides money remittances to 26 countries, at the same time, money remittances to 80 countries are possible through "Latvijas Pasts" as a representative of a foreign PI.⁵⁰⁴

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.7.	Credit institutions, PI/EMI	Non-cash transfers	Radicalised locals use payment service provider accounts to perform TF.	TF1, TF2	Low

7.3.8. TF in this scenario is more likely to be carried out using funds of non-criminal origin and the amounts of the transfers would be small, making it very difficult to identify such payments without additional information from the security authorities.

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.9.	Credit institutions, PI/EMI	Non-cash transfers	Criminals and terrorist groups use accounts of Latvian payment service providers to hide, store or transfer funds intended for TF.	TF3	Low

7.3.10. During the reporting period, the number and volume of transactions of credit institutions' customers - shell arrangements that meet one of the characteristics of a shell arrangement under the AML/CTPF Law - continued to decrease, which naturally also reduces TF risks. It should be noted that credit institutions have also demonstrated the ability to identify and report evasion of national and international sanctions during the reporting period.

⁵⁰¹ Ibid, page 60.

⁵⁰² Section 11, Paragraph One, Clause 2, Sub-clause c) of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>.

⁵⁰³ European Commission, Commission staff working document accompanying the document *Report from the commission to the European Parliament and the council on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities*. Page 75 Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022SC0344&from=EN>.

⁵⁰⁴ Latvijas Pasts, *Money remittances*. Available at: https://www.pasts.lv/lv/privatpersonam/finansu_pakalpojumi/naudas_parvedumi/#par-naudas-parvedumiem.

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.11.	VC service providers	Changing a VC for a different VC	A Latvian VC service provider is used to change VC for a different VC for TF purposes, making it difficult to trace the funds.	TF1, TF3	Low

7.3.12. Crypto-asset transactions typically involve remote customer relations and provide anonymity, and are difficult or impossible to trace. The cross-border element and the speed with which transactions can be carried out make VCs particularly attractive to criminals seeking to carry out illegal transfers between jurisdictions and to operate across national borders.⁵⁰⁵ The SNRA indicates that the number of TF cases involving crypto-assets is on the upward trend.

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.13.	VC service providers	Purchase of VC using cash	Latvian VC service providers are used to change cash for VCs, subsequently sent to the VC address specified by the buyer thus performing TF.	TF1, TF3	Low

7.3.14. One of the services offered by VC service providers in Latvia entailing a higher TF risk is the purchase of VC using cash by sending funds to the VC address indicated by the buyer. The risk of a scenario occurring is mitigated by an examination of the relevant VC address provided by the buyer (anonymous wallet, third party wallet, etc.).

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.15.	Credit institutions, licensed consumer loan service providers	Consumer loan	In case of radicalisation of local residents, self-financing is carried out through consumer loan or similar services.	TF1	Low

7.3.16. Foreign practice shows that in other EU countries, consumer loans are used to finance the travel expenses of foreign fighters from the EU to high TF-risk countries.⁵⁰⁶ While the most frequently identified service in foreign TF cases is consumer loan, similar risk scenarios apply to credit cards, as well as leasing service (the leased product is sold shortly after purchase).

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.17.	Precious metals traders	Trade in precious metals, precious stones, and their products	Cash is converted into gold and other precious metals and stones or other liquid high-value commodities for delivery to high TF risk areas.	TF3	Low

⁵⁰⁵ Report from the Commission to the European Parliament and the Council on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. Page 97 Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022SC0344&from=EN>.

⁵⁰⁶ Ibid, page 107.

7.3.18. The main threat to the trade in precious metals and gems comes from terrorist groups' demand for gold, diamonds and other precious stones because they are cheap to store and easy to convert into cash. Gold is widely used as means of payment in war zones, and both gold and other precious metals and stones can also be used in TF.⁵⁰⁷

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.19.	-	Trade in precious metals, precious stones, and their products	Couriers from Latvia transport cash (including large denominations) or high-value goods and deliver them to high TF-risk areas.	TF3	Low

7.3.20. Couriers can use air, water or rail to transport cash or high-value goods across State borders. Cash can be hidden in parcels, containers where the presence of a courier is not needed for the whole journey.⁵⁰⁸

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.21.	Persons active in the circulation of art and antiques, dealers in cultural monuments	Sale of antiques	Terrorist groups in conflict zones acquire artefacts and antiquities, which are sold to raise funds for the TF.	TF3	Low

7.3.22. According to the SNRA, trafficking in such items is one of the largest categories of criminal trade.⁵⁰⁹ It should be noted that transporting and importing such items into the EU is quite difficult and terrorist groups are likely to choose to dispose of them in locations closer to conflict zones.

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.23.	Payment service providers	Non-cash transfers	Funds are covertly or overtly raised for TF purposes as donation or investments (e.g. through crowdfunding platform, NGO).	TF1, TF3	Low

7.3.24. NGOs can be used to funnel funds under the guise of donations into high TF risk areas to finance foreign fighters. The level of risk for NGOs varies depending on the sources of funding, how funds are distributed, type of activity and other aspects. This risk is increased by *de-risking*, i.e., when NGOs do not have access to services provided by the financial sector.⁵¹⁰

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.3.25.					

⁵⁰⁷ Ibid, page 165.

⁵⁰⁸ Report from the Commission to the European Parliament and the Council on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. Page 175 Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022SC0344&from=EN>.

⁵⁰⁹ Ibid, page 153.

⁵¹⁰ Ibid, page 240.

	PPSs (providers of professional services)	Non-cash transfers	Professional Latvian ML service providers are involved in a complex chain of transactions to provide TF.	TF1, TF3	Low
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7.3.26. The services provided by professionals are mainly used for legitimate purposes, but there may be cases where expertise of these professionals is used to commit criminal activities, including TF. In this sector, the involvement of experts varies from ensuring seemingly legitimate transactions and the necessary documentation to advice on circumvention of regulatory requirements and setting up of complex schemes.⁵¹¹

Scenarios of Proliferation Financing Risks

7.4. National Risks of Proliferation Financing

7.4.1. PF1. Criminals may use the Latvian financial system for transfers as a part of a chain of complex transactions for the purposes of proliferation financing or violation of sanctions imposed in relation to proliferation.

7.4.2. PF2. Criminals may use the Latvian financial system for transfers as a part of a chain of complex transactions when transporting GSS through other countries while transferring financial assets through financial service providers registered in Latvia.

7.4.3. PF3. Criminals may use the Latvian transport infrastructure and favourable geographical location when transporting the GSS through Latvia to the EU-sanctioned countries and to the countries of a high terrorism risk with a purpose of transferring the GSS to terrorist groups.

7.5. Risks of Sectoral Proliferation Financing

7.5.1. Given the large overlap in sanctions circumvention typologies (irrespective of whether the sanctions are proliferation-related), the risk scenarios in this section are complemented by risk scenarios included in the chapter "Scenarios of risks of sanctions violation and circumvention".

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.5.2.	Credit institutions, PI/EMI	Non-cash transfers	PF is implemented by non-sanctioned persons or entities through payment service provider accounts by performing transactions for the benefit of another person who is in turn on the sanctions list.	PF1, PF2	Low

7.5.3. In this risk scenario, the PF may be disguised by a complex series of transactions and a complex ownership structure of legal entities. Given that the number and volume of transactions of Latvian credit institutions' customers - shell arrangements that meet one of the characteristics of a shell arrangement set out in the AML/CTPF Law - continued to decrease during the reporting period, the PF risk associated with service of such customers also decreases.

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.5.4.	Credit institutions, PI/EMI	Non-cash transfers	EU-sanctioned countries in the area of PF and	PF1, PF2	Low

⁵¹¹ Ibid, page 187.

			countries of a high terrorism risk organise the flow of PF-related funds through persons in border areas.		
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7.5.5. Given the large overlap in sanctions circumvention typologies (irrespective of whether the sanctions are proliferation-related) and the fact that the reporting entities have demonstrated high capabilities to identify suspicion and report circumvention of sanctions other than related to PF during the reporting period, the likelihood of occurrence of this risk scenario is low.

	Sectors	Service	Risk scenario	National TF risks	Probability of risk occurrence
7.5.6.	PPSs (providers of professional services)	Establishment of legal entities	PPSs establish legal entities and complex arrangements of legal entities which are used for circumvention of sanctions, for concealment of UBOs, movement of illicit GSSs (both through and outside Latvia).	PF1, PF2, PF3	Medium

7.5.7. PPS are exposed to the risk of implementation of sanctions circumvention and PF by sanctioned persons covertly, through other persons and organisations, including by using the sectoral services to set up legal entities necessary for PF schemes. This can include the use of established legal entities to carry out illegal movement of GSS under the guise of complex business schemes.

7.6. Scenarios of Risks of Sanctions Violation and Circumvention

7.6.1. The summarised scenarios of risk of sanctions violation and circumvention are identified both in reports received by the FIU and in the practice of foreign institutions. Some risk scenarios are less frequent, but other sanctions violations and methods and techniques are more prevalent and frequent. It is important to note that the defined risk scenarios may vary in each case, or only part of them may be identified.

7.6.2. Given the large overlap in the typologies of sanctions circumvention (irrespective of whether the sanctions are proliferation-related), the risk scenarios in this section complement the list of risk scenarios in the chapter "Scenarios of proliferation financing risks".

Risk Scenarios Related to the Activities of Latvian Legal Entities or Natural Persons and Sector

	Sectors	Service	Risk scenario	Type of sanctions	Probability of risk occurrence
7.6.3.	Credit institutions, PI/EMI, PPS	-	A Latvian legal entity that has not carried out economic activity for a long period of time (<i>shelf company</i>) is involved in a chain of transactions for the purpose of violation or circumvention of sanctions.	Financial restrictions, sectoral EU sanctions	Medium

7.6.4.	Credit institutions, PI/EMI, PPS	-	A Latvian natural person or legal entity not sanctioned by the EU engages as an intermediary in transactions with subjects of sanctions or performance of transactions of such persons operating in sectors affected by the EU sanctions.	Financial restrictions, sectoral EU sanctions	Medium high
7.6.5.	Credit institutions, PI/EMI, PPS	-	A newly established Latvian legal entity carries out transactions with legal arrangements established in the CIS countries and countries that do not impose EU sanctions against Russia, with the purpose to violate or circumvent the sanctions.	EU sectoral sanctions	Medium high
7.6.6.	Credit institutions, PI/EMI, PPS	-	A Latvian legal entity operating in a sector affected by the EU sanctions starts trading in similar goods, but under product codes for which sanctions have not been imposed in order to violate or circumvent the EU sanctions.	EU sectoral sanctions	High
7.6.7.	Credit institutions, PI/EMI, PPS	-	A Latvian legal entity conducts an import or export transaction with a business partner in Russia, in a neighbouring country of Russia or in a jurisdiction that does not impose EU sanctions against Russia, where the delivery route is unreasonably long/illogical (involving multiple intermediaries, multiple transshipments).	EU sectoral sanctions	High
7.6.8.	Credit institutions, PI/EMI, PPS	-	A Latvian legal entity exports goods to a country or territory sanctioned by the EU and falsifies documents (information about the goods, the real recipient of the goods, the place of receipt).	EU sectoral sanctions	High

7.6.9.	Credit institutions, PI/EMI, PPS	-	In order to justify suspicious transactions with a subject of the EU sanctions entity, a Latvian legal or natural person submits retroactive documents (agreements and contracts pre-date the entry of the sanctions into effect) or documents with signs of forgery.	Financial restrictions, sectoral EU sanctions	High
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7.6.10. During the reporting period, several methods of a legal entity trying to circumvent the EU sectoral sanctions against Russia and Belarus related to the cross-border movement of goods have been highlighted: the legal entity indicates incorrect and inaccurate commodity codes, transactions involve legal entities in countries that do not impose sanctions against Russia and Belarus, and these countries are often a step on the way to the delivery of a sanctioned item on the sanctions list. The high probability of these risk scenarios is also reflected in the observed trend of financial flows, namely, increased payment flows to countries such as Kazakhstan, Azerbaijan, Turkey, Armenia and China in the second quarter of 2022.⁵¹²

	Sectors	Service	Risk scenario	Type of sanctions	Probability of risk occurrence
7.6.11.	Credit institutions, PI/EMI, PPS	Non-cash transfers	Latvian natural persons or legal entities use accounts opened in the CIS countries and countries that do not impose sanctions against Russia to violate or circumvent sanctions.	Financial restrictions, sectoral EU sanctions	High
	Credit institutions, PI/EMI, PPS	-	A Latvian natural person or legal entity directly or indirectly linked to a subject of sanctions engages in unusual transactions with VC.	Financial restrictions, sectoral EU sanctions	Medium

Risk Scenarios Related to the Ownership Structure of Latvian Legal Entities or Assets Owned by Latvian Natural Persons

	Sectors	Service	Risk scenario	Type of sanctions	Probability of risk occurrence
7.6.12.	Credit institutions, PI/EMI, PPS	-	Sanctioned Latvian legal entities, without economic or legal justification, institute changes in the ownership structure shortly before or after the entry of sanctions into effect (a relative or	Financial restrictions	Low

⁵¹² A year in the sign of sanctions against Russia: risks still remain high. Available at: <https://www.bank.lv/component/content/article/678-aktualitates/raksti/16386-gads-krievijai-piemeroto-sankciju-zime-riski-joprojam-saglabajas-augsti>.

			related person is registered as a UBO or owner, etc.).		
7.6.13.	Credit institutions, PI/EMI, PPS	-	Owners of a sanctioned Latvian legal entity sell stock or capital shares shortly before or after the sanctions come into effect below market value to legal entities or natural persons not sanctioned by the EU.	Financial restrictions	Low
7.6.14.	Credit institutions, PI/EMI, PPS	-	Sanctioned Latvian legal entities or natural persons attempt to change ownership of their property shortly before entry of the sanctions in effect or during the period of the sanctions.	Financial restrictions	Low

7.6.15. In order to circumvent sanctions, subjects of sanctions create complex ownership structures.⁵¹³ Fictitious companies are often used, including start-ups, legal entities that have not been active for a long time, and shell arrangements, thus hiding their connection to certain assets, distancing the connection of subjects of sanctions to transactions and/or allowing them to continue their economic activity in the sectors affected by the EU sanctions.

7.6.16. The International REPO Task Force has noted in its study that, during the reporting period, a number of cases were identified in which the Russian elite changed UBOs of the legal entities and transferred ownership of assets to their children, relatives and other related persons in order to continue to ensure control and access to funds after the sanctions entered into effect.⁵¹⁴ Besides, the FIU received reports of attempts to change the ownership structure of sanctioned legal entities in 2022. It should be noted that occurrence of these risk scenarios in Latvia is low, as the public authorities competent to make and register these changes know and understand this risk scenario. For example, changes to the ownership structure of companies registered in Latvia may be sought in other jurisdictions where companies involved in the ownership structure of Latvian companies are registered, which may also have different understanding of the imposition of sanctions or where EU sanctions are not imposed at all. This can lead to different understandings of whether or not a company should be exposed to financial restrictions.

	Sectors	Service	Risk scenario	Type of sanctions	Probability of risk occurrence
7.6.17.	Credit institutions, PI/EMI, PPS	-	PPS are involved in violation or circumvention of sanctions by providing services to sanctioned entities.	Financial restrictions, sectoral EU sanctions	Medium

7.6.18. PPS are exposed to the risk of persons included in the lists of sanctions implementing sanctions violation and circumvention through other persons and organisations, including through the use of services of the sector to establish the legal entities necessary for sanctions violation and circumvention schemes.

⁵¹³ Global Advisory on Russian Sanctions Evasion Issued Jointly by the Multilateral REPO Task Force March 9, 2023. Page 3. Available at: https://home.treasury.gov/system/files/136/REPO_Joint_Advisory.pdf.

⁵¹⁴ Global Advisory on Russian Sanctions Evasion Issued Jointly by the Multilateral REPO Task Force March 9, 2023. Page 2. Available at: https://home.treasury.gov/system/files/136/REPO_Joint_Advisory.pdf.

Risk Scenarios Related to Financial Flows and Payments

	Sectors	Service	Risk scenario	Type of sanctions	Probability of risk occurrence
7.6.19.	Credit institutions, PI/EMI, PPS	Non-cash transfers	A natural person or legal entity pays for services/goods provided by a subject of sanctions entity by transferring funds to accounts in Russia's neighbouring countries or countries that do not impose sanctions on Russia, or by using less traceable means of payment (VC).	Financial restrictions, sectoral EU sanctions	High
7.6.20.	Credit institutions, PI/EMI, PPS	Non-cash transfers	A natural or legal entity provides a service/supplies goods to a subject of sanctions or in contravention of restrictions imposed by sectoral sanctions by receiving funds from accounts in neighbouring countries of Russia or countries that do not impose sanctions against Russia or through less traceable means of receiving payments.	Financial restrictions, sectoral EU sanctions	High
7.6.21.	Credit institutions, PI/EMI, PPS	Non-cash transfers	A natural person or legal entity which is a subject to sanctions transfers its obligations to a natural person or legal entity not subject to the EU sanctions (e.g. payment for goods).	Financial restrictions, sectoral EU sanctions	Medium
7.6.22.	Credit institutions, PI/EMI, PPS	Non-cash transfers	A natural person employed by a subject of sanctions receives his salary from the Russian branch of the subject of sanctions through his/her relatives residing in Russia, followed by a transfer to the relative's account in Latvia.	Financial restrictions	Medium
7.6.23.	Credit institutions, PI/EMI, PPS	Non-cash transfers	Remuneration of a natural person employed by a subject of sanctions appears inappropriately high for the position held.	Financial restrictions	Low

8. Sector Risk Assessment Results

The risk assessment for each sector included in this chapter has been prepared by the SCI supervising the sector. During the reporting period, the FIU has maintained close cooperation with all the SCIs, organising annual feedback meetings to share statistical and qualitative information related to suspicious transaction reports submitted by the sectors and to discuss ways to further improve cooperation. During the reporting period, the FIU also organised meetings of the SCI collaboration platform⁵¹⁵, which took place around 10 times every year. For NRA 2023, the SCI collaboration platform meetings served as a working group for the development of the sectoral risk assessment process and the exchange of related information (including on the conclusions of other NRA 2023 working groups). These activities and cooperation during the reporting period have led to a common understanding of sectoral risks and their affecting factors, so the SCI sectoral risk assessment is harmonised with the FIU, as well as with the "National Threat" and "National Vulnerability" chapters of the NRA 2023.

The SCI risk assessment has basically followed the WB methodology, including to maintain continuity of the evaluation and conduct comparative evaluation against the NRA 2020. For the purposes of the NRA, the sectors have been assessed and the risk assessment summary has been drawn up on a common basis, but each SCI has highlighted the features and changes that have been significant in the sector during the reporting period. Similarly, the regulatory framework is only addressed in those sector assessments where changes have made significant differences or where regulatory gaps have persisted also over current reporting period and continue to create increased vulnerability in the sector. In parallel with the NRA, the SCI produces and publishes, with certain regularity, a comprehensive risk assessment for each sector, which is available to all reporting entities. The NRA includes a summary risk assessment for each sector.

In the financial sector as a whole, during the reporting period ML risk has decreased. In the IMC, PI/EMI, FCT and credit institution sectors, it has changed from "medium-high" to "medium", while in a number of sectors the overall situation has improved, the risk mitigation threshold has not been reached and the level has remained at its current level. During the NRA 2020 reporting period, many comprehensive improvements of the ML/TF prevention and enforcement system were made, and, during the NRA 2023 reporting period, their positive effects are visible. At the same time, the number of Latvian natural persons and legal entities opening accounts abroad, for example, with the Lithuanian PI and EMI, increased sharply during the reporting period. Conservative estimates suggest that at least 15% of natural persons and at least 20% of legal entities have accounts with foreign PI and EMI,⁵¹⁶ while the total number is likely to be significantly higher. In cases where a foreign account is the sole or main current account of a person, authorities of the ML/TF prevention and enforcement system are seriously hampered or even interrupted in receiving quality information and prompt exchange of information with regard to suspicious transactions and criminal offences committed by local persons. During the next reporting period, a *de-risking* strategy for the financial sector needs to be developed, reviewing the impact of AML/CTPF requirements on the financial sector's cooperation with domestic customers.

Although the situation has improved during the reporting period, one of the main problems identified in the sectoral ML/TF risk assessment is the low number of suspicious transaction reports from the non-financial sector to the FIU, which raises concerns about the ability of these sectors to identify suspicious transactions and thus increases their vulnerability to ML. Non-financial sectors such as tax advisers, outsourced accountants, sworn advocates and sworn notaries, and legal entity incorporation service providers are "gatekeepers" in relation to funds flowing into national and international financial systems. Accordingly, through the services provided by these sectors, attempts can be made to funnel criminal proceeds into the financial system. Active involvement of representatives of various professions of non-financial sector in ML prevention is an essential element of an effective ML/TF prevention and enforcement system, including the ability to identify suspicious transactions and activities, as well as effective cooperation with the FIU. Some non-financial sectors show positive trends (e.g. sector of insolvency administrators, sector of certified auditors), but there are still sectors where the ML risk is assessed as

⁵¹⁵ Based on Clause 3.11 of the Plan of Measures, a platform has been established to facilitate cooperation and exchange of information between SCIs, as well as to promote common practices in the implementation of monitoring and control measures, effective performance of tasks set out in the legislation and a common understanding of the ML/TF risks and trends. During the reporting period, the meetings of the SCI Platform were organised by the FIU, but, according to the amendments of 08.11.2022 to the AML/CTPF Law, since 2023, meetings of the SCI Platform are convened by the MoF.

⁵¹⁶ Data summarised by the FIU.

medium-high, but where no suspicious transaction reports have received by the FIU during the reporting period (e.g. sector of tax advisors). In addition, it should be noted that non-financial sector representatives may represent several sectors at the same time and, for example, an outsourced accountant may be both a tax adviser and a provider of legal entity incorporation service. It also reduces the total, unique number of non-financial sector participants. The risk assessment for each sector indicates the number of persons registered as providers of that particular service, but it is important to note that the total number of non-financial sector reporting entities is significantly lower than the total sum of the number of subjects of individual sectors. According to the information provided by the SRS, the number of unique participants of the non-financial sector under its supervision at the end of the reporting period was 11,253 (11,542 in 2020 and 11,583 in 2021).

Financial Sector

8.1. Credit Institutions

- 8.1.1. During the reporting period, the total number of credit institutions in Latvian market continued decreasing. At the end of 2019, 14 banks and 5 branches of banks from the EU Member States were operating in Latvia, and, at the end of the reporting period - 9 banks and 4 branches of banks from the EU Member States. In 2021, applications were received from two supervisory authorities of EU Member States for opening of branches of credit institutions under their supervision in Latvia. On 1 September 2021, the *Latvian Branch of TF Bank AB* (Sweden) commenced operation. The *Latvian Branch of PayEx Sverige AB* (Sweden) is registered in Latvia but has not commenced operation.
- 8.1.2. Decrease in the number of credit institutions was affected both by decisions taken by their shareholders in relation to change processes in the financial sector and the introduction of new business models, as well as by decisions taken by the FCMC to suspend the operation of credit institutions (*Baltic International Bank, SE*). During the reporting period, less-significant institutions (*LSIs*) have achieved improvements in business model transformation, moving into new market niches with more sustainable growth prospects, thus becoming more resilient to the potential negative effects of geopolitical risks. The year of 2021 also marked merger of two credit institutions into a group, with the process being completed in 2022. During the reporting period, 2 credit institutions left the sector through reorganisation, and operations of two branches of the Member States in Latvia were suspended as a part of the Group's strategic decision to cease business activities in the Baltics.
- 8.1.3. On 31 December 2022, Latvian credit institutions had 2.6 million customers, 94.3% of which were domestic customers and 5.7% - foreign customers. 93.7% of the total number of customers were natural persons (including 88.4% - residents of Latvia), while 6.3% were legal entities (including 5.3% - companies registered in Latvia). Compared to 2019, the number of customers has decreased by 7%, with a proportional decrease in the number of customers in all customer groups, which can be explained by both decrease in the number of banks serving foreign customers and decrease in the number of credit institutions' customers which possess higher risk of violation and circumvention of ML/TF measures and sanctions, and by the extension of sanctions against Russia and Belarus and measures implemented by credit institutions to improve their ICS to prevent Latvian credit institutions from being used for money laundering and other criminal offences. An additional reason is the shift of customers to foreign PIs and EMIs as a result of *de-risking*.
- 8.1.4. Credit turnover of customers of the credit institutions has not changed significantly during the reporting period amounting to EUR 173.6 billion in 2019, and, EUR 170.9 billion in 2022. The decline in customer credit turnover observed during the reporting period can be explained by the impact of Covid-19, when it fell to EUR 141.4 billion in 2020.
- 8.1.5. The share of foreign deposits in the amount of total deposits continued to decline during the reporting period, amounting to 13% in December 2022. Deposits of domestic and EU customers prevail in Latvian credit institutions, accounting for 95.4% of the total amount of deposits in December 2022 - 87% are domestic customer funds, and 8.3% - EU customer funds.

- 8.1.6. In order to ensure performance of risk assessment-based supervisory measures, credit institutions are categorised into the risk groups of ML/TF and sanctions violation and circumvention. The assessment of a credit institution's risk of ML/TF and sanctions violation and circumvention takes into consideration the risk of ML/TF and sanctions violation and circumvention inherent to credit institutions and the effectiveness of its management. As at 31 December 2022, 4 credit institutions were classified as medium-high risk, 2 - as medium-low risk, and 3 - as low risk, with Member States' bank branches classified as low risk.
- 8.1.7. In general, the changes made in the FCMC⁵¹⁷ regulatory provisions and recommendations in the area of AML/CTPF and sanctions during the reporting period are aimed at improving the regulatory framework of AML/CTPF by not reducing the ML/TF requirements, but defining them according to substance and purpose, promoting the application of a risk-based approach, as well as streamlining the FCMC's supervisory process, which, in its turn, enables more efficient planning and use of resources both for operators and for the FCMC as a supervisory authority.
- 8.1.8. The amendments to the AML/CTPF Law adopted during the reporting period provide for that, where necessary to prevent material violations, the SCIs may impose EU sanctions on a branch of a credit institution or financial institution licensed in another Member State and operating in Latvia, or on a credit institution or financial institution licensed in another Member State and providing financial services without opening a branch, to the same extent as on a credit institution and financial institution licensed in Latvia, where necessary, in cooperation with the supervisory authority of the Member State in question. This promotes compliance with the requirements of the AML/CTPF Law by a credit institution licensed in another Member State or a branch of a financial institution operating in Latvia, which in turn ensures a level playing field across the sector and reduces misinterpretation of potential customers about different approaches of financial institutions and credit institutions. And, overall, it reduces the likelihood that the financial sector operating in Latvia could be used in ML processes.
- 8.1.9. In order to strengthen the risk-based approach and to ensure that customer due diligence measures are focused according to risks (the higher the risk is, the higher number and more detailed measures are applied), the FCMC has improved the customer due diligence framework by reformulating and replacing regulatory requirements with risk-based requirements, without reducing the AML/CTPF requirements and without changing the objective to be achieved by the requirements, and, on 12 January 2021, new Regulation No. 5 "Regulatory Provisions for the Establishment of Customer Due Diligence, Enhanced Customer Due Diligence and Numerical Risk Assessment Systems and Information Technology Requirements" was approved.
- 8.1.10. On 27 December 2022, the FCMC's Regulatory Provisions No. 235 "Regulatory Provisions on Money Laundering and Terrorism and Proliferation Financing Risk Management" were approved, which replaced Regulation No. 101 "Regulatory Provisions on Money Laundering and Terrorism and Proliferation Financing Risk Management" (hereinafter referred to as - Arrangements No. 101) issued in 2020. Compared to the requirements of Arrangements No. 101, the volume and scope of the information to be provided to determine the exposure to ML/TF risk and to strengthen the risk-based monitoring activities has been substantially revised.
- 8.1.11. FCMC Recommendations No. 100 "Recommendations for Establishment of ICS for the Prevention of Money Laundering and Terrorism and Proliferation Financing and Managing of Sanction Risk and for Due Diligence of Customers" (hereinafter referred to as - the handbook) were approved on 17 July 2020. The aim of the handbook is to promote a common understanding of the application of laws and regulations related to the prevention of financial crime, as well as the implementation of a risk-based approach. The handbook contains explanations and practical examples of the requirements in the field of AML/CTPF and sanctions, encouraging the use of a risk-based approach where the regulatory framework allows, and more efficient and expedient resource planning providing for more resources in cases of higher risk. The Manual was regularly updated both with new sections, such as on managing the risks of violation and circumvention of international sanctions and on the protection of personal data and the requirements in the area of field of ML/TF and sanctions,

⁵¹⁷ As of 1 January 2023, the functions of the FCMC have been taken over by the Bank of Latvia.

and with new practical examples and guidance on issues where it is essential to achieve a common understanding and application of the requirements by market participants.

- 8.1.12. In order to promote a uniform understanding consistent to the requirements of the applicable laws and regulations with regard to the remote identification of customers, on 15 February 2022, the FCMC Recommendation No. 15 "Recommendations for the remote identification of customers" (hereinafter referred to as - Recommendation No. 15) was approved. Recommendation No. 15 explains and provides relevant examples of the process of remote identification, including the risks inherent to this type of identification and the measures that need to be taken to mitigate these risks.
- 8.1.13. During the reporting period, the FCMC has improved its credit institutions supervisory process with the aim of strengthening the implementation of a risk-based approach in its supervisory activities. The enhanced examination approach provides for a comprehensive assessment of the adequacy and effectiveness of a credit institution's ICS, based on an assessment of the 10 core elements of the ICS, rather than just focusing on randomly selected customers. The new approach also includes a greater focus on the initial planning process for examinations, so that the focus and priorities of the examination are set taking into consideration the main risks inherent to the bank.
- 8.1.14. In addition, the FCMC improved its methodology for assessing the ML/TF risks with the aim of ensuring regular risk monitoring, which helps both to identify the need for inspections and to determine the scope of the necessary inspection to focus it on the main risks. In order to assess the risks of ML/TF and sanctions violation and circumvention, the FCMC uses all sources of information and data available thereto, such as information obtained from both on-site and remote supervision (including follow-up inspections and information on corrective actions, data on indicators of ML/TF and sanctions violation and circumvention risk and changes thereto, targeted surveys, publicly available information, customer complaints, reports on international sanctions incidents, etc.). Results of the risk assessment of ML/TF and sanctions violation and circumvention are being integrated into the overall supervisory process and are one of the factors that can influence supervisory priorities.
- 8.1.15. In 2020, the FCMC conducted 12 ML/TF inspections in credit institutions, including five full on-site inspections, five targeted on-site inspections, two horizontal inspections in all banks, and decisions to institute administrative proceedings or to impose sanctions had to be taken only in individual cases. During the reporting period, three credit institutions were imposed fines in the amount of EUR 1.7 million, and additional legal obligations were imposed on two credit institutions to eliminate the identified deficiencies and improve their ICSs. Taking into consideration the fact that credit institutions are increasingly using the face-to-face identification of customers, in 2020, the FCMC conducted an inspection of all banks on compliance with the requirements of the Regulations of the Cabinet of Ministers on remote identification, as well as identified best practices and gaps in the application of remote identification.
- 8.1.16. A total of 23 inspections in the area of management of risk of AML/CTPF and sanctions violation and circumvention were conducted in credit institutions in 2021, including 5 full on-site inspections, 7 targeted on-site inspections and 11 targeted remote inspections. The purpose of the on-site inspections was to assess the effectiveness of the ICS in managing the risks of sanctions violation and circumvention, while the scope of the remote inspections covered the measures taken by credit institutions to verify the change of UBOs and reporting to the RoE. The FCMC issued a warning to one credit institution and imposed fines on two credit institutions for violations in the area of AML/CTPF in the amount of EUR 6.6 million, as well as determined legal obligations aimed at elimination of the found deficiencies and improve the ICSs of the credit institutions, as well as expressed warning to an official of the credit institution in one case. At the same time, all sanctioned credit institutions were obliged to develop plans of measures to remedy the identified deficiencies, and the FCMC took measures to monitor the implementation of these plans.
- 8.1.17. A total of 28 inspections in the area of management of risk of AML/CTPF and sanctions violation and circumvention were conducted in credit institutions in 2022 (including 5 full on-site inspections, 14 targeted on-site inspections regarding the geopolitical situation and management of risks related thereto and 9 targeted remote inspections regarding the management of risks of increase in payments and sanctions violation and circumvention, and

origin of the investors' funds, one horizontal inspection in all the banks and financial institutions). An inspection of all banks and branches in the Member States on the assessment of the risk of ML/TF and sanctions violation and circumvention was also launched in 2022. The inspection will be followed by recommendations, summarising examples of best practice for assessing the risks of ML/TF and sanctions violation and circumvention and the most significant gaps in credit institutions' assessments.

- 8.1.18. Overall, assessment of the results of the inspections conducted in the reporting period compared to the NRA 2020 reporting period shows that credit institutions have taken significant steps to improve their ICSs. The following main improvements were observed:
- 8.1.18.1. improved credit institutions' understanding of the purpose of the ML/TF risk assessment and the quality of the assessment;
 - 8.1.18.2. successively strengthened ability of individual credit institutions to apply a risk-based approach to their ICS activities;
 - 8.1.18.3. improved quality of credit institutions' internal regulatory enactments;
 - 8.1.18.4. improved training quality, content and sufficiency;
 - 8.1.18.5. improved IT systems and tools used by credit institutions to manage ML/TF risk (e.g. transaction monitoring scenarios and automated screening);
 - 8.1.18.6. improved results from external audit inspections;
 - 8.1.18.7. continued active remediation of ICS deficiencies in line with the results of FCMC inspections and external audit recommendations.
- At the same time, some weaknesses remained in some credit institutions' processes for assessing ML/TF risk, customer due diligence, transaction monitoring, identification of suspicious transactions and reporting to the FIU.
- 8.1.19. In order to improve the processes for identifying and reporting suspicious transactions to the FIU, credit institutions are continuously taking steps to improve their ICS, including by introducing new and improving existing IT solutions, including IT tools for generating and processing alert notifications. In addition, the FIU, in cooperation with the FCMC, regularly organises seminars/trainings for credit institutions on suspicious transaction reporting.
- 8.1.20. During the reporting period, credit institutions have sent 13,512 suspicious transaction reports to the FIU (3,941 in 2020, 4,672 in 2021 and 4,899 in 2022) or 79.7% of the total number of suspicious transaction reports received during this period, of which 2,891 or 21.4% were sent by credit institutions under liquidation. The number of suspicious transaction reports issued by active credit institutions has decreased during the reporting period, partly because of decrease in the number of credit institutions and a decrease in the number of credit institutions' customers possessing higher risk of ML/TF and sanctions violation and circumvention. Given that credit institutions are the largest players in the financial sector in terms of the volume of completed transactions, it can be concluded that the number of reports sent corresponds to the size of the sector. Similarly, an analysis of the typologies and characteristics of suspicious transactions reported by credit institutions shows that they are consistent with the sectoral profile and the risks inherent to the sector.
- 8.1.21. The FCMC's inspections identified weaknesses that may adversely affect the ability of credit institutions to timely and effectively detect and report suspicious transactions to the FIU, the most common of which are:
- 8.1.21.1. the credit institution has failed to identify suspicious transactions in a timely manner, and reports to the FIU are late;
 - 8.1.21.2. the credit institution has failed to identify suspicious transactions and as a result has failed to report suspicious transactions to the FIU⁵¹⁸;
 - 8.1.21.3. the credit institution's first line of defence does not engage /not sufficiently engage in the identification of suspicious transactions.
- 8.1.22. The most common causes of these findings:
- 8.1.22.1. a long-standing failure to ensure timely processing of alerts generated by the IT system, partly due to staff shortages;
 - 8.1.22.2. weaknesses in the system for quantifying customer risk;
 - 8.1.22.3. failure to ensure timely and adequate due diligence;

⁵¹⁸ Such situations are rarely identified and in such cases the FCMC (Bank of Latvia), as the SCI, reports suspicious transactions to the FIU instead of the credit institution.

- 8.1.22.4. the IT system scenarios used do not ensure the detection of complex interlinked transactions and consequently the identification of potentially suspicious transactions;
 - 8.1.22.5. gaps in internal regulatory enactments (no deadline for internal reports to be agreed and/or submitted; no requirement to register internal reports, assess negative public information, etc.);
 - 8.1.22.6. insufficient staff training;
 - 8.1.22.7. lack of quality control.
- 8.1.23. Overall, given the broad profile and systemic impact of the services provided by credit institutions in the financial sector, they are inherently subject to the full range of national and cross-border threats, and, accordingly, credit institutions should ensure that their ICSs are resilient to the identified threats when developing scenarios for monitoring transactions, including for identifying suspicious transactions:
- 8.1.23.1. corruption;
 - 8.1.23.2. criminal offences in the field of taxes;
 - 8.1.23.3. illegal movement of excise goods, including smuggling;
 - 8.1.23.4. illicit trafficking in narcotic drugs, including smuggling;
 - 8.1.23.5. fraud;
 - 8.1.23.6. embezzlement and other criminal offences against property;
 - 8.1.23.7. foreign offences - cross-border non-cash flows;
 - 8.1.23.8. foreign offences - cross-border cash flows.
- 8.1.24. At the same time, the threat level of credit institutions continued to decline compared to 2019, with the overall threat rating falling to medium for significant credit institutions and remaining at medium-high for less significant credit institutions. Given the significant share of credit institutions in the overall financial sector, the overall threat level of credit institutions has been assessed as medium, and the reduction in the threat level was positively influenced by:
- 8.1.24.1. reduction in the number of high-risk and medium-high risk credit institutions;
 - 8.1.24.2. reduction in the sectoral weight of high-risk and medium-high risk credit institutions, both in terms of financial assets and credit turnover. There are no high-risk credit institutions at the end of 2022. Medium-low and low-risk credit institutions have an increasing market share, with a 90.1% share of financial assets and a 93% share of credit turnover in 2022;
 - 8.1.24.3. reduction in credit turnover and assets of customers possessing factors increasing ML/TF risks (foreign PIs and PEPs (especially in the CIS), shell arrangements, foreign payment service providers);
 - 8.1.24.4. reduction in payment flows to/from high-risk⁵¹⁹ countries;
 - 8.1.24.5. decrease in credit turnover and assets of customers whose UBOs are residents of high-risk countries;
 - 8.1.24.6. reduction in the amount of increased ML/TF risk products and services offered to customers (PB services, trust fiduciary transactions);
 - 8.1.24.7. reduction in the use of services provided by agents and intermediaries from outside the group of undertakings related to the credit institution for identification of customers.

Table 8.1.1 - Details on ML/TF risk factors affecting the credit institutions sector.

Risk Category	Risk factors
Customer risks	Operational volumes and number of customers subject to due diligence increased at the end of the reporting period due to an increase in total customer turnover as a result of the reduction in the impact of Covid-19. Operational volumes of the Latvian customers subject to due diligence continue to increase, while operational volumes of third-country customers have decreased significantly.
	In parallel, the amount of financial assets and credit turnover of customers possessing signs of higher risk, including the amount of financial assets and credit turnover of shell arrangements and customers with UBOs representing

⁵¹⁹ Here and hereinafter in the sector risk assessment, "high-risk countries" refer to the list of countries with increased ML risks established and maintained by the sector supervisor, the Bank of Latvia.

	<p>higher risk jurisdictions, decreased significantly. In addition, credit turnover of customers with PEP status decreased by 23%, with increase in Latvian PEP volumes and decrease in foreign PEP volumes; credit turnover of the CIS PEPs decreased significantly; PEP financial assets increased by 9% overall, with increase in assets of Latvian PEPs (+28%) and decrease in assets of foreign PEPs (-46%).</p>
Geographical and country risks	<p>The total volume of cross-border payments received by credit institutions' customers in 2022 compared to 2019 has increased by 22% or by EUR 10.8 billion, whereas, amount of the sent cross-border payments has increased by 21% or EUR 10.8 billion, flow of payments from/to the EU has increased, and flow of payments from/to the CIS has decreased, in particular to/from Russia (-85%), which is related also to the geopolitical situation.</p>
	<p>The total financial assets and credit turnover of customers with UBOs from high-risk countries in 2022 have decreased significantly compared to 2019, with financial assets of these customers accounting for 1.5% and credit turnover accounting for 2% of total amount of customers' business in 2022.</p>
	<p>During the NRA 2020 assessment period, risks related to servicing customers-legal entities whose UBOs are from countries whose regulatory framework allows the establishment and registration of companies through nominee owner services were identified, thereby facilitating the concealment of UBOs. The NRA 2023 reporting period also continued to see such customers and their transactions in credit institutions. At the same time, compared to 2017-2019, their number in Latvian credit institutions has significantly decreased, and the volume of their transactions is not significant, accordingly, which shows decrease in impact of this factor. This has been the focus of increased attention within the framework of supervision both during the previous reporting period and in the future.</p>
Product and service risks	<p>During the reporting period, the supervision of high-risk services continued, including the provision of private banking services, which are positioned as <i>wealth management</i> services in high- and medium-high risk banks, but the number of such customers is insignificant, accounting for 0.02% of the total number of credit institutions' customers at the end of 2022. 70% of private banking customers are LV residents and concentrated in low-risk banks. Whereas, foreign customers are concentrated in medium-high risk banks.</p>
	<p>Fiduciary trusts and loan services are only offered by certain credit institutions and the amount (balance) of funds placed in trust and fiduciary loans issued was EUR 203.9 million in 2022; this represents a decrease of 20% compared to 2019. Despite the decline in amounts, foreign customer trusts still account for a significant share (95%) (EUR 193 million at the end of 2022). Fiduciary lending to foreign customers has decreased by 39% compared to 2019, while lending to domestic customers has increased by 136%. Nevertheless, amount of fiduciary loans to foreign customers (balance) also accounts for a significant share (67%), reaching EUR 136.9 million at the end of 2022.</p>
	<p>Credit institutions continue to practice a cautious approach to the establishment of loro correspondent relations, and the number of loro respondents, as well as the number of loro accounts opened continues to decline. In addition to the aforementioned, the number of loro respondents from high-risk countries has significantly decreased, also because of the EU and US OFAC sanctions against Russia and Belarus.</p>
	<p>At the end of the reporting period, virtual asset services are not widespread in credit institutions, but have been identified as an <i>emerging</i> risk that may materialise in the next reporting period.</p>
Supply channel risks	<p>Although the number of customers identified remotely and identified by intermediaries (agents), financial assets and credit turnover have increased compared to the previous period, their share in the overall figures is still insignificant in 2022. The number of customers identified remotely is 1.3%, financial assets 0.3% and credit turnover 0.2% of the total amounts.</p>
	<p>Banks are increasingly using and developing technological solutions for the process of remote identification, both due to the popularity of <i>regtech</i> solutions and to reduce costs and optimise internal processes. The technological solutions identified remotely were mainly used to identify</p>

	domestic and Baltic customers, as well as residents of the EEA or Swiss Confederation, or the United Kingdom of Great Britain and Northern Ireland residents.
	Risks related to the security of the information systems used for the remote identification of customers (e.g. loss of data and information, corruption or misuse of data, unauthorised access to customer data by third parties) remained during the reporting period.
	The number of customers identified by intermediaries (agents) in 2022 represents 1.2%, financial assets - 0.3%, and credit turnover - 0.2% of the total volumes. Credit institutions practically refuse to use the services of intermediaries and agents who have the right to identify customers. Most of the intermediaries that identify customers are members of a group (holding) of credit institutions. Intermediaries and agents are increasingly used in the identification process of consumer credit borrowers.

- 8.1.25. Credit institutions face additional threats from the extended EU sanctions against Russia and Belarus, which have resulted in a change in customer behaviour and a transformation of customer payment flows, as well as signs that may indicate attempts to violate or circumvent the sanctions:
- 8.1.25.1. use of front persons and front companies to conceal UBOs and organise the cash flows;
 - 8.1.25.2. use of third-country credit institutions/payment service providers from other Member States and third countries to settle payments in order to separate and disguise payment flows;
 - 8.1.25.3. increased use of shipping services, including the emergence of new geographies for STS (*ship-to-ship*) operations.
- 8.1.26. New (*emerging*) risk factors were also identified during the reporting period:
- 8.1.26.1. aftermath of Covid-19 effects: illegal market redistribution; fraud, misappropriation or improper use of financial assistance; increased deployment of remote identification solutions in credit institutions and non-bank financial institutions;
 - 8.1.26.2. extended EU sanctions against Russia and Belarus;
 - 8.1.26.3. Increased use of virtual assets/VCs, influenced also by the increased scope of sanctions against Russia and Belarus to replace settlements in traditional currencies (Russian roubles);
 - 8.1.26.4. Reduced access to and rise in the cost of financial services, influenced also by measures taken by credit institutions to manage the risk of ML/TF and sanctions violation and circumvention, as well as activities aimed at finding EU Member States with a potentially weaker supervisory system;
 - 8.1.26.5. increase in ML related to the criminal offences related to the environment and the use of environmental resources;
 - 8.1.26.6. the provision of unregulated financial products and services through FinTech companies, lack of awareness of FinTech companies' AML/CTPF obligations, lack of regulation and lack of AML/CTPF supervision;
 - 8.1.26.7. licensing of collective financing service providers to operate in Latvia and their supervision in the field of AML/CTPF, as these operators are not subjects to the AML/CTPF Law.
- 8.1.27. When assessing the ML/TF threat and vulnerability of Latvian credit institutions, it should be concluded that the ML/TF risk level for significant credit institutions decreased to medium during the reporting period compared to 2019, the ML/TF risk level for less significant credit institutions continued to decrease, but its overall assessment remained medium-high during the reporting period. Given the significant share of credit institutions in the financial market, the overall level of vulnerability and, consequently, the level of ML/TF risk of credit institutions is also assessed as medium.
- 8.1.28. Proposals for measures to mitigate the ML/TF risk:
- 8.1.28.1. Risk-based supervisory measures, including targeted (e.g. in high-risk subjects) and thematic inspections (e.g. on the management of high-risk customer or product risks), supervisory focus and redirection of resources towards the sectors possessing a higher risk of ML/TF and sanctions violation and circumvention;
 - 8.1.28.2. Promote actions to strengthen the ICS of credit institutions, including by improving their knowledge of the methodology, relevance and application of the ML/TF risk

- assessment, qualitative and effective customer due diligence, transaction monitoring, identification of suspicious transactions and reporting to the FIU;
- 8.1.28.3. Clarifications for credit institutions and examples in the handbook (e.g. on cooperation with payment service providers), assess the need to improve the regulatory provisions on correspondent relations, including the investigation and supervision of payment service providers;
- 8.1.28.4. Continue to improve the IT systems and tools used for monitoring, including automation of data processing;
- 8.1.28.5. Improvement of the regulatory framework (ML/TF risk exposure indicators, customer transaction data) to improve the scope and quality of data provided by market participants and used for the assessment of risk of ML/TF and sanctions violation and circumvention.
- 8.1.29. It is also important for the credit institutions sector to be aware of the risks inherent in other related sectors or services, such as *fintech & regtech*, VC and other new technologies. Exchange of experience and proposals at supervisory level is required (both private and public sector involvement), as well as for appropriate up-skilling and training of staff providing such services.

8.2. Payment Institutions and Electronic Money Institutions

- 8.2.1. At the end of 2022, the segment of licensed and registered PIs/EMIs consisted of 11 institutions and three branches of Member States, 14 institutions in total; compared to 2019, the number of PIs/EMIs continued to decrease overall. In addition, there are 8 PIs/EMIs from other EU Member States providing services in Latvia within the framework of freedom of incorporation through agents; in total, 18 agents are active in the market. During the reporting period, consolidation of the PI/EMI sector and regrouping of market continued. There were operators who stopped providing services, which allowed the existing operators to develop their activity and increase the volume of services provided, filling up the vacant market niches.
- 8.2.2. The size of the PI/EMI segment should be assessed as small compared to credit institutions, while the level of exposure to the ML/TF risk and sanctions violation and circumvention varies depending on the specific character of the services provided and the customer base, ranging from low exposure to the risk of ML/TF and sanctions violation and circumvention for PI/EMIs providing limited use, low-value payment services or electronic money products for domestic customers, to high exposure to the risk of ML/TF and sanctions violation and circumvention for PI/EMIs providing payment, e-money or payment card acceptance services, including to foreign customers, or international money remittances.
- 8.2.3. The credit turnover of customers of PIs/EMIs, including representatives of PIs/EMIs from other EU Member States, increased by 36% during the reporting period and amounted to EUR 700 million in 2022, with the domestic customers accounting for 90.8% of turnover. Volume of transactions of the customers to whom occasional business services are provided still remains significant, accounting for 26% of total customer credit turnover in 2022.
- 8.2.4. In light of the risks identified within the supervisory framework and the deficiencies in their management, during the reporting period, the FCMC developed and approved regulatory provisions aimed at improving the PIs/EMIs and ICSs of IFs. The regulatory provisions "Regulatory Provisions for the Establishment of PI/EMI's ICS" approved by the FCMC on 20 March 2020 set out the minimum requirements for effective ICS establishment practices for PIs and EMIs licensed and registered in Latvia. During the reporting period, there were no significant amendments to the Law on Payment Services and Electronic Money that would affect the PI/EMI sector.
- 8.2.5. During the reporting period, the FCMC continued to focus on the supervision of PI/EMIs and to implement PI/EMI supervision measures using a risk-based approach. During the reporting period, three on-site and 20 remote targeted inspections were conducted in the area of management of risk of ML/TF and sanctions violation and circumvention, including by assessing PI/EMI's internal regulations in the area of management of risk of ML/TF and sanctions violation and circumvention; no penalty sanctions were imposed for violations of the AML/CTPF Law, but institutions were instructed to take measures to address identified deficiencies and ML risks and strengthen their ICS; some institutions also ceased their activity. Besides, during the

- reporting period, a monetary sanction of EUR 4,472 was imposed on one institution and a warning was issued to the persons responsible for the prevention of ML/TF in connection with an on-site inspection conducted in the previous period.
- 8.2.6. During the reporting period, regular remote supervision of PI/EMI was ensured through the analysis of the submitted exposure reports of the risk of ML/TF and sanctions violation and circumvention. Potential risks and the adequacy of measures to manage them were also assessed within the framework of various other off-site supervisory measures. In addition, in 2022, the FCMC conducted targeted remote inspections of two financial institutions on the assessment of the ML/TF risks, as well as other remote supervisory activities, including:
- 8.2.6.1. remote meetings with PI/EMI management and responsible staff;
 - 8.2.6.2. advice to existing and potential market participants on the risks of ML/TF and sanctions violation and circumvention inherent to the PI/EMI sector;
 - 8.2.6.3. monitoring of compliance with the set requirements and remedial plans;
 - 8.2.6.4. assessment of the information requested.
- 8.2.7. Within the framework of the performed supervisory measures, it was concluded that the PI/EMI sector had made improvements in the institutions' internal ML/TF control systems, including as a result of the monitoring measures applied, while deficiencies increasing their vulnerability to ML remained:
- 8.2.7.1. deficiencies in understanding of the practical application of the requirements of the laws and regulations for the AML/CTPF in line with the specific characters and risks of the activity;
 - 8.2.7.2. the challenges of ensuring effective monitoring of transactions, in particular the provision of occasional transactions, including over-the-counter money remittances;
 - 8.2.7.3. lack of experienced staff in the field of AML/CTPF;
 - 8.2.7.4. deficiencies in IT solutions used for risk management, data quality.
- 8.2.8. Accordingly, during the reporting period, 2 information seminars and several meetings were organised with the participation of representatives of the PI/EMI sector on current issues and challenges in the field of AML/CTPF and sanction violation risks with the aim to raise understanding of the ML/TF and sanction violation risks inherent to the PI/EMI sector and the measures required to manage them.
- 8.2.9. During the reporting period, PIs/EMIs have sent 1,821 suspicious transaction reports to the FIU (526 in 2020, 625 in 2021 and 670 in 2022), or 10.7% of the total number of reports received during this period, which is also 32% more than in the previous reporting period. Taking into consideration the volume and the specific nature of the transactions carried out by PIs/EMIs, it can be concluded that the number of reports sent is in line with the size of the sector, typologies and characteristics of suspicious transactions indicated in the reports are in line with the profile of the sector and the risks inherent to the sector (cash transactions and challenges in establishing the origin of funds). However, it should be noted that the number of reporting entities is relatively small: in 2022, 6 different reporting entities have reported suspicious transactions, furthermore, 1 of them has provided 87.5% of all the sectoral reports and 4 of the subjects have provided less than 10 reports. Improvement in the reporting process is reflected in the statistics compiled by the FIU on the average age of reports - the number of days between the date of submission of the report and the date of the most recent transaction included in the report - which is among the best for PI/EMI among other financial sectors (34 days in 2022).
- 8.2.10. Inspections identified deficiencies that may adversely affect the PI/EMI sector's ability to detect and report suspicious transactions to the FIU timely and effectively, including deficiencies in understanding of the practical application of the requirements of the laws and regulations concerning the AML/CTPF in line with the specific character and risks of PI/EMI activities and the use of poor quality IT tools to manage the risk of ML/TF and sanctions violation, which may fail to provide quality customer due diligence and monitoring of customer transactions.
- 8.2.11. The ML threat level in the PI/EMI sector is assessed as medium and has not changed significantly since the previous reporting period, given the nature of the services provided by the sector and the structure of the operators.

Table 8.2.1 - Details on ML/TF risk factors affecting the

Risk Category	Risk factors
Customer risks	The volume of transactions of due diligence customers is increasing and accounted for 24% of total credit turnover in 2022. Majority of customers subject to due diligence are domestic customers (75% in 2022).
	The volume of shell customers continued to decline over the reporting period and represented only 0.03% of total customer business in 2022.
	The number of PEP customers and the volume of transactions increased during the reporting period due to improvements made to the institutions' ICS, including the introduction of accounting and IT tools or the improvement of the existing tools. Proportion of the PEP customer transactions account for around 8% of the total volume of customer transactions.
	During the reporting period, the PI/EMI sector was not found to be extensively serving types of customers that may possess a higher risk (such as VC service providers, gambling service providers, other financial institutions, including payment service providers) or groups of customers closed as a result of <i>de-risking</i> by credit institutions, but individual institutions may be at risk of dealing with such groups of customers without implementation of appropriate measures to identify and manage the risks of ML/TF and sanctions violation and circumvention.
Geographical and country risks	In the PI/EMI sector (PI/EMI, including representatives of PI/EMI from other EU Member States), a significant share is accounted for by the provision of services to Latvian resident customers, which accounted for 91% of transactions in 2022, approximately EUR 636 million.
	During the reporting period, the volume of foreign customer business increased at the expense of EEA customer business. The share of third-country customer business and high-risk country ⁵²⁰ customer business is not significant.
	The PI/EMI segment is characterised by a broad and diverse payment geography. Number of payments to/from abroad have increased, accounting for 12.8% of the total amount of payments in 2022. Amounts of payments to/from high-risk countries are insignificant, accounting for 2.2% of the total amount of payments.
Product and service risks	Increased ML/TF and sanctions violation and circumvention risk in the PI/EMI sector is posed by over-the-counter money remittances, including international and occasional transactions, mostly in cash, predominantly to/from abroad (99.7% of over-the-counter money remittances in 2022), including to/from high-risk countries (42% of over-the-counter money remittances in 2022), and the possibility to carry out these transactions quickly and, in some cases, anonymously.
	Cash transactions continue to constitute a significant volume, accounting for 10% of the total volume of customer transactions in 2022, which has increased by 59% compared to 2019.
Supply channel risks	Despite the fact that the volume of customer transactions identified by agents in the PI/EMI segment is insignificant and accounted for only 0.7% of the total customer credit turnover in 2022, the use of agent services increases the ML/TF risk, including fraud risks such as the use of forged documents to identify customers.
	The sector is also exposed to anonymous transaction risks, in particular, caused by products that can be used for international settlements without adequate risk control measures, as well as the use of remote identification solutions, which may result from insufficient quality of the IT support of the outsourcers used.

8.2.12. In 10 criminal proceedings which are in the records of the SP, 6 of which were initiated in 2020, 3 in 2021 and 1 in 2022, PIs/EMIs (both money transmission service providers and

⁵²⁰ Here and hereinafter in the sector risk assessment, "high-risk countries" refer to the list of countries with increased ML risks established and maintained by the sector supervisor, the Bank of Latvia.

- domestic and foreign PIs/EMIs) are listed as service providers.⁵²¹ The aforementioned criminal proceedings are based on the following suspicions:
- 8.2.12.1. of possible producing and selling of forged documents for greedy purposes;
 - 8.2.12.2. of possible fraud;
 - 8.2.12.3. of possible illegal activities performed using an EMI payment card registered abroad (EEA);
 - 8.2.12.4. of illegal acquisition of payment card details of others and use of these details for purchase of services available on the internet and resale of these services to third parties;
 - 8.2.12.5. of human trafficking (exploitation of persons);
 - 8.2.12.6. of ML when purchasing real estate and luxury vehicle;
 - 8.2.12.7. of fraud by receiving money from customers for goods ordered from online shops but not delivered;
 - 8.2.12.8. of possible fraudulent activities on the internet and money laundering;
 - 8.2.12.9. of using PI account to launder funds possibly obtained by fraud for the benefit of others.
- 8.2.13. Upon assessment of the PI/EMI sector's ML/TF threat and vulnerabilities over the reporting period, it should be concluded that the overall ML/TF risk level is on a downward trend compared to 2019 and the PI/EMI sector's overall risk score has decreased to medium.
- 8.2.14. Proposals for measures to mitigate the ML/TF risks:
- 8.2.14.1. Continue risk-based supervisory measures in the upcoming period, including targeted (e.g. in high-risk subjects) and thematic inspections (e.g. on the management of high-risk customer or product risks), supervisory focus and redirection of resources towards the sectors possessing a higher risk of ML/TF and sanctions violation and circumvention;
 - 8.2.14.2. Promote actions to strengthen the ICS of the operators, including by improving their knowledge of the methodology, relevance and application of the ML/TF risk assessment, qualitative and effective customer due diligence, identification of suspicious transactions and reporting to the FIU;
 - 8.2.14.3. Continue to improve the IT systems and tools used for monitoring, including automation of data processing.
- 8.2.15. It is also important for the PI/EMI sector to be aware of the risks inherent in other related sectors or services, such as *fintech & regtech*, VC and other emerging technologies. Exchange of experience and proposals at supervisory level is required (involvement of both private and public sector), as well as monitoring of the market situation for such services through analysis of complaints and other monitoring activities.

8.3. Investment Firms

- 8.3.1. The IF sector has undergone dynamic changes during the reporting period. At the end of 2022, there were 8 licensed IFs and 1 branch of a Member State IF operating in the Latvian financial sector, which represents five companies more than in 2019.
- 8.3.2. In 2021, 5 market participants received IF operating licenses, 4 of which were investment platforms whose business was related to the trading of credit claims issued by lenders (credit issuers) on web-based platforms. In 2022, 2 IFs were licensed and 1 branch of an IF from a Member State started the operation. Whereas, during the reporting period, 4 IF licenses were revoked and 1 IF branch of a Member State ceased its operation on the basis of an application to wind up its business. Investment platforms had a significant impact on the IF segment's business volumes and changed the sector's previous risk profile.
- 8.3.3. In 2022, IF held around EUR 618 million of customer funds and had around EUR 485 million of customer funds under management.⁵²² Majority of the IF investor customers are retail non-professional customers and they represent 98.9% of the investors, of which 92% are EEA

⁵²¹ The aforementioned criminal proceedings are not against a particular PI or an EMI, but their services have been used to commit criminal offences.

⁵²² Average amount of customer funds according to the calculation set out in Regulation (EU) 2019/2033 of the European Parliament and of the Council on prudential requirements for investment firms and amending Regulations (EU) No. 1093/2010, (EU) No. 575/2013, (EU) No. 600/2014 and (EU) No. 806/2014.

residents, 3% are LV residents and 5% are residents of other countries. The business model implemented by the credit claim trading platform managers also includes cooperation with other financial service providers, i.e., lending companies, furthermore, third-party legal entities or special purpose vehicles providing securitisation of issued credit claims (so called *Special Purpose Vehicles*), which in general pose an increased risk of ML/TF, and, consequently, may pose a number of challenges in managing the risk of ML/TF and sanctions violations and circumvention, are used for the performance of the action. At the end of the reporting period, 32% of lenders were EEA residents, 13% - LV residents and 55% - residents of other countries.

- 8.3.4. During the reporting period, the FCMC continued to intensify its supervisory activities over IF in line with its risk-based approach, taking into consideration the increased risks of ML/TF and sanctions violation and circumvention inherent to this segment. Regular remote monitoring of the IF sector is ensured through the analysis of submitted exposure reports on risk of ML/TF and sanctions violation and circumvention, as well as, within the framework of various other remote supervisory measures, paying attention to possible risks and adequacy of measures to manage them.
- 8.3.5. During the reporting period, six on-site inspections were conducted in the area of management of risk of ML/TF and sanctions violation and circumvention resulting in fines of EUR 34,000 and EUR 21,278 imposed on two IFs for violations of the AML/CTPF Law and setting restrictions on their activities and legal obligations - to remedy the deficiencies identified during the inspection and to improve their ICSs. Also, an official of an IF was fined EUR 2,900 for failing to adequately fulfil his obligations to ensure effective functioning of ICS for the AML/CTPF and the independence of risk management functions, thereby exposing the institution to ML/TF and reputational risk.
- 8.3.6. In addition, three remote inspections in the area of management of risk of ML/TF and sanctions violation and circumvention were conducted during the reporting period, including by assessing the IFs' internal regulations in the area of management of risk of ML/TF and sanctions violation and circumvention; within the framework of these supervisory activities, institutions were ordered to remedy the identified deficiencies without the imposition of penalty sanctions.
- 8.3.7. Supervisory activities identified deficiencies in the functioning of the ICS of IFs in certain cases, including deficiencies in the implementation of due diligence and transaction monitoring measures, UBO identification, procedures for identification and reporting of suspicious transactions, appropriate to the specific character and risk profile of the activity, for customers-investors and customers-lenders (IF - for investment platforms). As in the NRA 2020 reporting period, the IF sector faces challenges in attracting experienced AML/CTPF specialists, which results in a lack of understanding among IF staff of the practical application of requirements of the laws and regulations governing AML/CTPF, particularly - in relation to lending customers of investment platforms. It is evident that new operators find it challenging to ensure an appropriate risk management culture, which is one of the main reasons hindering timely and effective attraction and provision of resources necessary to manage the risk of ML/TF and sanctions violation and circumvention.
- 8.3.8. In addition to the above, monitoring activities show that IF often relies on outsourced technical solutions for remote customer identification without adequate understanding, assessment and supervision. This significantly increases the risk that products and services offered by IFs will be made available to persons who are restricted or prohibited from receiving them (e.g. sanctioned persons) or that IF products and services will be used for abusive or fraudulent purposes, especially given that IF customers are essentially identified remotely. Inspections also identified deficiencies in the IT solutions used for risk management, in particular, in the functioning of the customer risk quantification system, transaction monitoring system and data quality assurance.
- 8.3.9. During the reporting period, IFs sent to the FIU 59 suspicious transaction reports (3 in 2020, 6 in 2021 and 50 - in 2022), which is more than in the NRA 2020 reporting period, when 18 reports were received from the IF sector. Increase in number of suspicious transaction reports was also affected by new operators in the IF segment - investment platforms. Given the significant number of the IF customers, their geographical profile and the significant amount of customer funds under the management and holding, the number of reports filed with the FIU should be considered low, as the monitoring activities conducted during the reporting period also revealed violations of the procedures for identifying suspicious transactions.

- 8.3.10. The ability of IFs to report suspicious transactions may be adversely affected by insufficient understanding of the products offered by IFs, including the risks of ML/TF and sanctions violation and circumvention inherent to transactions involving financial instruments, deficiencies in customer due diligence and transaction monitoring and, in some cases, formal compliance with the AML/CTPF regulatory requirements.
- 8.3.11. Given the significant changes in the IF segment due to the launch of investment platforms possessing a number of specific risks that were not typical to the IF segment so far - a more complicated business model involving cooperation with a new group of customers, including other financial service providers (lending companies) and the use of third parties- legal entities (SPV), and the fact that investment platforms dominate in the IF segment by volumes of activity, the level of ML vulnerability of the IF segment is assessed as medium-high at the end of the reporting period.

Table 8.3.1 - Details on ML/TF risk factors affecting the PI/EMI sector.

Risk category	Risk factors
Customer risks	The most significant risk comes from the lender customers of IBC investment platforms, given the specific nature of their activities, wide geography, including from high-risk countries ⁵²³ , and the different regulatory framework in each jurisdiction, as well as a significant amount is generated by lenders - PEPs.
	There has also been an increase in the amount of financial assets of customer-investors subject to due diligence.
	For classic IFs, the risk may arise from working with other investment service providers without applying the necessary control measures.
Geographical and country risks	The share of transactions and assets of third country customers - lenders, including those whose UBOs are foreign residents, exceeds 50% of the total amount of transactions and assets, including from high-risk countries.
	A significant part of the value of IF corporate investors' financial portfolios is represented by customers whose UBOs are foreign residents.
Supply channel risks	Majority of the IBC customers have been identified remotely, regardless of their risks, relying on outsourced solutions.
	For IFs - investment platforms in cooperation with lenders, risk is caused also by the challenges of using technical milestones, in particular, the risks associated with organising cash flow.

- 8.3.12. One SP criminal proceedings, initiated in 2020, involves an investment firm. The criminal proceedings were initiated based on suspicion that a financial instruments account of a legal entity registered in the UK, opened with IF registered in Latvia, was used to carry out laundering of proceeds in the amount of almost EUR 200 thousand generated through an unspecified criminal offence during the period from 2016 to 2020.
- 8.3.13. The IF sector is exposed to the risk that funds of criminal or undisclosed origin, including financial instruments, will be invested in financial instruments through IFs or that the form of financial instruments received will be altered, thus breaking the chain of movement of funds and making it more difficult to trace the movement of these funds. IFs also possess the risk of being involved in the violation or circumvention of sanctions through transactions in financial instruments.
- 8.3.14. The IBCs operating as investment platforms are exposed to significant risks of ML/TF and sanctions violation and circumvention in cases where adequate controls with regard to customers - lenders - are not in place. This is particularly applicable to such lenders the activities of which are related to jurisdictions of high risk of ML/TF and sanctions violation and circumvention, as funds raised through the platform may be further used to finance the activities of lenders whose owners or customers are related to criminal offences, and ML may occur if the repayment of the loan received is made from proceeds of crime.

⁵²³ Here and hereinafter in the sector risk assessment, "high-risk countries" refer to the list of countries with increased ML risks established and maintained by the sector supervisor, the Bank of Latvia.

- 8.3.15. Given these significant changes in the segment, the threat rating has been upgraded from medium to medium-high compared to the NRA 2020 period. As a result, the overall level of risk has increased, but should still be assessed as medium-high.
- 8.3.16. Proposals for measures to mitigate the ML/TF risk:
 - 8.3.16.1. To continue risk-based supervisory measures in the upcoming period, including targeted (e.g. in high-risk subjects) and thematic inspections, supervisory focus and redirection of resources towards the actors possessing a higher risk of ML/TF and sanctions violation and circumvention;
 - 8.3.16.2. To promote actions for strengthening of the ICSs of IFs', including by improving their knowledge of the ML/TF risk assessment methodology, its relevance and application, qualitative and effective customer due diligence, transaction monitoring, identification of suspicious transactions and reporting to the FIU;
 - 8.3.16.3. Include the necessary explanations and examples in a handbook published by SCI;
 - 8.3.16.4. To further develop the IT systems and tools used for monitoring, including automation of data processing.
- 8.3.17. In the IBC sector, it is also important to be aware of the risks inherent in other related sectors or services, such as *fintech & regtech*, VC and other emerging technologies. There is a need for exchange of experience and proposals at supervisory level (involvement of both private and public sector), as well as supervision of the market situation for such services through analysis of complaints and other monitoring activities.

8.4. Investment Management Companies

- 8.4.1. At the end of the reporting period, there were 10 licensed IMCs operating in the Latvian financial sector, which is one less than in 2019, as one IMC had its license revoked in 2021 on the basis of an application from the company. The majority - 6 out of 10 - of the licensed IMCs are group companies of credit institutions licensed in Latvia.
- 8.4.2. In 2022, IMCs had EUR 7 billion under their management representing 16% increase compared to 2019 (approximately EUR 6 billion); 81% of the funds managed by the IMCs are public funded pension scheme funds, while 9% are funds of the pension schemes of private pension funds. Customers' individual portfolios of financial instruments account for only 6% (EUR 420 million) of the total amount of funds, open-end investment funds (UCITS) - around 3% (EUR 210 million). In 2022, increase in the amount of funds under the management of the IMCs is accounted for by the level 2 pension funds, besides, increase in the level 3 pension funds is obvious.
- 8.4.3. In the IMC segment, the risk of ML/TF and sanctions violation and circumvention is directly affected by the service provided by the IMC and, consequently, by the customer base:
 - 8.4.3.1. low risk is possessed by the IMCs that only manage the assets of the state funded pension scheme and/or the assets of the pension schemes of private pension funds, as their customers are the State Social Insurance Agency (for the 2nd pension schemes) or PPFs within the meaning of the regulatory requirements concerning the AML/CTPF;
 - 8.4.3.2. potentially increased risk for the IMCs providing management services of portfolios of individual financial instruments and investment funds. At the end of the reporting period, the assets of legal entities accounted for 57% (EUR 367 million) and of natural persons - for 43% (EUR 271 million) of total customer assets. In terms of volume, the largest share was accounted for by assets of Latvian residents (51%) and EEA residents (28%).
- 8.4.4. During the reporting period, the FCMC continued to intensify its supervisory activities over IBC in line with its risk-based approach, taking into consideration the increased risks of ML/TF and sanctions violation and circumvention identified in relation to this segment. Regular remote supervision of the IMC is provided through analysis of submitted exposure reports of the risk of ML/TF and sanctions violation and circumvention, as well as, within the framework of various other remote supervisory measures, paying attention to possible risks and adequacy of measures to manage them.

- 8.4.5. Two on-site inspections were conducted during the reporting period in the area of management of the risk of ML/TF and sanctions violation and circumvention. As a result of the inspections, one IMC was fined EUR 57,217 for violations of the AML/CTPF Law, imposing legal obligations to remedy the found deficiencies and improve its ICS. Likewise, during the reporting period, one IMC was fined EUR 13,716 for violations identified during the inspection conducted during the NRA 2020 reporting period, and legal obligations were determined to take measures to remedy the identified deficiencies and to strengthen the ICSs of the AML/CTPF. In addition, during the reporting period, 3 remote inspections in the area of management of the risk of ML/TF and sanctions violation risk were conducted, including through an assessment of the IMCs' internal regulations in the area of management of the risk of ML/TF and sanction violation and circumvention, with provision of enhanced supervision over 3 IMCs by following the progress and compliance of the implementation of the corrective action plans.
- 8.4.6. Supervisory activities identified deficiencies within the meaning of the IMC's concerning the practical application of the requirements of the laws and regulations on the AML/CTPF in line with the specific character and risks of the IMCs activities. This particularly concerned the management of risks in the investment fund delivery channels and, as during the NRA 2020 reporting period, there is a shortage of experienced staff in the area of AML/CTPF. This, in turn, can create challenges in ensuring effective management of the risk of ML/TF and sanctions violation and circumvention, as well as practical application of requirements of the laws and regulations in line with the specific nature of the IMC's activity and the risks of ML/TF and sanctions violation and circumvention inherent thereto. Some cases have also been identified where IMCs have not taken the necessary measures to ensure quality control and independent decision-making in outsourced tasks and, given their small organisational structure, there are often challenges in ensuring appropriate management of conflicts of interest.
- 8.4.7. In order to reduce the vulnerability of the sector, 2 information seminars with representatives of the IMC sector were organised during the reporting period on current issues and challenges in the area of AML/CTPF and management of the risk of sanctions violation and circumvention, with the aim of raising awareness of the risks of ML/TF and sanctions violation and circumvention inherent to the IMC sector and the measures needed to manage them. In-depth discussions have also been held with individual operators to strengthen the effectiveness of their ICS and their ability to identify and manage risks.
- 8.4.8. During the reporting period, IMCs have sent 112 suspicious transaction reports to the FIU (4 in 2020, 28 in 2021 and 80 in 2022), which reflects improvements in the processes for identifying suspicious transactions in the IMC sector, including in light of the fact that no suspicious transaction reports were received from IMCs during the NRA 2020 reporting period. The increase in the number of suspicious transaction reports was significantly affected by the FCMC's supervisory measures, within the framework of which enhanced supervision over several IMCs was provided by following the progress and compliance of the implementation of the corrective action plans, including with regard to verification of the origin of funds invested in IMC products.
- 8.4.9. The ability of IMCs to report suspicious transactions is occasionally hampered by the lack of understanding of the IMC sector on the practical application of the requirements for the AML/CTPF in line with the specific character of their activities, including the limited information available on customer activity and the origin of funds, as customer funds are received from customer current accounts held with credit institutions and detailed information is largely unavailable to the IMC sector. Often, where an IMC is part of a structure of credit institutions and the customers of the IMC are customers of the aforementioned credit institutions, credit institutions can provide the function of management of the risk of ML/TF and sanctions violation and circumvention in the IMCs within their structure (ICS), including research of customer transactions, identification of suspicious transactions and reporting to the FIU, but supervisory actions have identified insufficiencies with regard to the ICS framework established by the IMCs in such a collaborative model for effective operation.
- 8.4.10. The overall ML threat level of the IMC segment is assessed in general as medium because, although, in terms of investment amounts, low-risk asset management (State funded pension scheme funds and/or private pension fund pension scheme funds) accounts for a significant share, the IMCs providing individual financial instrument portfolio and investment fund

management services mostly tend to have an elevated threat level. This is affected by the risks listed in Table 8.4.1.

Table 8.4.1 - Details on ML/TF risk factors affecting the PI/EMI sector.

Risk category	Risk factors
Customer risks	Customers subject to due diligence represent a significant proportion in the IMCs providing portfolio management services for individual financial instruments and investment funds.
	Investments by shell arrangements are on a downward trend, and investment made by PEP customers have also slightly increased.
Geographical and country risks	A significant share of investment amounts of foreign customers, including customers from high-risk countries ⁵²⁴ or legal entities whose UBOs are residents of high-risks countries, has preserved.
Supply channel risks	Remote customer identification is not common in the IMC sector, but the delivery channels used by IMCs, i.e., the way in which units of investment funds managed by IMCs are distributed, can pose challenges to ensuring effective and appropriate risk management, including ensuring compliance with the "know your customer" principle, tracing the origin of funds, early detection of suspicious transactions.

- 8.4.11. Within the framework of the provision, it was found that the IMCs providing portfolio management services for individual financial instruments and investment funds may be potentially involved in the integration phase of a ML scheme, with the person benefiting personally from the proceeds of crime in the long term.
- 8.4.12. The sector is potentially exposed to a ML typology through open-ended investment funds managed by the IMCs: the funds used by the customer to purchase the investment units are criminally obtained, and, shortly after the investment, the customer repurchases the purchased investment units, thereby breaking the chain of money flow and laundering the proceeds of crime.
- 8.4.13. A possible ML typology through the use of IMCs' individual portfolio management services: customer-owned financial instruments placed under the management of an IMC are obtained through a chain of opaque transactions involving fictional loan agreements and shell arrangements. The customer consequently instructs to use a loan issued by a credit institution with these financial instruments being used as a collateral to purchase other liquid financial instruments, which are then on the customer's instruction transferred to the customer's portfolio of financial instruments with another investment service provider.
- 8.4.14. Taking into consideration the measures implemented to reduce the sector's vulnerability, persistence of threat at a medium level and the downward trend of several risk indicators, the overall level of the IMC sector's risk of ML/TF and sanctions violation and circumvention has decreased over the reporting period and can be assessed as medium.
- 8.4.15. Proposals for measures to mitigate the ML risks in the IMC sector:
- 8.4.15.1. Risk-based supervisory measures, including targeted (e.g. in high-risk subjects) and thematic inspections (e.g. concerning the management of high-risk customer or product risks), supervisory focus and redirection of resources towards the sectors possessing a higher risk of ML/TF and sanctions violation and circumvention;
- 8.4.15.2. Promote actions to strengthen the ICS of operators, including by improving their knowledge of the methodology, relevance and application of the ML/TF risk assessment, quality and effective customer due diligence, identification of suspicious transactions and reporting to the FIU;
- 8.4.15.3. To further develop the IT systems and tools used for monitoring, including automation of data processing.

⁵²⁴ Here and hereinafter in the sector risk assessment, "high-risk countries" refer to the list of countries with increased ML risks established and maintained by the sector supervisor, the Bank of Latvia.

- 8.4.16. Action lines and improvements related to risk management and required in the sector:
 - 8.4.16.1. Regular staff training on new developments in the field of AML/CTPF and sanctions;
 - 8.4.16.2. Improving the risk-based approach and the practical application of laws and regulations;
 - 8.4.16.3. Improve the process for identification of suspicious transactions and reporting to the FIU.
- 8.4.17. It is also important for the IMC sector to be aware of the risks inherent in other related sectors or services, such as *fintech & regtech*, VC and other emerging technologies. There is a need for exchange of experience and proposals at supervisory level (involvement of both private and public sector), as well as monitoring of the market situation for such services through analysis of complaints and other supervisory activities.

8.5. Persons Who Provide Cash Collection Services

- 8.5.1. The SRS has been supervising cash collection service providers since 9 November 2017. The size and share of the cash collection services sector in the economy is assessed as low, as there were only three AML/CTPF Law entities registered as cash collection service providers in Latvia during the whole reporting period. Size of the sector also has not changed compared to the NRA 2020 reporting period, at the end of which there were 3 collection service providers under the supervision of the SRS.
- 8.5.2. Collection service providers are subject to relatively effective and strict start-up controls, which limit the ability of criminals or their associates to operate in the particular sector.
- 8.5.3. Collection service providers offer the following collection services:
 - 8.5.3.1. money transportation, which involves the physical transportation of money and other valuables between money processing centres, commercial banks and branches of the Bank of Latvia, as well as customer sales and service outlets, by armed, specially equipped and trained personnel using specially equipped, armed and otherwise technically protected transport, modern systems, including global navigation system (GPS), which ensures both efficient logistics and security;
 - 8.5.3.2. protection of the customer's tangible assets;
 - 8.5.3.3. cash handling, which includes cash transfers, providing the customer with information on the outcome of the transfer, identifying counterfeit, invalid and defective banknotes, making transfers to the respective customers' bank accounts, preparing cash for delivery (change - coins), storage of cash and other valuables and preparation of reports for the customer;
 - 8.5.3.4. ATM service, which includes monitoring ATM cash balances and service planning, replacement of ATM cartridges, filling and emptying of ATM cartridges, and cash handling.
- 8.5.4. The availability of collection services is not limited in the market, and the service recipients have the possibility to choose the most suitable offer and, where necessary, switch providers.
- 8.5.5. To enter this market, companies need to obtain a license to provide collection security, as well as earmark financial resources for the setting up of material and technical base (control centre, armament of vehicles, cash handling equipment, etc.), hiring of specially trained staff, and insurance. Given the risks involved in handling large amounts of cash, these barriers to start-up are justified and proportionate.
- 8.5.6. In 2022, the SRS conducted one inspection in this sector, during which no violations were found. No inspections have been conducted in 2021 and 2020. The number of inspections has not changed significantly compared to the NRA 2020 reporting period (two inspections were conducted in 2019).
- 8.5.7. During the reporting period, no suspicious transaction reports were received from collection service providers either by the FIU or the SRS.
- 8.5.8. The main presumed risks of collection service providers are:
 - 8.5.8.1. use of a collection service as part of a ML scheme implemented by cash-handling companies with the collection service provider being unaware of it;

- 8.5.8.2. intentional receipt and movement of the proceeds of crime concealing their origin or ownership;
 - 8.5.8.3. avoidance of reporting the existence of such a possibility or signs supporting such a suspicion.
- 8.5.9. During the reporting period, the sector’s risk rating was medium, and it has not changed compared to the 2020 NRA. Proposals for actions to mitigate the risks identified in the sector: continue improving the knowledge of ML/TF among the people working in the sector and improving their understanding of ML/TF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.6. Crediting, Including Financial Leasing, if the Provision of Services does not Require Licensing

- 8.6.1. At the end of the reporting period, the SRS supervised 281 credit service providers, of which 33 credit service providers registered this type of activity for the first time in 2022.⁵²⁵ According to the NRA 2020, as at 31 December 2019, 106 credit service providers were under the supervision of the SRS. Thus, the total number of credit service providers has increased significantly by 175 entities or 165% during the reporting period.

Table 8.6.1 - Dynamics of changes in the number of credit service providers and the inspections conducted by the SRS by year.

	2019	2020	2021	2022
Credit service providers	106	192	230	281
On-site inspections conducted by SRS	38	10	34	40
Remote inspections conducted by the SRS	13	2	1	1

- 8.6.2. The number of credit service providers is on upward trend, which can be explained by the fact that the inspections conducted establish that the service provider meets the status of a subject of the AML/CTPF Law - a credit service provider - and thus registers the type of activity with the SRS. On the other hand, compared to the NRA 2020 reporting period, it should be concluded that the number of inspections conducted on credit service providers compared to the number of subjects has decreased, which shows that credit service providers are competent, and this reduces the overall risk of the sector.
- 8.6.3. On 12 July 2021, amendments to the AML/CTPF Law entered into effect, providing for exceptions to the determination of credit service providers. The legislation provides for that persons are not considered to be reporting entities when they provide financial services - lending, financial leasing, issue of guarantees and other instruments of obligations that assume the obligation to be liable to a creditor for the debt of a third party (except for cooperative societies when they provide services of raising deposits and other repayable funds) - only within the framework of a group or to the members of a cooperative society for the purpose of their core business or for the obligations of members of a group or cooperative society, if all the following conditions are met:
- 8.6.3.1. the group or cooperative society consists of persons, branches or agencies, Member State residents, entered in RoE, with the principal activity not related to a high-risk third country;
 - 8.6.3.2. the UBOs of a group or a cooperative society and the persons who hold office in its executive body are residents of a Member State;
 - 8.6.3.3. the group or cooperative society does not include a shell company;
 - 8.6.3.4. the financial services referred to in this paragraph are provided on the basis of a written transaction using the services of a payment service provider established in a Member State for settlements.

⁵²⁵ Any legal entity providing credit services, including financial leasing qualified as a participant in this sector, where the provision of the services does not require licensing. Including group companies and cooperative societies may qualify under this group of subjects, unless there are exemptions under the AML/CTPF laws.

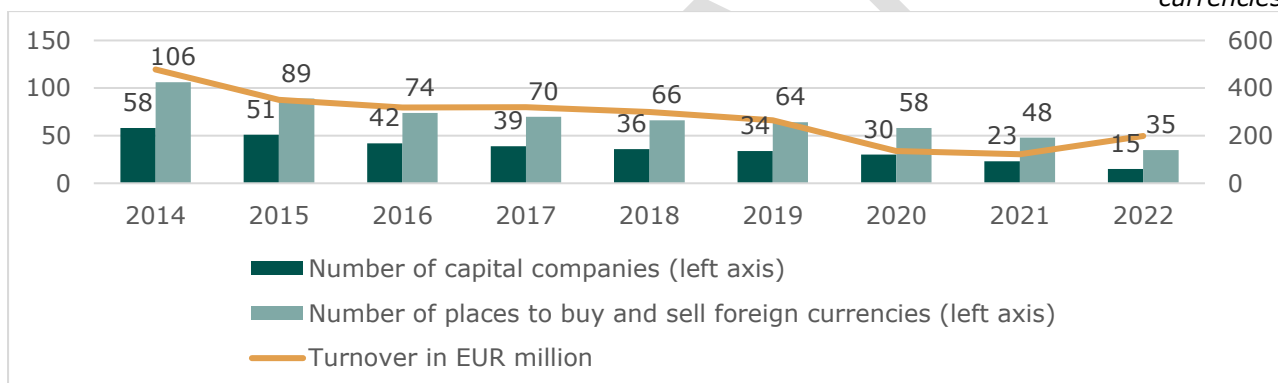
- 8.6.4. The exception referred to in the AML/CTPF Law applies to group companies and cooperative societies, setting out the criteria that must be met for a person not to be recognised as a subject of the AML/CTPF Law under the supervision of the SRS pursuant to Section 45(2)(6)(a) of the AML/CTPF Law.
- 8.6.5. The provision of credit services is often combined with economic activities such as outsourced accounting, tax advisory and legal arrangement incorporation and operation services. Credit service provider may at the same time provide credit services to consumers subject to supervision of the CRPC under the AML/CTPF Law.
- 8.6.6. In this sector, the amount of cash transactions is relatively low. Anonymous use of the product is not possible but it is possible to provide the services also remotely, including via agents. Loans are most often aimed at accelerating a company's growth, expanding production or implementing new projects. Customer base of credit service providers consists of legal entities, often - of related companies, incl. with economic activity and UBOs and accounts abroad.
- 8.6.7. Given the specific nature of its activities, the sector can have a significant impact on the overall effectiveness of the AML/CTPF mechanism. Credit service providers are mostly not involved in ML/TF schemes, but can play an important role as abettors providing criminals with the means to disguise the proceeds of crime and facilitating the untraceability of financial flows. The possibility that loans are provided using proceeds of crime and that the granting of loans is a part of the stage of stratification of the proceeds of crime cannot be ruled out.
- 8.6.8. During the reporting period, the SRS conducted a survey of the sector's participants, and 41% of the credit service providers indicated that their annual turnover was less than EUR 10,000. The next two most common answers are an annual turnover between EUR 160,000 and EUR 500,000 (14% of lenders) and above EUR 1,000,000 (14% of lenders). It can therefore be concluded that the turnover of credit service providers has an overall insignificant impact on the financial sector.
- 8.6.9. Majority or 74% of customers of credit service providers are residents of Latvia and legal entities registered in Latvia. 19% of the customers of credit service providers are from the EEA, 4% - from the CIS and 3% from another jurisdiction.
- 8.6.10. During the reporting period, 84 on-site and 4 remote inspections were conducted by the SRS in the sector. The number of years of the supervisory measure is shown in Table 8.6.1 The average amount of fines during the reporting period was EUR 814.
- 8.6.11. For subjects registered as credit service providers in relation to violations of the AML/CTPF Law and the Sanctions Law:
- 8.6.11.1. in 2020, 12 decisions on fine were imposed amounting to EUR 10,150 in total;
 - 8.6.11.2. in 2021 1 suspension decision was imposed applying a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in shareholders; 10 decisions on fine were imposed amounting to EUR 10,850 in total;
 - 8.6.11.3. in 2022, five decisions on fine were imposed amounting to EUR 1,000 in total.
- 8.6.12. The most frequent violations found during the inspections of credit service providers were: incompletely developed ICS, lack of customer due diligence measures, lack of identification of customer's ML/TF risks, lack of customer sanctions risk assessment, lack of ICS for sanctions risk management, lack of notification to the SRS of the type of activity and appointment of the responsible person.
- 8.6.13. The FIU has received 2 suspicious transaction reports from credit service providers in 2020, only 1 such report in 2021 and 2 suspicious transaction reports in 2022. The number of reports should be considered low, which could reflect lack of understanding among credit service providers in relation to detection of suspicious transactions. This is inconsistent with the presumed sector's risk exposure and reflects increased vulnerability.
- 8.6.14. The suspicious transaction reports sent to the FIU used 2 features/typologies - "the documents submitted by the customer show signs of forgery/self-correction" and "the customer's account is controlled by a third party and actions taken to conceal or disguise the true ownership of the funds is suspected".

- 8.6.15. The main presumed risks for credit service providers are:
- 8.6.15.1. the loan is repaid using funds proceeds of crime;
 - 8.6.15.2. deliberate failure to register as a subject of the AML/CTPF Law;
 - 8.6.15.3. involvement of third parties in the performance or assumption of fictitious loan obligations;
 - 8.6.15.4. use of collateral of crime;
 - 8.6.15.5. use of fictitious guarantors;
 - 8.6.15.6. lack of understanding in detecting suspicious transactions.
- 8.6.16. During the reporting period, the sector's risk rating was medium, unchanged from the 2020 NRA. Proposals for actions to mitigate the risks identified in the sector: continue improving the knowledge of ML/TF among the people working in the sector and improving their understanding of ML/TF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.7. Currency Trading Companies

- 8.7.1. At the end of 2022, there were 15 capital companies operating in Latvia holding a license issued by the Bank of Latvia for the purchase and sale of foreign currency cash (hereinafter referred to as foreign currency traders - FCT) at 35 outlets (Chart 8.7.1), mainly concentrated in Riga. With the growth and popularity of cashless payment options, and as a result of the Covid-19 pandemic, the number of FCT has declined sharply over the last few years.

Chart 8.7.1 - Number of FCT, number and turnover of outlets buying and selling foreign currencies.



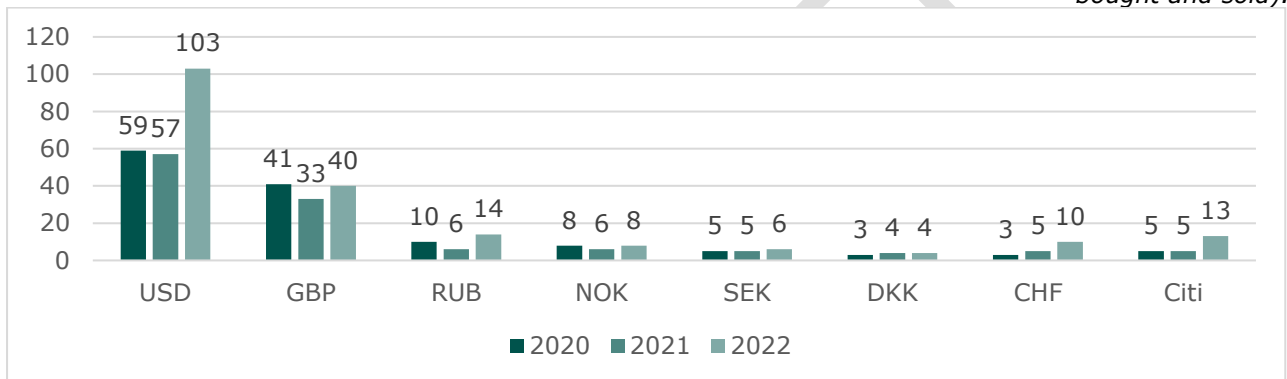
- 8.7.2. Credit institutions also buy and sell foreign currency cash, but it is the FCT that accounted for the largest share of the total volume of foreign currency cash purchases and sales in the reporting period (77% in 2020, 77% in 2021 and 84% in 2022 of the total amount). Volume of currencies in EUR million by currencies sold and bought is shown in Table 8.7.1.

Table 8.7.1 - Volume of currencies, EUR million, by currencies sold and bought.

	Volume of foreign currencies (EUR million)			
	2019	2020	2021	2022
Total foreign currency bought	260.3	140.7	129.5	166.6
<i>including credit institutions</i>	82.5	35.3	34.2	31.7
<i>currency trading companies</i>	177.8	105.4	95.3	134.9
Total foreign currency sold	117.0	33.6	27.7	68.3
<i>including credit institutions</i>	30.5	4	1.2	5.5
<i>currency trading companies</i>	86.5	29.6	26.5	62.8
Total foreign currency bought and sold	377.4	174.4	157.2	235.0
<i>including credit institutions</i>	113	39.4	35.4	37.3
<i>currency trading companies</i>	264.4	135	121.8	197.7

- 8.7.3. During the reporting period, the most popular foreign currencies in EUR million (both bought and sold) in the FCT were USD (48% of the total amount), GBP (25%) and the Scandinavian currencies - Norwegian, Swedish and Danish kronor (11% of the total amount).

Chart 8.7.2 - Most popular foreign currencies in the FCT in 2020-2021, EUR million (both bought and sold).



- 8.7.4. Number of inspections of FCTs conducted by the Bank of Latvia and the proportion of the total number of inspections of FCTs conducted have increased during the reporting period (Table 8.7.2).

Table 8.7.2 - Number of inspections of FCTs conducted by the Bank of Latvia and the proportion of the inspections conducted.

	2020	2021	2022
Number of inspections of the FCTs conducted, incl.	9	14	9
<i>operational compliance checks, including non-routine checks</i>	7	13	8
<i>thematic inspections</i>	2	1	1
Proportion of the inspected FCTs (% of all the FCTs at the end of the year).	23%	52%	53%

- 8.7.5. The most significant violations identified during the inspections were established in relation to compliance with the requirements of the AML/CTPF Law - deficiencies in the assessment of the ML/TF risks, assessment ICS of the ML/TF and sanctions violation risk and of effectiveness of the ICS operation. There were also weaknesses in the customer due diligence and customer transaction monitoring, staff training and in the evaluation process of staff responsible for management of AML/CTPF and sanctions violation risk, and in separate cases - deficiencies in the area of the management of documents. Control and monitoring activities still reveal violations in around 90% of the inspections conducted.

- 8.7.6. The sector has a high percentage of anonymous transactions⁵²⁶: In 2022, 69.6% of the total amount of transactions, 92.0% of the number of transactions, are anonymous transactions. Furthermore, the proportion of anonymous transactions in some FCT is significantly above the sector's average indicator. The average amount per anonymous transaction was EUR 393 in 2020, EUR 450 in 2021 and EUR 409 in 2022.
- 8.7.7. Given the high proportion of anonymous transactions, both in terms of number and amount, it is not possible to fully assess the structure of the FCTs' customers, nor does it allow objective conclusions to be drawn on the purpose and substance of transactions to buy or sell foreign currency cash. At the same time, anonymous transactions are relatively small, and the increasing number of suspicious transaction reports in the sector indicates on the capacity to identify suspicious transactions - in 2020, the FIU received 76, in 2021 - 145 and in 2022 - already 283 suspicious transaction reports. Only a few FCT have submitted the aforementioned reports, e.g. 4 different FCTs submitted reports in 2022, so more than two thirds of FCTs have not submitted reports at all. However, it should be noted that these 4 FCTs represent the major market share (around 70%), so the number of reporting institutions is not critical.
- 8.7.8. According to the type of services provided by the sector, and arising from the national threats and the national ML/TF risk profile, the main threats identified in the sector are:
- 8.7.8.1. Smuggling and transit of narcotic drugs, excise goods and other goods through Latvia, including the unauthorised movement of cigarettes originating in the Russian Federation and the Republic of Belarus to Scandinavia or the UK, where the proceeds in local currency can be transferred to Latvia and sold in Latvia. The currencies characteristic of these offences are GBP, Scandinavian currencies, RUB (see paragraphs 3.2.38 and 3.2.52 of the NRA section "[Threat of a national predicate offence](#)").
- 8.7.8.2. Cross-border flows of foreign currency cash of criminal origin, including from geographically nearby countries. These offences can involve any foreign currency, including USD, which accounts for 48% of the total amount of currency exchanged within the sector.
- 8.7.8.3. Criminal offences committed in Latvia the cash generated in which is arranged by selling them or using them to purchase foreign currency to make tracing of the origin of the cash more difficult.
- 8.7.9. The scope of the EU sanctions has also increased the risk of sanctions circumvention, both as a result of efforts by sanctioned persons to evade the impact of sanctions and to continue commercial activities related to natural persons and legal entities in the Russian Federation and the Republic of Belarus.
- 8.7.10. The use of cash in transactions, anonymity of transactions, the immediacy of execution, competition between market participants and the open market (customer is free to opt out and go to another FCT) create significant vulnerabilities for the sector.
- 8.7.11. The sector's ML risk should be assessed as medium, mainly due to the significant share of anonymous transactions. At the same time, although the monitoring measures taken during the reporting period have improved the sector's understanding of the practical application of the ML/TF requirements, the significant share of anonymous transactions limits the sector's ability to manage risks effectively, which has led to proposals to reduce the transaction amount threshold for customer identification, which, in conjunction with the monitoring measures taken, has reduced the sector's vulnerability level to medium compared to the previous reporting period. Similarly, although the threat of sanctions evasion has increased, the risk of non-compliance with sanctions has not increased significantly, given the ban on entry of sanctioned persons into Latvia, which essentially excludes the possibility of receiving foreign exchange services.
- 8.7.12. To mitigate the ML/TF risks inherent to the sector, it is necessary to reduce the volume of anonymous transactions. It is therefore necessary to set a sector-specific transaction amount threshold from which customer due diligence is mandatory.

⁵²⁶ According to Section 11(1)(2c) of the AML/CTPF Law, anonymous transactions are those with the amount not exceeding EUR 1,500.

8.8. Licensed Consumer Credit Service Providers

- 8.8.1. Licensed consumer credit service providers had 57 special permits (licenses) to provide consumer credit services in force as at 1 January 2020, 50 licenses in force as at 1 January 2021 and a total of 42 licenses in force as at 1 January 2022, 3 of which were suspended for a period of up to 6 months from 1 January 2022. When analysing the reduction in the number of licenses, it should be noted that changes in the number of licensed entities are mainly due to the increase in the state duty, which was set at EUR 55,000 as of 1 January 2020.
- 8.8.2. Turnover and total amount of assets of licensed consumer credit service providers, and amount of the newly granted consumer loans are shown in Table 8.8.1. Detailed sectoral statistics are published on the CRPC website every 6 months⁵²⁷.

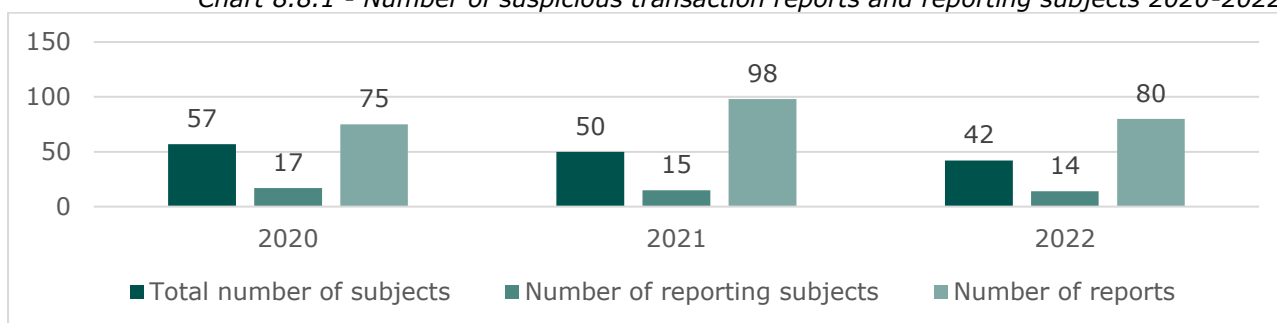
Table 8.8.1 - Turnover and total amount of assets of licensed consumer credit service providers, and amount of the newly granted consumer loans.

	2020	2021	2022
Turnover of licensed consumer loan service providers	EUR 246.0 million	EUR 232.71 million	EUR 257.38 million
Total assets	EUR 2,676.87 million	EUR 2,864.81 million	EUR 3,093.67 million
Amount of granted loans	EUR 500.95 million	EUR 580.19 million	EUR 664.56 million

- 8.8.3. Consumer loan service providers are active in the following lines of business: distance loans, consumer loans, leasing and other loans secured by a vehicle or other object, mortgages, loans against the pledge of a movable asset. Separate data analysis is conducted for another line of business - loans to legal entities and natural persons for business purposes, as a number of PTAC-licensed capital companies, in parallel with consumer lending services, grant loans also to legal entities and/or private individuals for business purposes.
- 8.8.4. While some industry players offer several types of loans, a trend of credit providers to specialise in certain types of loans is observed, as well as decrease in the number of credit providers offering several types of loans (only 1 credit provider offers 4 types of loans).
- 8.8.5. During the reporting period, a total of 100 inspections of consumer credit service providers in the area of AML/CTPF and supervision of compliance with the requirements of sanctions were conducted in 2020; 78 inspections in total were conducted in 2021; 73 inspections - in 2022. Drop in the number of inspections can be mainly explained by the high staff turnover rates, the Covid-19 pandemic. Overall, the number of violations detected has decreased during the reporting period and a trend towards improvement in the quality of the ICS is observed. Overall, the level of awareness of companies on AML/CTPF is often proportional to their size and market share, namely, with larger companies having a higher level of awareness. It also means that such capital companies implement more complete ICSs, thus reducing their vulnerability.
- 8.8.6. During the reporting period, the CRPC adopted 12 decisions in relation to ML/TF violations detected, including 3 decisions in 2020 (in 3 cases, fine in the total amount of EUR 8,000 was imposed), 3 decisions in 2021 (in 2 cases, fine in the total amount of EUR 18,000 was imposed) and 6 decisions in 2022 (no fines were imposed). The decisions were taken in connection with the assessment of the risk associated with ML/TF, failure to provide information to the CRPC, violations detected during the on-site and/or remote inspections, as well as other detected violations of ML/TF requirements.
- 8.8.7. The number of suspicious transaction reports has generally increased during the reporting period, and the number of reporting subjects should also be assessed as stable. Chart 8.8.1 contains statistics of the reporting period by years.

⁵²⁷ Available at: <https://www.ptac.gov.lv/lv/statistika-par-nebanku-kreditesanas-sektoru>.

Chart 8.8.1 - Number of suspicious transaction reports and reporting subjects 2020-2022.



- 8.8.8. Overall, the ability of licensed consumer credit service providers to identify suspicious transactions should be assessed as good, however, the supervision identified signs that raise concerns about the ability of the ICS for AML/CTPF to identify suspicious transactions.
- 8.8.9. When analysing the nature of the economic activity of consumer loan service providers, namely, the provision of credit services mainly to Latvian consumers (residents), their size, amount and impact on the economy, the understanding of risks and the ICSs in place, the nature of the economic activity inherent to the sector, the identified risks associated with the activities of the sector's merchants and the services provided, the main aspects of the ML/TF threat posed to the sector are as follows:
- 8.8.9.1. theft of customer authentication tools to use them to obtain loans;
 - 8.8.9.2. cross-border non-cash flows when making repayments;
 - 8.8.9.3. granting and repayment of loan in cash;
 - 8.8.9.4. opaque origin of funds invested/raised for commercial/economic activities;
 - 8.8.9.5. funding raised from unlicensed investment platforms, where investors' ML risks might not be assessed;
 - 8.8.9.6. early repayment of a loans in a large amount or many smaller payments;
 - 8.8.9.7. a third party repays the loan on the borrower's behalf.
- 8.8.10. The following risks were identified during the reporting period:
- 8.8.10.1. some credit providers use services of intermediaries (agents) to attract customers, in particular, agents are used in the area of financing of goods and services - crediting goods and services purchased from online shops. In some cases, insufficiently assessed risks of their own activities (activities of business partners) for the provision of a service when granting a loan for the purchase of consumer goods or services over the internet.
 - 8.8.10.2. some credit providers carry out manual verifications on sanction lists - risk that verifications may be skipped or conducted carelessly, without respecting different sanction lists and transcriptions.
 - 8.8.10.3. the risk of third parties repaying the loan instead for the borrower. Refunds can be made from an PI/EMI account, including from foreign countries with lower AML/CTPF requirements.
 - 8.8.10.4. Given the increase in fraud cases in the recent years, a major risk is related as to whether the credit is applied for and received by the indicated person or by fraudsters on their behalf, having obtained identification and authentication data. There is also a risk that the person acts on his/her own but under the influence of third parties (e.g. fraudsters), deliberately misleading the credit provider about the purpose of the loan.
 - 8.8.10.5. In case of provision of credit card services, there is a ML/TF risk if huge overpayments are made in the credit card account (payment above the available credit limit) which later are withdrawn from ATMs (worldwide, including high risk countries) and by making purchases. At the same time, you can make an unlimited number of deposits to your credit card account, as well as a large number of debit transactions per day. Third parties may make repayments on the customer's behalf or credit funds above the available credit card limit, and it is possible that third parties (other than the borrower) use the credit card. Besides, funds deposited using a credit card may be very quickly transferred across borders.
 - 8.8.10.6. there is a risk of underestimation of atypical customer behaviour (unusually large early repayments (partial or full), full repayments shortly after the conclusion of the contract, repayments from third parties (even legal entities) or overpayments).

- 8.8.10.7. the risk that the customer attempts to avoid providing information or provides different, contradictory information (including falsified documents) or hides its business activities. There is also a risk of insufficient assessment of whether the person has/had a relation with the country/territory of origin (high-risk jurisdiction) in order to prevent possible risks of the ML/TF or sanctions violation (in particular in relation to persons who are residents of the Republic of Latvia and have obtained a residence permit in the Republic of Latvia).
- 8.8.10.8. Insufficient attention to identifying suspicious transactions/activities to assess the information available to the public and report to the FIU in case of suspicion.
- 8.8.10.9. distance lending contracts are concluded in person, by means of distance communication (access to the internet or telephone is a prerequisite for distance lending). Remote identification is used according to the requirements of the Regulation of the Cabinet of Ministers No 392. All further communication during the validity period of credit is remote, so there is a risk of anonymity and fraud because of remote identification, and it does not necessarily involve taking a picture of the face and person's identity document, and phone communication.
- 8.8.11. The sectoral ML risk of licensed consumer credit providers was assessed as medium-low during the reporting period. This is due to a comprehensive assessment of the sector during the reporting period, including given that, upon summarisation of the information, the FIU did not identify involvement of the sector in the ML criminal proceedings initiated during the reporting period under Section 195 of the Criminal Law. More detailed substantiation is stated in the sectoral risk assessment.
- 8.8.12. Proposals for mitigating actions to address the risks identified in the sector of consumer credit service providers:
 - 8.8.12.1. Raising awareness of subjects regarding international and national sanctions and their imputability to consumer crediting services and the industry as a whole;
 - 8.8.12.2. In-depth inspections to identify cases of inadequate or inappropriate risk assessment of international and national sanctions violation risk and, consequently, insufficiently developed international and national sanctions violation risk management ICS;
 - 8.8.12.3. Continued in-depth checks on the UBOs of reporting entities (subjects of international sanctions, traders with complex ownership structures);
 - 8.8.12.4. Increased targeted checks on the origin of funds attracted, reducing cases of opaque origin of funds invested/attracted for commercial/economic activities in the annual activities of the subjects of monitoring;
 - 8.8.12.5. Raising awareness of subjects to identify suspicious transactions/activities in order to assess the information available to the public on the transaction and its possible relation to ML/TF in case of suspicion and report it to the FIU in case of reasonable suspicion;
 - 8.8.12.6. Continued improvement of consumers' financial literacy through the development of explanatory materials, campaigns and warnings;
 - 8.8.12.7. Adoption of amendments to laws and regulations which are in the process of harmonisation, clarification of guidelines for subjects of the CRPC and provision of training of subjects;
 - 8.8.12.8. Increase in the number of full and targeted on-site inspections.

8.9. Managers of Alternative Investment Funds

- 8.9.1. During the reporting period, the financial and capital market has shown interest in the possibility of becoming a registered alternative investment fund manager, encouraged by amendments to the Law on Alternative Investment Funds and Managers Thereof,⁵²⁸ which introduced significant reliefs to the prudential supervision framework for registered AIFMs with the aim of reducing administrative burden and promoting the development of the industry as a whole. Accordingly, 12 new AIFMs were registered during the reporting period; no licences were issued to new operators in this sector.

⁵²⁸ It should be noted that these amendments have not affected the requirements for registered AIFMs in the area of ML/TF risk management.

- 8.9.2. The number of funds managed by AIFMs also increased by 10, with 31 funds being active at the end of 2022. At the end of the reporting period, the AIFM's total investment in facilities amounted to approximately EUR 281 million, with 69% of it being invested in portfolio companies (acquisition of shares in companies), 24% in loans, 3% in real estate and 4% in other assets.
- 8.9.3. 87% of investors are legal entities and their investment amounted to 98.7% of total investment at the end of the reporting period. At the end of the reporting period, investment made by domestic customers accounted for approximately 56% of total assets, and by foreign customers - for 44%, including 38% by the EU residents.
- 8.9.4. During the reporting period, the FCMC, in line with its risk-based approach and taking into consideration the significant changes in the AIFM sector, conducted intensified supervisory activities in relation to AIFM. Regular remote supervision of AIFMs is ensured through the analysis of submitted exposure reports of the risk of ML/TF and sanctions violation and circumvention, as well as, within the framework of various other remote supervisory measures, paying attention to possible risks and adequacy of measures to manage them.
- 8.9.5. During the reporting period, 14 remote inspections were conducted in the area of management of the risk of ML/TF and sanctions violation and circumvention, assessing the AIFMs' internal regulations. No sanctions were imposed for violations of the AML/CTPF Law.
- 8.9.6. The information obtained from the FCMC's supervisory activities shows that players of the AIFM sector are experiencing a shortage of staff with practical experience in AML/CTPF, which may pose challenges in ensuring effective management of the risks of ML/TF and sanctions violation and circumvention, as well as practical application of regulatory requirements in line with the specific nature of the AIFM sector and the risks of ML/TF and sanctions violation and circumvention inherent thereto. Accordingly, during the reporting period, 2 information seminars and several meetings were organised with individual representatives of the AIFM sector on current issues and challenges in the area of management of the risk of ML/TF and sanctions violation and circumvention with the aim to raise awareness of the risks of ML/TF and sanctions violation and circumvention inherent to the sector and the measures to manage them.
- 8.9.7. During the reporting period, AIFMs sent 1 Suspicious Transaction Report to the FIU, and no reports were sent during the NRA 2020 reporting period. However, the number of FIU reports from the AIFM sector is considered to be low, given the growth of the sector both in terms of the number of participants and the observed changes in the investor profile. This in turn may indicate that the industry still has a poor understanding of the ML/TF risks and sanctions violation inherent to the activities of AIFMs and the practical enforcement of regulatory requirements, including the development of suspicious transaction typologies tailored to their specific business, which may hinder the industry's ability to identify suspicious transactions.
- 8.9.8. The AIFM sector is rated as having a medium-low level of ML threat, which has grown from a 'low' rating in the previous period due to changes in the sector. The increased threat level is affected by the risk factors listed in Table 8.9.1.

Table 8.9.1 - Details on ML/TF risk factors affecting the AIFM sector.

Risk category	Risk factors
Customer risks	Although the sector is mostly composed of low-risk institutional investors (ALTUM, pension schemes, etc.), the provision of services to new customer groups that may be exposed to higher risks of ML/TF and sanctions violation and circumvention increased during the reporting period.
	Risk may also arise from the investment made by PEP customers ⁵²⁹ , whose assets represent around 8.7% of the amount of total investment.

⁵²⁹ Excluding ALTUM, which is classified as a PEP by certain AIFMs.


Geographical and country risks	In line with the changes in the sector, the investment amounts of foreign customers have increased, including payment flows with foreign countries, which may pose an increased risk (at the end of the reporting period, the share of customers from high-risk countries ⁵³⁰ is not significant).
Product and service risks	Cash transactions, as well as investment in high-risk investment objects are not typical to the alternative investment fund management (AIFM) sector, but challenges have been observed in managing the risks associated with investment objects, including ensuring the management of conflict-of-interest risks arising from the link between investors and/or investment objects with the founders or officials of the AIFM.
Supply channel risks	The use of remote identification solutions has increased during the reporting period, which may expose the sector to additional risks, including those related to the quality of the outsourced IT support used for customer identification;
	There may also be risks arising from the distribution channels of the fund's investment units, which can pose a challenge to ensure compliance with the "know your customer" principle.

- 8.9.9. The monitoring found that AIFMs may be involved in the integration phase of a ML scheme, whereby the person who invests in the funds benefits personally from the proceeds of crime in the long term if the origin of the funds is not properly traced, in particular where the investor is directly or indirectly linked to the investee (for example through an ownership structure), thereby breaking the chain of funds and laundering the proceeds of crime. Similarly, an AIFM may be involved in a ML scheme by making a loan to a portfolio company and failing to implement risk-appropriate controls to verify the use of the loan and the origin of the funds used to repay it.
- 8.9.10. Assessment of the threat and vulnerabilities of the AIFM sector during the reporting period leads to conclusion that, overall, the level of the risk of ML/TF and sanctions violation and circumvention has increased compared to 2019 and has been assessed as medium.
- 8.9.11. Proposals for measures to mitigate the ML/TF risk:
- 8.9.11.1. To continue risk-based supervisory measures in the upcoming period, including targeted and thematic inspections, supervisory focus and redirection of resources towards the sectors possessing a higher risk of ML/TF and violation and circumvention of sanctions;
- 8.9.11.2. Promote actions to strengthen the ICS of the operators, including by improving their knowledge of the methodology, relevance and application of the ML/TF risk assessment, qualitative and effective customer due diligence, identification of suspicious transactions and reporting to the FIU;
- 8.9.11.3. Continue to improve the IT systems and tools used for monitoring, including automation of data processing.
- 8.9.12. It is also important for the AIFM sector to be aware of the risks inherent in other related sectors or services, such as *fintech & regtech*, VC and other emerging technologies. Exchange of experience and proposals at supervisory level is required (involvement of both private and public sector), as well as monitoring of the market situation for such services through analysis of complaints and other monitoring activities.

8.10. Savings and Loan Associations

- 8.10.1. At the end of the reporting period, there were 30 credit unions operating in the financial sector, 5 less than in the NRA 2020 reporting period. 5 CCUs (cooperative credit unions) had their licenses revoked on the basis of decisions taken by their members in general meetings, and 1 CCU had its license revoked for persistent non-compliance with the requirements of laws and regulations, including those in the area of ML/TF. One new company was licensed.

⁵³⁰ Here and hereinafter in the sector risk assessment, "high-risk countries" refer to the list of countries with increased ML risks established and maintained by the sector supervisor, the Bank of Latvia.

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- 8.10.2. There were no significant changes in the CCU sector during the reporting period, while the sector is on a downward trend. In 2022, the amount of assets decreased by 8.0% compared to 2019, amounting to EUR 30.5 million (in 2019 – EUR 33.2 million); deposits from members have decreased by 13.4% to EUR 20.9 million (in 2019 – EUR 24,2 million), and the total loan portfolio decreased by 5.8% to EUR 23.7 million (in 2019 – EUR 25.1 million). The customers of the CCU are its members - Latvian residents (97.5%) natural persons and legal entities, the share of foreign customers is insignificant.
- 8.10.3. In 2021, changes were made to the Law on Savings and Loan Associations related to the accession of the FCMC to the Bank of Latvia. The same amendments also clarified the provisions on restricted information. This was necessary to ensure that all sectoral laws had a common understanding of restricted information and the exchange of information with other authorities, that data protection requirements were met and that the provisions were clear about to whom and to what extent information should be provided. The amendments also established the right to impose sanctions if the supervisory and control authority (the Bank of Latvia) finds that the activities of a credit union are conducted without a special permit (licence).
- 8.10.4. During the reporting period, the FCMC continued to implement CCU supervisory activities using a risk-based approach. During the reporting period, the FCMC ensured regular remote supervision of CCUs by analysing the submitted exposure reports of the risk of ML/TF and sanctions violation and circumvention, as well as by focusing on potential risks and compliance of their management measures as part of various other remote supervisory activities.
- 8.10.5. 2 on-site inspections were conducted during the reporting period. 1 inspection resulted in the revocation of the license of the CCU for, among others, significant violations of the AML/CTPF Law, while the other inspection did not result in any sanctions for violations of the AML/CTPF Law, but the institution was instructed to take measures to address the identified deficiencies and to strengthen the ICS for the AML/CTPF. In addition, 2 remote inspections were conducted in the area of management of the risks of ML/TF and sanctions violation and circumvention. Within the framework of these inspections, CCU internal regulations in the area of management of the risks of ML/TF and sanctions violation and circumvention were also assessed.
- 8.10.6. Within the framework of the supervision, it was concluded that, taking into consideration the specific nature of the activities and products offered by the CCUs, their geographical location, as well as their largely small organisational structure, lack of experienced staff can be observed, as a result of which the CCU sector needs to continue to raise awareness of the risks of ML/TF and sanctions violation and circumvention inherent to the sector and practical implementation of the requirements of the laws and regulations. Accordingly, during the reporting period, the FCMC organised an information seminar with representatives of the CCU sector on current issues and challenges in the area of management of the risk of AML/CTPF and sanctions violation and circumvention.
- 8.10.7. During the reporting period, 1 suspicious transaction report was sent by the CCU to the FIU. Within the framework of the supervisory measures, it can be still observed that the CCU sector still does not make practical use of IT solutions to manage the risk of ML/TF and sanctions violation and circumvention, including for supervision of transactions and identification of suspicious transactions. The sector also needs to further improve its understanding of the risks of ML/TF and sanctions violation and circumvention inherent thereto, as well as the practical application of research measures, which can hamper the ability of sector participants to identify suspicious transactions.
- 8.10.8. The ML threat level of the CCU segment is assessed as low. Majority of the members of the CCUs are domestic natural persons and the members of the CCUs are at the same time their customers, the share of due diligence and PEP customer transactions is not significant, shell arrangements are not served. Assets of CCUs consist of members' voluntary savings - shares and deposits. Each CCU operates within its own leveraged resources, so the services offered vary. Simple services on a small scale (deposit attraction/member lending, non-cash money remittances, foreign currency exchange transaction) are mostly offered, and modernisation is slow or non-existent. The services provided by CCU are not characterised by sensitive risk factors: the volume of cash transactions is not significant (6.5% of customer credit turnover in 2022) and has decreased over the reporting period, a significant share of total payment flows are domestic payments (88%), payments to/from third countries account for only 4.5%


of total payments. Customers are mostly identified face-to-face, and high-risk delivery channels are not common.

- 8.10.9. Subjected to increased ML/TF risk may be several CCU with PEP, foreign or high-risk sector customers or significant amount of cash transactions. The provision of money remittance services to third parties without adequate controls in place may also increase the risk.
- 8.10.10. The monitoring did not reveal any cases where CCUs are involved in the ML/TF or circumvention of sanctions. When assessing the threat and vulnerabilities of the CCU sector in 2022, it can be concluded that the overall level of risk of ML/TF and sanctions violation and circumvention remains unchanged compared to 2019 and should be assessed as medium-low.
- 8.10.11. Proposals for measures to mitigate the ML/TF risks in the CCU sector:
 - 8.10.11.1. To continue risk-based supervisory measures in the upcoming period, including targeted and thematic inspections, supervisory focus and redirection of resources towards the sectors possessing a higher risk of ML/TF and violation and circumvention of sanctions;
 - 8.10.11.2. To facilitate the strengthening of the ICSs of operational sector participants, including through the development of their knowledge on the methodology, relevance and application of the ML/TF risk assessment, qualitative and effective customer due diligence, identification of reporting of suspicious transactions to the FIU.

8.11. Life Insurance Service Providers

- 8.11.1. At the end of 2022, the financial sector included 2 insurance companies, which were subsidiaries of Latvian credit institutions, as well as branches of life insurers of 5 Member States (hereinafter referred to as - LI) providing life insurance services. In 2022, the Lithuanian Joint-Stock Insurance Company "INVL Life" UADB, part of the investment management group "Invalda INVL", has started its operation in Latvia by establishing a branch in Latvia. "INVL Life," UADB Latvian Branch took over the business activities of Mandatum Life Insurance Company Limited Latvian Branch and started insurance distribution in the Republic of Latvia, while Mandatum Life Insurance Company Limited Latvian Branch ceased its activities. There are also 30 insurance and reinsurance brokers and 6 branches of insurance and reinsurance brokers from Member States authorised to provide life insurance distribution services, representing 2 brokers less and 1 branch of brokers more than in 2019. During the reporting period, no reinsurance⁵³¹ service provider was active in Latvia.
- 8.11.2. Despite the negative consequences of the Covid-19 pandemic and the negative consequences caused by the geopolitical situation in the region - Russia's war in Ukraine - within the macroeconomic context, amount of life insurance premiums written in Latvia in 2022 have reached EUR 144.5 million, representing 13% increase compared to the end of 2019 (EUR 127.9 million).
- 8.11.3. Life insurance is generally one of the most important types of insurance in Latvia, with a 21.2% share of total amount of premiums written in the insurance sector in 2022. Accumulation-focused life insurance (including market-linked life insurance) accounts for 50.0% of total life insurance premiums written in 2022, pension insurance - 44.4%, and non-accumulation-focused life insurance (risk insurance) - 5.6%.
- 8.11.4. The number of indemnities disbursed in Latvia in 2022 was EUR 115.7 million representing an increase of 43.2% compared to 2019 (EUR 80.8 million), and this can be explained by the uncertainty caused by the geopolitical situation in the region and its negative consequences in the macroeconomic context, which has led to additional interest in withdrawing the accumulated funds.
- 8.11.5. The LI sector is dominated by domestic customers, natural persons accounting for 94.4% of the total amount of the LI assets or EUR 641.8 million.

⁵³¹ Reinsurance - acceptance of assigned risks from an insurance undertaking, reinsurance undertaking or private pension fund.


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- 8.11.6. In order to ensure a risk-based approach, for supervisory purposes, LI and LI intermediaries were divided into ML/TF risk groups based on the inherent ML/TF risk and the effectiveness of its management. During the reporting period, 4 LIs were rated low, and 2 - medium ML/TF risk. All the LIs intermediaries are rated low risk.
- 8.11.7. No significant amendments to the Insurance and Reinsurance Law were introduced during the reporting period that would affect the sector of LI and LI intermediaries.
- 8.11.8. During the reporting period, the FCMC continued to implement LI supervisory measures using a risk-based approach. Regular remote supervision monitoring of the LIS is ensured through the analysis of the submitted exposure reports of the risk of ML/TF and violation and circumvention of sanctions, as well as by focusing on potential risks and compliance of their management measures as part of various other remote supervisory activities.
- 8.11.9. During the reporting period, one remote inspection was conducted in the area of management of the risk of ML/TF and sanctions violation, including by assessing the LI's internal regulations in the area of management of the risk of ML/TF and sanctions violation and circumvention, no penalty sanctions were imposed for violations of the AML/CTPF Law.
- 8.11.10. Within the framework of supervision, it was concluded that some players in the LIS sector were experiencing a shortage of staff with practical experience in the area of AML/CTPF, which may pose challenges in ensuring effective management of risks of sanctions violation and circumvention, as well as practical application of requirements of the laws and regulations in line with the specificities of the LIS sector and the risks of ML/TF and sanctions violation and circumvention inherent thereto. Accordingly, during the reporting period, an information seminar and several meetings were organised with representatives of the LIS sector on the current issues and challenges in the area of management of the risk of ML/TF and sanctions violation and circumvention. In addition, during the reporting period, the FCMC participated in one meeting of the supervisory collegium of LIS providers operating in Latvia within the framework of freedom of incorporation to promote a common understanding of risks and their management in the respective operator.
- 8.11.11. During the reporting period, 5 suspicious transaction reports were sent by the LIs to the FIU, which is partly due to the fact that a significant proportion of the LI customers, both in terms of number and amount of funds deposited, are LI customers that form part of credit institutions, and the LI customers are at the same time customers of these credit institutions. Likewise, credit institutions also often provide the management function of the risk of ML/TF and sanctions violation and circumvention in relation to the LISs within its structure (ICS), including the research of customer transactions, identification of suspicious transactions and reporting to the FIU.
- 8.11.12. The number of reports submitted to the FIU may indicate the need to improve the knowledge of LIS sector participants on the risks of ML/TF and sanctions violation and circumvention inherent to their activities and practical implementation of requirements of the laws and regulations, including the development of suspicious transaction typologies suitable for the specific nature of their activities. In order to raise the awareness of the sector representatives on the practical application of the regulatory requirements, during the reporting period both an information seminar with the participants of the LI sector was organised and individual explanatory work was conducted within the framework of some LI remote monitoring activities.
- 8.11.13. The ML threat level of the LI segment is rated low, with the majority of life insurance recipients being, in terms of the amount of funds contributed, domestic customers, natural persons, furthermore, the share of PEP customers' business is insignificant. Most of the customers, UBO's of legal entities are residents of Latvia, large cash transactions or international remittances are not typical of the sector and cash movements, bonus payments and remuneration disbursements are predominantly made in Latvia. LI products are generally not attractive for quick movement of funds and, consequently, not easy to use for ML. The supply channel risk arises from the use of agents and intermediaries by the LI to identify customers, but the volume is not significant.
- 8.11.14. In addition, it should be noted that most of the LI intermediaries in fact act only as customer attractors and are not involved in the flow of funds, as most of them are not authorised to accept payments. The customers attracted by the intermediaries enter into business relations

with insurance companies to which the necessary payments are also made, respectively, which suggests that no significant additional threat caused by the LI intermediaries have been identified.

- 8.11.15. Monitoring did not reveal any cases of Latvian LIs being involved in ML/TF or sanctions circumvention. At the same time, given the specific nature of the activities of the LIs, higher risks of sanctions violation are possible.
- 8.11.16. Possible ML typologies in the LI sector:
 - 8.11.16.1. The funds paid by the customer to accumulate cash are criminally obtained, and the customer terminates the contract shortly after paying the contributions, resulting in the insurance provider disbursing funds to the customer's bank account, thereby laundering the proceeds of crime;
 - 8.11.16.2. Accumulation-focused LI products can be used under various tax schemes as well as during the integration phase of the ML scheme, when a person benefits personally from the proceeds of crime in the long term.
- 8.11.17. Assessment of the ML/TF threat and vulnerabilities caused by the LI sector during the reporting period shows that, overall, the ML/TF risk level remains unchanged compared to 2019 and the assessment remains medium-low. The ML/TF risk level caused by the LI intermediaries also remains unchanged compared to 2019, and the rating remains low.
- 8.11.18. Proposals for measures mitigating ML/TF risks in the LI sector:
 - 8.11.18.1. To continue risk-based supervisory measures in the upcoming period, supervisory focus and redirection of resources towards the sectors possessing a higher risk of ML/TF and breach and circumvention of sanctions;
 - 8.11.18.2. To promote the development of knowledge on the practical application of the laws and regulations on the prevention of ML/TF and on management of the risks of ML/TF and sanctions violation and circumvention in line with the specific nature of the activity;
 - 8.11.18.3. To promote the development of knowledge of responsible staff on the identification and reporting of suspicious transactions to the FIU.
- 8.11.19. It is also important for the LIS sector to be aware of the risks inherent in new technology-related sectors or services such as *fintech & regtech*, VC, etc.

8.12. Private Pension Funds

- 8.12.1. At the end of the reporting period, there were 7 PPFs operating in the financial sector, 6 of which were open PPFs and 1 closed, managing a total of 21 pension schemes. Four of the above mentioned PPFs are subsidiaries of credit institutions. The number of PPFs has increased compared to the NRA 2020 reporting period, as the FCMC issued a license to "Indexo Atklatais Pensiju Fonds AS" (Indexo Open Pension Fund) for PPF activities in 2021.
- 8.12.2. During the reporting period, increasing were both the number of individual PPF members (by 59,000 or 17.7%) and the number of members whose contributions are made by the employer (by 535 or 1%). The number of individual members reached 332,860 at the end of 2022, while employers made contributions for 51,481 members of third pillar pension schemes. The number of foreign customers has gradually increased, reaching 818 at the end of 2022, but the overall share is small - only 0.2% of all members of pension schemes.
- 8.12.3. Assets of PPF schemes continued to increase during the reporting period and reached EUR 0.67 billion in 2022, representing an increase of 16.4% compared to the end of 2019 (EUR 0.56 billion). In addition, customer contributions continued to grow and increased by 12.9% in 2022 compared to 2019, with foreign customer contributions accounting for only 0.09% (EUR 0.09 billion) of the amount of customer contributions.
- 8.12.4. In order to ensure a risk-based approach, for supervisory purposes, PPFs were classified into ML/TF risk groups based on the ML/TF risk inherent to the PPF and the effectiveness of its management. During the reporting period, 5 PPFs were rated low risk and 2 - medium ML/TF risk.

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- 8.12.5. On 13 January 2020, the Law on Private Pension Funds was replaced by the Private Pension Funds Law, and it implemented Directive (EU) 2016/2341 of the European Parliament and of the Council on the activities and supervision of institutions for occupational retirement provision to improve the existing requirements for the protection of members and beneficiaries of occupational retirement provision plans, for ensuring good governance, for the provision of information to the scheme participants and for the transparency and safety of occupational retirement provision. The 2022 amendments to the Private Pension Funds Law created the legal preconditions for the application of Regulation (EU) 2019/1238 of the European Parliament and of the Council on a pan-European Personal Pension Product.
- 8.12.6. During the reporting period, the FCMC ensured regular remote supervision of the PPFs by analysing the submitted exposure reports of the risk of ML/TF and sanctions violation and circumvention, as well as by focusing on potential risks and compliance of their management measures as part of various other remote supervisory activities.
- 8.12.7. In line with the risk-based approach to the implementation of supervisory activities, no on-site inspections of the PPFs were conducted during the reporting period. During the reporting period, 2 remote inspections were conducted assessing internal PPF regulations in the area of management of the risk of ML/TF and sanctions violation and circumvention, and no penalty sanctions were imposed for violations of the AML/CTPF Law after the inspections. An information seminar was also organised with representatives of the PPF sector on current developments and challenges in the area of AML/CTPF and management of the risk of and sanctions violation and circumvention with the aim of raising awareness of the risks inherent to the PPF sector and the measures needed to manage them.
- 8.12.8. During the reporting period, PPFs has sent to the FIU 1 suspicious transaction report, which may be justified by the long-term nature of the products offered by PPFs, which is not convenient for organisation of rapid movement of funds, as well as the fact that the majority of PPF customers, both by number (over 90%) and by assets, are customers of PPFs that form part of the structure of credit institutions, and PPF customers are also customers of these credit institutions. Furthermore, majority of PPF customers are domestic individuals. Credit institutions also often provide the management function of the risk of ML/TF and sanctions violation and circumvention in relation to the PPFs within its structure (ICS), including the research of customer transactions, identification of suspicious transactions and reporting to the FIU.
- 8.12.9. In order to raise the awareness of the representatives of the PPF sector on the practical application of the regulatory requirements and the risks of ML/TF and sanctions violation and circumvention inherent to the PPF sector, both an information seminar with the PPF sector and individual explanatory work were organised during the reporting period within the framework of some remote PPF supervisory activities.
- 8.12.10. The ML threat level of the PPF segment is assessed as low, since share of the most significant customers are domestic individuals, the average amount of contributions to supplementary pension capital is low, and the financial product offered by PPF - a closed-end long-term investment product - is not convenient for quick movement of funds. The regulatory framework sets a time limit for receiving the accumulated supplementary pension, i.e., the supplementary pension may be received at the age of 55 (in limited cases, the supplementary pension can be disbursed earlier), which makes the PPF product unattractive for the implementation of the ML/TF.
- 8.12.11. Supervision did not reveal any cases of Latvian PPFs being involved in ML/TF or circumvention of sanctions.
- 8.12.12. There is possible ML typology through PPFs: funds contributed by the customer for savings are criminally obtained and the customer terminates the contract shortly after making the contribution. As a result, the service provider disburses the funds to the customer's bank account, thereby laundering the proceeds of crime. The PPF product can also be used within the framework of various tax schemes, as well as in the integration phase of a ML scheme, where a person benefits personally from the proceeds of crime in the long term.
- 8.12.13. Assessment of the ML/TF threat and vulnerability of the PPF sector during the reporting period shows that the overall ML/TF risk level remains unchanged compared to 2019, as the sector

has not experienced dynamic changes in risk indicators given the long-term nature of the PPF product, and the rating remained low.

- 8.12.14. Proposals for mitigating ML/TF risks in the PPF sector:
- 8.12.14.1. Risk-based supervisory measures, supervisory focus and redirection of resources towards the sectors possessing a higher risk of ML/TF and breach and circumvention of sanctions;
 - 8.12.14.2. To facilitate the development of knowledge of the responsible staff of the sector for practical application of the laws and regulations on the management of the risk of ML/TF prevention and sanctions violations and circumvention according to the specific nature of the activities;
 - 8.12.14.3. To promote the development of knowledge of the responsible staff of the sector on the identification of suspicious transactions and reporting to the FIU.
- 8.12.15. It is also important for the PPF sector to be aware of the risks inherent in new technology-related sectors or services such as *fintech & regtech, VC, etc.*

8.13. Virtual Currency Service Providers

- 8.13.1. The number of VC providers has increased compared to the NRA 2020 reporting period, but it is still low. As at 31 December 2019, there were 4 VC service providers under the supervision of the SRS. During the reporting period, up to 10 VC service providers were under the supervision of the SRS, and at the end of the NRA 2023 reporting period - 7 VC service providers. The services represented in the Latvian VC service provider sector include cryptocurrency exchange, buying and selling of cryptocurrencies using cash, as well as business development services — implementation of cryptocurrency-based system, consulting and implementation of crypto-portfolio. The annual turnover of VC service providers registered in Latvia basically does not exceed EUR 100,000 during the reporting period. Only one of the companies has reached a turnover of EUR 1 million in one of the years of the reporting period. The average number of employees in VC service provider companies is 3-4. It can be concluded that the scope and turnover of services provided by the sector of the VC service providers is relatively small compared to the credit institutions sector and other financial sectors during the reporting period. All the customers of SRS-registered VC service providers are residents of Latvia and legal entities registered in Latvia.
- 8.13.2. Furthermore, it should be mentioned that, during the reporting period, the LEAs have identified, within the framework of certain criminal proceedings, persons who had provided VC services without registering their economic activity and without registering with the SRS as VC service providers. These violations occurred without using the infrastructure of Latvian VC service providers, as well as, in the cases identified, the unregistered service providers were established for criminal purposes from the outset, and did not attempt to provide legitimate VC services. For example, criminal proceedings contained in the records of the Main Criminal Police Department Cybercrime Enforcement Department revealed that members of an organised group conducted ML over a long period of time using nearly 100 accounts opened with Latvian credit institutions. They received proceeds generated by fraud, withdrew them in cash and converted them into VC through an unregistered VC service provider. This led to the identification of unregistered VC exchange service providers which are not supervised and do not carry out customer due diligence, but provide cash and VC exchange service.
- 8.13.3. Customers from Latvia are offered to receive VC-related services also by VC service providers which are registered abroad and do not have physical branches in Latvia. Such foreign VC service providers do not inform the SRS about their economic activities, as well as do not register or receive a license⁵³². Only companies registered in Latvia, as well as branches of foreign-registered VC service providers report to the SRS on the provision of virtual currency services in Latvia. Against this background, the risks arising from the use of cryptocurrencies and other crypto-assets in general are separated from the assessment of the Latvian-registered VC service sector and are assessed in depth in the chapter "High ML risk services" of the NRA 2023.

⁵³² During the reporting period, foreign VC service providers were not bound by this obligation, but this will change with the introduction of the MiCA regulation.

- 8.13.4. The providers of VC services were designated as reporting entities to be monitored by the SRS as of 1 July 2019. There was no requirement to obtain a license to provide VC services in Latvia during the reporting period. At the same time, the person providing the VC services is obliged to register with the SRS by submitting a report on the type of activity and the appointment of a responsible person. Likewise, such a person is also subject to the AML/CTPF Law with the obligation to set up an ICS and, where necessary, to report suspicious transactions to the FIU.
- 8.13.5. Directive (EU) 2018/843 of the European Parliament and of the Council defines VC exchanges or exchange points as "service providers engaged in the exchange of VC and other currencies (means of payment)" and digital wallet service providers as "undertakings providing services to protect private encryption keys for the holding, storage and transfer of VC on behalf of their customers".⁵³³ Whereas, Section 1(2²) of the AML/CTPF Law stipulates that VC — a digital representation of the value which can be transferred, stored or traded digitally and operate as a medium of exchange, but has not been recognised as a legal means of payment, is not to be considered a banknote and coin, non-cash money and electronic money, and is not a monetary value accrued in the payment instrument which is used in the cases referred to in Section 3, Clauses 10 and 11 of the Law on the Payment Services and Electronic Money.
- 8.13.6. Unlike other transactions of the reporting entities, transactions with VC are considered to be high-risk from the outset, and, according to the provisions of Section 11(1)(7) of the AML/CTPF Law, all customers dealing with VC are required to carry out customer due diligence. Such a regulatory framework mitigates the risk not only in the VC exchange services sector, but also in other sectors that choose to conduct business using VC. Thus, the provisions of Section 11(1)(7) of the AML/CTPF Law eliminate the risk of anonymity inherent in VC transactions between the reporting entities, since the originator can automatically be presumed to be the actual owner of the VC, regardless of whether the originator is the actual holder or owner of the source of VC (crypto-wallet).
- 8.13.7. Given the challenges posed by the VC providers, including the possibility that they operate in the market without registration, the sector needs a stronger regulatory framework. The FATF also recommends that jurisdictions regulate and either license or register VC service providers for AML/CTPF purposes and subject them to effective systems to supervise and ensure compliance with the relevant measures required by the FATF Recommendations. Besides, in 2023, work is underway on the draft law "Law on Crypto-asset Services", which will stipulate the licensing procedure for crypto-asset service providers (the draft law will apply to existing operators and new operators, who will have to obtain a license issued by the Bank of Latvia before starting to provide the service).
- 8.13.8. The World Economic Forum has identified four approaches to regulating the VC market in its⁵³⁴ study. One of them: a comprehensive regulatory approach - involves development and implementation of a special regulatory framework that would define the actions to be conducted by the responsible bodies. This could include licensing requirements, reporting and AML/CTPF requirements to ensure risk-appropriate provisions for financial services and restrictions on cross-border transfers of foreign currency. Examples include Switzerland, Japan and New York, USA. At the EU level, the Markets in Crypto-Assets (MiCA) Regulation will ensure uniform rules for virtual assets across Europe.⁵³⁵
- 8.13.9. In order to effectively mitigate the ML/TF/PF risks and ensure compliance with international standards in the field of AML/CTPF, the SRS believes that the most appropriate mechanism is licensing, while this view is also supported by industry representatives, for which a license or state-issued permission to carry out specific economic activities would facilitate potential cooperation with credit institutions. The cross-border nature of VC has a significant impact on the supervisory capabilities of these assets. A fully-fledged supervisory function must include the possibility to impose appropriate sanctions, which is only possible by introducing a licensing

⁵³³ Article 1 of Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L0843>.

⁵³⁴ World Economic Forum. *Navigating Cryptocurrency Regulation: An Industry Perspective on the Insights and Tools Needed to Shape Balanced Crypto Regulation*. COMMUNITY PAPER SEPTEMBER 2021. 18. lp.

Available at: https://www3.weforum.org/docs/WEF_Navigating_Cryptocurrency_Regulation_2021.pdf.

⁵³⁵ Regulation of the European Parliament and of the Council on markets in cryptoassets amending Directive (EU) 2019/1937

mechanism linked to the geographical element, i.e., the right to provide the service in the jurisdiction of Latvia. A clear regulatory framework will also contribute to the prevention of ML.

- 8.13.10. At the same time, the development of licensing requirements should take into consideration that MiCA regulation will be supranational with regard to the virtual asset services it regulates. Accordingly, a license obtained in one EU country will be valid throughout the EU. This will not only make the business environment easier for entrepreneurs, but also foster competition between the EU jurisdictions for the revenue to be generated by this fast-growing sector. It is therefore important to develop the licensing regime in timely manner, proactively providing for the planned MiCA framework and incorporating it into national framework, thereby facilitating the start-up or continuity of the VC operation at the moment of entry of the MiCA into effect.
- 8.13.11. There is a need for a comprehensive framework for virtual assets (currencies, initial offers, tokens, etc.) and services related thereto. At the EU level, the MiCA single framework has been developed since Q3 2020, and it was adopted by the European Parliament on 20 April 2023. Taking into consideration the time limits set for the implementation of MiCA, the MoF is drafting a law on virtual assets in 2023, which will define the national competent authority and its supervisory powers, licensing requirements for operators to provide services, as well as liability for violations committed by the operators. It is planned to determine the Bank of Latvia as the national competent authority, which will supervise virtual asset market operators and issue licenses for the provision of services.⁵³⁶
- 8.13.12. In 2020, 1 on-site inspection was conducted in the sector of the VC service providers, in 2021 - 4 on-site inspections and 1 remote inspection, and in 2022 - 9 on-site inspections were conducted, consequently, during the reporting period, each participant of the sector was inspected more than once on average. Within the inspections conducted during the reporting period, 3 suspension decisions were made applying a prohibition to register changes in the Commercial Register for the reorganisation of commercial company and changes in the composition of its shareholders, and 6 decisions on imposition of fines. The average fine imposed during the reporting period was EUR 2,441.67. These indicators are shown by year in Table 8.13.1. Nature of the infringements found - violations of the requirements of the AML/CTPF Law applying to the customer due diligence and the storage of relevant documents, appointment of responsible staff, and notification of the type of activity.

Table 8.13.1 – Inspections conducted during the reporting period and sanctions imposed in the VC service sector

	Number of inspections	Violations detected	Fines	In the total amount, EUR
2020	1	3	3	2,850
2021	5	1	1	10,000
2022	9	2	2	1,800

- 8.13.13. Violations detected during inspections of VC service providers: failure to update ICS, failure to carry out customer identification and due diligence measures, failure to identify customer's ML/TF risks, failure to carry out risk assessment of customer's sanctions violation and failure to notify the SRS of the type of activity and appointment of the responsible person. During the inspections, it was concluded that the most frequently provided services were the exchange of VC for officially recognised means of payment or vice versa, furthermore, it was found that only one exchange platform was used.
- 8.13.14. The FIU has not received any suspicious transaction reports from the VC service providers during the reporting period. This is due to the size of the sector, the low number of participants, the low risk appetite and the fact that the VC services are provided mainly in face-to-face, in line with the threshold per cash transaction EUR 7,200 set in Latvia.⁵³⁷ The FIU has developed VC-related ML/TF risk assessments both in 2021 and 2022,⁵³⁸ within the framework of which

⁵³⁶ MoF. The conference will discuss the framework of virtual assets in Latvia. Available at: <https://www.fm.gov.lv/lv/jaunums/konference-diskutes-par-kriptoaktivu-regulejumu-latvija>.

⁵³⁷ Section 30(1) of the *Law on Taxes and Duties*.

⁵³⁸ The FIU. *VC-related ML/TF risk assessment. 2021 and 2022*. Available at:

https://fid.gov.lv/uploads/files/2021/virtu%C4%81%C4%81s%20val%C5%ABtas/FID_VV%20risku%20nov%C4%93rt%C4%93jums.pdf un https://fid.gov.lv/uploads/files/2022/VVRN/VVRN%202022_FINAL%20%28002%29.pdf.

it has organised individual meetings with actors in the sector discussing and understanding the specific character, risks and challenges of their work. This has demonstrated the sector's expertise in identifying suspicious transactions, and has also fostered cooperation in general. Furthermore, it should be noted that, during the reporting period, the FIU received from other subjects of AML/CTPF Law on average 100 suspicious transaction reports related to cryptocurrencies annually. Notably that none of these reports raised suspicions of with regard to a Latvian-registered VC service provider.

8.13.15. From the perspective of the VC service providers, the highest ML/TF risks in Latvia are caused by:

8.13.15.1. Residents of Latvia — unregistered VC service providers — who deliberately do not comply with the requirements for the AML/CTPF;

8.13.15.2. VC service providers with weak or non-existent requirements for the AML/CTPF registered in countries with weak or non-existent requirements for the AML/CTPF for VC service providers.

It can be concluded that in Latvia, as well as internationally, within the context of the VC ML and TF risks, the main trends consist of VC currency service providers with weak or non-existent requirements for the AML/CTPF, as well as methods and tools that enhance anonymity.

8.13.16. Presumed and identified methods of ML in the sector of VC service providers:

8.13.16.1. creation of fake customers ("money mules") using distance solutions;

8.13.16.2. conversion of proceeds of crime into VC;

8.13.16.3. structuring of transactions;

8.13.16.4. Difficulties in identifying customers using the VC services.

8.13.17. During the reporting period, the sector's risk rating was medium, unchanged compared to the 2020 NRA. Proposals for mitigating measures to address the risks identified by the sector: introduce licensing of VC service providers; continue to improve the knowledge of staff involved in the field of ML and raise awareness of the ML/TF risks; continue to improve suspicious transaction monitoring and reporting mechanism and strengthen the effectiveness of supervisory measures, as well as and consider the necessity for the VC supervisory authority to publish and regularly update a list of registered VC service providers.

8.13.18. The provided sector assessment is relevant and comprehensive within the context of the VC service providers registered in Latvia. However, given the indications that Latvian residents use VC services much more widely than they are provided by companies registered in Latvia, an in-depth risk (threat and vulnerability) assessment regarding services involving different types of virtual assets and technologies is available in the chapter "Services of a higher ML risk".

Non-Financial Sector

8.14. Trust or Company Service Providers

8.14.1. The number of trust or company service providers (TCSP) providing services in founding and operating legal entities and persons was on a downward trend both in the reporting period and in relation to the NRA 2020 reporting period figures. As of 31 December 2019, there were 1021 TCSP under the supervision of the SRS, while on 31 December 2022, there were only 688 TCSP, i.e. by 333 (33%) TCSP less.


Table 8.14.1 — TCSP under the supervision of the SRS, 2019–2022

	2019	2020	2021	2022
TCSP	1021	883	829	688

8.14.2. The total number of TCSP consists of both entities providing only TCSP services and entities providing other services at the same time, such as tax advice or outsourced accounting. Compared to other non-financial sectors, TCSP account for approximately 6.2% of the total number of entities. Given the nature of TCSP business, the sector has an indirect but significant impact on the overall effectiveness of the AML/CTPF mechanism: TCSP themselves are mostly not involved in AML/CTPF schemes, but can play an important role as facilitators, providing

criminals with legal structures, legal entities, and services necessary for these entities to function.

- 8.14.3. Assistance in setting up a legal structure — this can take the form of preparing the documents for the customer to register a legal entity, or registering a legal entity on behalf of the customer. The sale of legal structures with commercial nature is deemed to be an assistance in the establishment of a legal structure, regardless of whether the buyer itself formalises all the registration documents or whether the seller of the legal structure does so on its behalf. The risks associated with AML/CTPF are the creation of shell companies and complex ownership structures through different jurisdictions to conceal or make it difficult to identify the BO. In addition, NGOs can also be used for money laundering or terrorist financing. Given that Latvia does not recognise “trusts” as legal structures, there are no risks associated with the establishment of trusts in Latvia.
- 8.14.4. Acting as a director, secretary, or partnership member of a company or other legal structure, or performing or arrange the performance of other similar duties by another person, can take place as formal, legally established performance of duties on behalf of third parties, or as informal, but actually occurring performance of duties on behalf of third parties. Regarding similar duties, their role should be taken into consideration, e.g. a director or a partnership member has a certain role and influence in decision-making, while the secretary’s role is to ensure the circulation of documents and the exchange of information. The primary ML/TF/PF risks are related to the use of fictitious directors and fictitious owners to hide the BO based on hidden arrangements. The list of responsibilities is not exhaustive and includes the secretary as a person who can play an important role in concealing the true governance structure. The main ML/TF/PF risk is the concealment of true beneficiaries in control and ownership.
- 8.14.5. Provision of a registered address, post address, place of business address, and other similar services to legal entities may take place as allowing (as a commercial service) third parties to register as a legal entity in the provider’s real estate, or virtual office services, which may include the receipt (including sending, forwarding) of correspondence, the provision of a place for accessing correspondence, a place of business (actual provision of services), a postal box service. The primary ML/TF/PF risks are related to the use of an address where the customer is not actually located. Such actions enable greater anonymity for the customer, distance the customer from the activities that take place and payments that are made, and create an impression of legitimate business activity, thus making it more difficult for an investigating authority to identify fictitious business activities and the location of the potential offender.
- 8.14.6. Fiduciary duties with a direct power of attorney or a similar legal document, or ensuring that another party performs these duties may take the form of managing the assets of third parties in accordance with their instructions, or arranging that someone else manages those assets on behalf of third parties. According to the FATF recommendations, this TCSP feature applies to “trusts” and similar legal structures. Given that “trusts” are not legally recognised in Latvia and applying this principle through analogy, the main features are the management of third-party assets (property) in accordance with the instructions received. In addition, it should be noted that, unlike what is specified in the FATF Recommendations, fiduciary duties can be performed on behalf of both legal entities and natural persons. Thus, a service provider who offers to manage property (including owned by a legal entity) on behalf of a customer is considered to be a TCSP who, under a direct authorisation, performs the duties of a fiduciary, i.e. disposes of the property in accordance with the owner’s instructions. The primary ML/TF/PF risks relate to the use of professionals to conceal the flow of funds and to create legitimacy for transactions, thus hiding the original illicit origin of the funds. The use of power of attorney creates distance between the BO and a direct link with the property, giving the impression that the authorised representative has control over the property. While the use of such professionals may be economically and professionally justified, it creates the risk that the authorised representative’s professional skills can make it possible for them conceal the true purpose of the transactions and make it more difficult to ascertain the true origin of the funds.
- 8.14.7. Representation of shareholders of a company whose financial instruments are not listed on a regulated market and that is subject to disclosure requirements under EU law or equivalent international standards, or arranging that such representation is carried out by another person may take the form of representation of entities who are shareholders in a private JSC. The primary ML/TF risks are related to creating an impression of anonymity and legitimacy when the representative gives instructions on behalf of the customer. If the customer of TCSP has



criminal intentions, the representative serves as a protective layer between the parties involved in the transaction, avoiding the detection of direct criminal intent between the BO of the transaction. This protects the parties involved in the transaction from the possibility of supervisory bodies and law-enforcement agencies to detect the true purpose of the transaction.

- 8.14.8. In addition, it should be noted that, if the above conditions are met, other entities under the AML/CTPF Law—tax advisors, outsourced accounting service providers, independent legal service providers, and real estate agents—can also be considered TCSP.
- 8.14.9. Given Latvia’s historical role as a regional financial centre and its close links with CIS countries, TCSP services can be attractive for ML as they enable third parties to organise the opening of company and bank accounts, obtaining tax status and arranging transactions. The element of representation plays an important role in creating an impression of legitimacy, as a professional with the appropriate credentials will create less doubt as to the true nature of the transactions, so TCSP, when representing their customers’ interests, must have full confidence in the veracity of the information obtained as part of KYC activities and the transactions carried out on the customer’s behalf.
- 8.14.10. When assessing TCSP, one must take into consideration the risk associated with the services provided and as well as the channels for the provision of these services. Some TCSP that provide services to international customers online are much more vulnerable than offline providers, especially if the emphasis is on guaranteeing customer anonymity or facilitating the incorporation of legal entities in jurisdictions with low AML/CTPF requirements or in low tax jurisdictions. Additional risk factors include the provision of services to customers from high-risk jurisdictions, as well as the provision of bank accounts to such customers and their registration in tax registers. Services provided remotely always carry more risk than services provided in person. Given the link between tax evasion and AML, one of the high-risk features to be emphasised is the repurchasing of existing companies. This is done in order to obtain a bank account and a VAT number, while avoiding the identification of the owner as a high-risk customer. The registration of legal entities with the Register of Enterprises may be considered a lower risk transaction if the owners are residents of the Republic of Latvia, including if the documents are prepared using automated IT solutions.
- 8.14.11. Non-resident customers are considered to be higher risk than resident customers. When assessing the risk of non-resident customers, the risk of their country of residence and the risk of the jurisdictions of their existing or planned counterparties are taken into consideration. In addition, it should be noted that legal entities from low-tax jurisdictions, as well as legal entities with complex ownership structures, which make it difficult to ascertain the BO, are considered to be high-risk TCSP customers. Low-risk customers are residents acting on their own behalf who do not have the other risk features specified in the AML/CTPF law or in the recommendations of the supervisory authority.
- 8.14.12. The main jurisdiction risks for TCSP arise from countries that allow the registration of nominal directors, but do not provide public access to information on owners and UBOs of legal entities. Information on country risks is available in publications by FATF, Transparency International, EU, Council of Europe, Europol, NRA, supervisory bodies and other publicly available materials.
- 8.14.13. Depending on the services offered, TCSP can be used to:
 - 8.14.13.1. hide or disguise BO;
 - 8.14.13.2. evade tax;
 - 8.14.13.3. evade the requirements of the AML/CTPF Law;
 - 8.14.13.4. create an appearance of legitimacy for criminal activities;
 - 8.14.13.5. use complex corporate ownership structures to distance the proceeds of crime from their origin and owner;
 - 8.14.13.6. avoid identification and confiscation of property;
 - 8.14.13.7. make investigations by law-enforcement agencies more difficult;
 - 8.14.13.8. circumvent EU sanctions.
- 8.14.14. Currently, any party can be a TCSP. Latvia does not have a legal mechanism to monitor the establishment, quality, and competence of TCSP. There are no requirements for education, competence, experience, reputation, or criminal record. If continued and significant breaches of the AML/CTPF Law are found, the person should be barred from continuing to provide TCSP

services, as there is a significant risk that the person may knowingly engage in the facilitation of ML by failing to perform their professional duties in accordance with moral, ethical, and legal standards.

- 8.14.15. One solution is to introduce the licensing of TCSP and to legally prohibit the advertising of TCSP unless the TCSP has a licence to provide these services. This would effectively eliminate the threat posed to Latvia by service providers registered in other jurisdictions, with lower AML/CTPF standards, while ensuring a level playing field for service providers that uphold sufficient customer due diligence and transaction monitoring standards, and blocking websites that offer unlicensed TCSP services. The introduction of TCSP licensing would ensure the most extensive level of control over the TCSP sector, compliance with international standards in the field of AML/CTPF, and introduction of uniform industry standards, facilitating the provision of stable, safe, and reliable services.
- 8.14.16. 42% of TCSP in the survey carried out by SRS reported an annual turnover of less than EUR 10,000. 16% of TCSPs had a turnover of EUR 10,000 to EUR 20,000, and 12%, of EUR 20,000 to EUR 40,000. Only 4.7% of TCSP had a turnover of more than EUR 1,000,000.
- 8.14.17. 5% of TCSP provided services to high-risk customers and 5% provided services to PEPs. In terms of the country of registration, 9% of TCSP customers were from the EEA, 1.5% from the CIS, and 5% from other jurisdictions. The largest percentage of TCSP's customer base, or 85% of all TCSP customers, were residents of Latvia and legal entities registered in Latvia.
- 8.14.18. During the reporting period, the number of inspections carried out by the SRS increased every year, but decreased if compared to the NRA 2020 reporting period. This is due to a significant reduction in the number of TCSP.

Table 8.14.2 – Number of TCSP inspections by the SRS in 2019–2022

	2019	2020	2021	2022
On-site inspections	58	75	42	172
Off-site inspections	230	8	9	1

- 8.14.19. Sanctions imposed on entities registered as TCSP for violations of the AML/CTPF Law and the Sanctions Law:
- 8.14.19.1. 2020 — 2 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders; 17 decisions imposing fines totalling EUR 26,400.
- 8.14.19.2. 2021 — 2 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders; 7 decisions imposing fines totalling EUR 6750.
- 8.14.19.3. 2022 — 2 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders; 13 decisions imposing fines totalling EUR 8800.
- 8.14.20. The most common breaches were: incomplete and/or not duly updated ICS, insufficient customer due diligence and identification, no sanctions breach risk assessment carried out, no ICS for managing sanctions breach and circumvention risks, and no suspicious transaction reporting.
- 8.14.21. One negative circumstance is that the FIU did not receive any suspicious transaction reports from TCSP during the reporting period. This does not reflect the presumed risk exposure of the sector and increases its vulnerability. The absence of suspicious transaction reports is an indication of the TCSPs inability to identify suspicious transactions. This is also confirmed by the fact, revealed during SRS inspections, that no suspicious transactions were reported by TCSP.
- 8.14.22. The main perceived risks in the TCSP sector are:
- 8.14.22.1. creation of shell structures and complex ownership structures through different jurisdictions to conceal or make it difficult to identify the BO;
- 8.14.22.2. use of nominal (fictitious) directors and fictitious owners to hide BO on the basis of collusion;

- 8.14.22.3. provide an address where the customer is not actually located;
 - 8.14.22.4. use of professionals to hide the cash flows and to give legitimacy to transactions and their parties;
 - 8.14.22.5. create an impression of anonymity and legitimacy by giving the representative seemingly independent instructions on behalf of the customer.
- 8.14.23. The sector risk rating for the reporting period is medium and has declined compared to the NRA 2020 reporting period. This is mainly due to the sector's declining number of high-risk and non-resident customers.
- 8.14.24. Proposals for actions to mitigate the risks identified in the sector: implement TCSP licensing, continue improving the knowledge of AML/CTPF among the people working in the sector and improving their understanding of AML/CTPF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.15. Tax Consultants

- 8.15.1. As of 31 December 2020, there were 2017 tax consultants under the supervision of the SRS, of which 45 tax consultants had registered this type of business for the first time. As of 31 December 2021, there were 1887 tax consultants under the supervision of the SRS, of which 41 tax consultants had registered this type of business for the first time. The total number of tax consultants thus fell by 130 entities, or 6%, over the year. Meanwhile, as of 31 December 2022, there were 1663 tax consultants under the supervision of the SRS, of which 41 tax consultants had registered this type of business for the first time. The total number of tax consultants thus fell by 224 entities, or 12%, over the year. According to NRA 2020, as of 31 December 2019, there were 2287 tax consultants under the supervision of the SRS.

Table 8.15.1 – Number of tax consultants under the supervision of the SRS, 2019–2022

	2019	2020	2021	2022
Tax consultants (number)	2287	2017	1887	1663

- 8.15.2. A comparison with the NRA 2020 reporting period, reveals that the number of tax consultants tends to decrease every year: on 31 December 2019, there were 2287 tax consultants under the supervision of the SRS, while on 31 December 2022 there were 1663 tax consultants under the supervision of the SRS, that is, 624 less.
- 8.15.3. Whenever one seeks to choose a tax consultant, there is no state-recognised mechanism they can use to ascertain which of these entities is trustworthy and knowledgeable and what their ethical standards and accountability mechanisms are. Overall, given the extensive knowledge of regulatory and economic topics among professionals in this field, there is a risk that their advice is being used for ML, including unknowingly, as well as for tax evasion. Tax consultants have a key duty to provide comprehensive and truthful information about extensive range of topics, including not only the general features of applicable taxes, but also labour legislation, record-keeping, and financial planning.
- 8.15.4. During the reporting period, the SRS conducted a survey of the sector and the majority, 57%, of tax consultants indicated that their annual turnover did not exceed EUR 10,000. The most frequently turnover range specified was EUR 20,000 to EUR 40,000, representing 14% of the sector's respondents. Only 3% of tax consultants reported an annual turnover of more than EUR 1,000,000.
- 8.15.5. 24% of tax advisors served high-risk customers and 5% of tax advisors had PEPs as customers. 20% of tax consultant customers were from the EEA, 2% of tax consultant customers were from the CIS, and 79% of tax consultant customers were Latvian residents and legal entities registered in Latvia.
- 8.15.6. In 2020, the SRS carried out 183 on-site inspections and 15 off-site inspections. 87 on-site inspections and 6 off-site inspections took place in 2021. In 2022, the SRS conducted 214 on-site inspections and 1 off-site inspection of tax consultants. At the same time, the number of violations detected relative to the number of inspections decreased. The average fine was EUR

980.43 in 2020, EUR 661.53 in 2021, and EUR 583.33 in 2022. NRA 2020 states that in 2019, 300 on-site inspections and 51 off-site inspections of tax consultants took place.

Table 8.15.2 – SRS inspections of tax consultants, 2019–2022.

	2019	2020	2021	2022
On-site inspections	300	183	87	214
Off-site inspections	51	15	6	1

- 8.15.7. Compared to the NRA 2020 reporting period, the number of inspections carried out decreased with the falling number of tax consultants. In 2020, 69 entities registered as tax consultants were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law:
- 8.15.7.1. 2 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
- 8.15.7.2. 69 decisions to impose fines totalling EUR 67,650.
- 8.15.8. In 2021, 26 entities registered as tax consultants were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law:
- 8.15.8.1. 2 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
- 8.15.8.2. 26 decisions to impose fines totalling EUR 17,200.
- 8.15.9. In 2022, 18 entities registered as tax consultants were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law:
- 8.15.9.1. 3 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
- 8.15.9.2. 18 decisions to impose fines totalling EUR 10,500.
- 8.15.10. A noteworthy negative aspect is that during the reporting period the FIU received no reports from tax consultants. This suggests that tax consultants are unable to identify and report suspicious transactions. This is also confirmed by the fact, revealed during SRS inspections, that tax consultants failed to report suspicious transactions to the FIU (23 cases in 2020, 6 cases in 2021, 2 cases in 2022).
- 8.15.11. The SRS received 15 reports of suspicious tax transactions from the tax consulting sector in 2020, and 55 in 2021. The difference in numbers is an indication of incorrect reporting, as all suspicious transaction reports submitted to the SRS should have also been made available to the FIU. As of 1 October 2021, when the FIU implemented the goAML reporting system, it was no longer possible to submit a report only to the SRS: such reports now went to both the agencies, as specified in the Law on Taxes and Fees. There is a negative circumstance that no suspicious transaction reports were received by either the FIU or the SRS in 2022. In addition, the number of reports submitted to the SRS in 2020 and 2021 still did not represent the risk exposure of the sector, increasing its vulnerability.
- 8.15.12. The main risks identified in the tax consulting sector are as follows:
- 8.15.12.1. deliberately failing to report suspicious transactions;
- 8.15.12.2. providing advice is used for the purposes of ML, including inadvertently and to avoid tax.
- 8.15.13. The sector's risk rating is medium-high, unchanged compared to the NRA 2020 reporting period.
- 8.15.14. Proposals for actions to mitigate the risks identified in the sector: implement tax consultant licensing, continue improving the knowledge of AML/CTPF among the people working in the sector and improving their understanding of AML/CTPF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.16. Outsourced Accountants

- 8.16.1. During the reporting period, as well as compared to the NRA 2020 reporting period, the number of outsourced accounting service providers decreased every year: as of 31 December 2019, there were 6845 outsourced accounting service providers under the supervision of the SRS, while as of 31 December 2022, there were 5472, which is a decrease of 1373 (or 20%).
- 8.16.2. Outsourced accounting can be provided by any merchant registered in the Register of Enterprises or the SRS tax register as a performer of economic activity. However, it should be noted that the amendments to the Law on Accounting that took effect on 9 March 2021 substantially changed the work of outsourced accountants: professional qualification requirements were set for one to obtain a licence. The regulations stated that as of 1 July 2021, the SRS would issue licences to outsourced accountants. On 1 January 2022, the Accounting Law took effect, replacing the Law on Accounting; the new Accounting Law set the professional qualification requirements for outsourced accountants and the conditions for the SRS to issue licences to outsourced accountants.
- 8.16.3. The outsourced accounting service provider's licence certifies the professional qualifications and experience of the outsourced accounting service provider and their compliance with licensing requirements, entitling the outsourced accounting service provider to provide these services. In order for an outsourced accountant to obtain this licence, they must submit an application and supporting documents to the SRS: a copy of the civil liability insurance policy, documentation on the internal control system policy and procedures established in accordance with the laws and regulations governing the prevention of AML/CTPF, copies of documents certifying professional qualifications, and a statement of professional experience.
- 8.16.4. The main mechanisms that require attention are the initial requirements set for a person to be able to provide their services in the given sector. In addition, the regulatory framework needs to be harmonised with FATF standards. Thus, one must take into consideration the way in which other jurisdictions set professional restrictions for their own risky non-financial activities and professions. For example, the 'fit and proper' standard, which requires the person to meet certain criteria to work in a particular occupation. It is worth also noting that compliance with FATF Recommendation 28, which establishes the supervision and regulation of the non-financial sector, is ensured not only by the standards set for the professions, but also by the way in which these standards are supervised and enforced.
- 8.16.5. In implementing the 'fit and proper' requirement, as well as FATF Recommendation 28, one of the most important factors for an outsourced accounting service provider to be able to obtain a licence is the legal requirement for the outsourced accounting service provider to have no criminal record. In particular, a natural individual who has been convicted of a deliberate criminal offence pertaining to economic activities or acting as a public official, or of a crime related to terrorism, is prohibited from being an outsourced accountancy service provider. It is also prohibited to be an outsourced accounting service provider for a natural individual who has had their outsourced accounting services licence revoked within the last year for significant breaches of the AML/CTPF Law or the Sanctions Law. The SRS, as the authority in charge of for issuing a licence, takes the necessary measures to prevent persons convicted of offences in the relevant areas from obtaining a licence to provide outsourced accounting services, and before issuing a licence, the SRS checks the person's criminal record in the Punishment Register maintained by the Ministry of the Interior.
- 8.16.6. At the same time, a public register of outsourced accountants was created,⁵³⁹ providing a list of licensed outsourced accountants. Previously, when choosing an outsourced accounting service provider, there was no nationally recognised mechanism to help determine which service provider was competent and reliable. The public register will enable any person to check online whether the outsourced accounting service provider of their choice has a licence to provide outsourced accounting services, to determine the outsourced accountant in charge, its third-party liability insurance policy, and any information pertaining to if the licence issued has been suspended or revoked.
- 8.16.7. The introduction of licensing for outsourced accountants sets a minimum level of professional qualifications, promotes competition, and improves the quality of services. At the same time,

⁵³⁹ SRS. Register of licensed outsourced accounting service providers. Available at: <https://www6.vid.gov.lv/LAGR>.

anyone can check online if the outsourced accountant they have chosen is licensed to provide outsourced accounting services. Licensing outsourcers contributes to the safe and trustworthy provision of services.

- 8.16.8. In 2021, out of 5930 entities providing outsourced accounting services that were under the supervision of the SRS, 392 outsourced accountants had a licence, and 8 outsourced accountants were refused a licence. In 2022, out of 5472 entities providing outsourced accounting services that were under the supervision of the SRS, 551 outsourced accountants had a licence (10%), and 2 outsourced accountants were refused a licence. Following the introduction of the licensing requirement for outsourced accountants, there has been more order in the industry, as only those who can offer quality services and meet the requirements of the AML/CTPF Law choose to provide outsourced accounting services. The licensing will lead to a sharp decline in the number of outsourced accountants, and this trend is already visible in 2021 and 2022.
- 8.16.9. In addition, the Accounting Law sets the circumstances in which an outsourced accountant's licence can be revoked. The SRS revokes the licence if
- 8.16.9.1. it finds that the outsourced accountant knowingly misrepresented compliance with the requirements set for an outsourced accountant,
 - 8.16.9.2. the accountant consistently fails to cooperate with the SRS and provide requested information,
 - 8.16.9.3. within a year, it was repeatedly found that no suspicious transactions, which had the characteristics specified in Section 22.²(3) of the Law on Taxes and Fees, were reported to the SRS,
 - 8.16.9.4. the outsourced accountant is excluded from the Commercial Register or the register of taxpayers, and in other cases provided for in the Accounting Law.
- 8.16.10. The outsourcing of accounting services is often combined with other business activities such as tax consulting and assistance in setting up and operating a legal entity. In a survey conducted by the SRS, 43% of outsourced accounting service providers indicated that their turnover did not exceed EUR 10,000. An annual turnover of EUR 10,000 to EUR 20,000 was reported by 19% of the sector, and EUR 20,000–40,000 by 22% of outsourced accountants. Fewer than 16% of outsourced accountants had an annual turnover of more than EUR 40,000. It can therefore be concluded that the turnover of outsourcing accountants has a negligible effect on the financial impact of the non-financial sector as a whole.
- 8.16.11. 11% of outsourced accountants served high-risk customers and 2% of outsourced accountants' customers were PEPs. 3% of the outsourced accountants' customers were from EEA countries, 0.3% were from CIS countries, and 97% were Latvian residents and legal entities registered in Latvia.
- 8.16.12. In 2020, 429 on-site and 41 off-site inspections of outsourced accounting service providers were carried out. In 2021, 247 on-site and 22 off-site inspections of outsourced accounting service providers were carried out. In 2022, 358 on-site and 3 off-site inspections of outsourced accounting service providers were carried out. The number of violations found per inspection has decreased. Compared to the NRA 2020 reporting period, the number of inspections carried out decreased with the falling number of outsourced accounting service providers.
- 8.16.13. In 2020, 237 entities registered as outsourced accounting service providers were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law:
- 8.16.13.1. 11 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
 - 8.16.13.2. 236 decisions to impose fines totalling EUR 190,190.
- 8.16.14. In 2021, 93 entities registered as outsourced accounting service providers were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law:
- 8.16.14.1. 4 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
 - 8.16.14.2. 93 decisions to impose fines totalling EUR 52,100.

- 8.16.15. In 2022, 33 entities registered as outsourced accounting service providers were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law:
- 8.16.15.1. 5 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
 - 8.16.15.2. 33 decisions to impose fines totalling EUR 19,900.
- 8.16.16. The most common violations identified during the inspections of outsourced accounting service providers were: failure to conduct and document a business risk assessment, deficient development or updating of ICS, weaknesses in customer identification and KYC procedures, failure to provide KYC documents and information, failure to report suspicious transactions to the FIU, failure to appoint a person in charge of these affairs, failure to assess the risk of breach and circumvention of sanctions, failure to develop an ICS for managing the risk of breach and circumvention of sanctions, and failure to monitor transactions.
- 8.16.17. The FIU received 80 suspicious transaction reports from outsourced accounting service providers in 2020, 44 reports in 2021, and 117 reports in 2022. These were provided by respectively 27, 29, and 43 different accounting service providers. The increase in the reporting is a positive development. The number, however, may still not reflect the presumed risk exposure of the sector and hints at the need to further improve the ability of outsourced accounting service providers to identify and report suspicious transactions. In some SRS inspections, it was found that outsourced accounting service providers had not reported suspicious transactions to the SRS.
- 8.16.18. The most used features/typologies of suspicious transactions used in these reports submitted by outsourced accountants to the FIU are: "origin of funds and/or economic grounds for transactions unclear due to the customer's lack of explanation, or explanation difficult to verify" — 48 reports; "turnover and/or other parameters of the customer's account suggest an imitation of business transactions (fictitious transactions)" — 14 reports; "amount of cash-in-hand transactions not typical to the customer's profile and/or type of business" — 14 reports.
- 8.16.19. Key risks identified in the outsourced accounting services sector:
- 8.16.19.1. collusion with other regulated sector entities;
 - 8.16.19.2. deliberately failing to report suspicious transactions;
 - 8.16.19.3. provision of advice on how to avoid paying tax;
 - 8.16.19.4. preparation and recording of fictitious transaction documents.
- 8.16.20. The sector risk rating for the reporting period is medium high and has not changed compared to the NRA 2020 reporting period. Proposals for actions to mitigate the risks identified in the sector: continue improving the knowledge of AML/CTPF among the people working in the sector and improving their understanding of AML/CTPF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.17. Financial Consulting Service Providers

- 8.17.1. As of 31 December 2020, there were 124 financial consultants under the supervision of the SRS, of which 39 tax consultants had registered this type of business for the first time. As of 31 December 2021, there were 146 financial consultants under the supervision of the SRS, of which 26 tax consultants had registered this type of business for the first time. As of 31 December 2022, there were already 154 financial consultants under the supervision of the SRS, of which 28 tax consultants had registered this type of business for the first time.
- 8.17.2. According to NRA 2020, as of 31 December 2019, there were 88 tax consultants under the supervision of the SRS. Thus, the number of financial consultants increased rapidly since the previous NRA reporting period. At the end of the NRA 2020 reporting period, 88 financial advisors were under the supervision of the SRS, while at the end of the NRA 2023 reporting period, there were 154 financial advisors, an increase by 66 or 75%.
- 8.17.3. Financial consulting services are often combined with such business activities as tax consulting, legal advice, and outsourced accounting services. The NACE v.2 codes most frequently recorded simultaneously for main or ancillary business are: business and other management

consultancy activities (NACE 7022); other activities auxiliary to financial services (NACE 6619); other business support activities n.e.c. (NACE 8299); legal activity (NACE 6910).

- 8.17.4. Financial consulting is a service that requires an in-depth understanding of each customer's specific sector and business. Compared to accounting services, financial consulting services are principally used by relatively small companies that cannot afford to hire an in-house financial analyst or a CFO. Financial consulting can be provided by any merchant registered in the Register of Enterprises or the SRS tax register as a performer of economic activity. There are no special education or professional qualifications requirements. Because of this, there is no certainty as to the level of education and professionalism of the registered financial consulting service providers that are entities under the AML/CTPF Law, as no clear criteria have been introduced for setting up this type of business.
- 8.17.5. Based on a questionnaire survey conducted during the reporting period, 47% of financial consultants reported an annual turnover of less than EUR 10,000. The second most common annual turnover category was EUR 20,000 to EUR 40,000, representing 15% of financial consultants. Only 1% of financial consultants had an annual turnover of more than EUR 1,000,000.
- 8.17.6. 15% of financial consultants provided services to high-risk customers and only 4% of financial consultants accepted cash payments. 20% of financial consultant customers were from the EEA, 4% — from other jurisdictions, and 76% of their customers were Latvian residents and legal entities registered in Latvia.
- 8.17.7. In 2020, 14 on-site inspections and 1 off-site inspection were carried out in the financial consultancy sector. In 2021, 6 on-site and 2 off-site inspections were carried out in the financial consultancy sector. In 2022, 19 on-site inspections and 1 off-site inspection took place. The average fine was EUR 1166. The number of inspections increased since the NRA 2020 reporting period (6 on-site and 7 off-site inspections in 2019), given the significant increase in the number of entities in the sector.
- 8.17.8. In 2020, no financial consultants were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law: In 2021, 1 entity registered as a financial advisor was punished for breaches of the AML/CTPF Law and the Sanctions Law with a fine of EUR 300. In 2022, punishments for violations of the AML/CTPF Law and the Sanctions Law were imposed on 2 entities registered as financial consultants, with 1 decision on the suspension of business, imposing a ban on registration of changes for reorganisation of the company and change in shareholders in the Commercial Register, and 2 decisions on imposing a fine with a total amount of EUR 2,200.
- 8.17.9. Violations found in the financial consultancy sector: failure to report to the SRS in time the type of activity and the appointment a person in charge, failure to carry out a sanctions breach risk assessment, failure to comply with the SRS requirement to enable an inspection and to provide the requested documents.
- 8.17.10. No suspicious transaction reports were received from financial consultants by the FIU during the reporting period. This may indicate that financial consultants lack understanding in detecting suspicious transactions. Meanwhile, the SRS received 1 report of suspicious tax transactions from financial consultants in 2020, and 2 reports in 2021, thus showing that the number of reports is not in line with the sector's risk assessment and other vulnerability indicators, indicating a high level of vulnerability. The difference in numbers is an indication of incorrect reporting, as all suspicious transaction reports submitted to the SRS should have also been made available to the FIU. As of 1 October 2021, when the FIU implemented the goAML reporting system, it was no longer possible to submit a report only to the SRS: such reports now went to both the agencies, as specified in the Law on Taxes and Fees.
- 8.17.11. The main presumed risks of the financial consultancy sector:
- 8.17.11.1. collusion with other regulated sector entities;
 - 8.17.11.2. lack of understanding in detecting suspicious transactions;
 - 8.17.11.3. deliberate failure to register as an entity under the AML/CTPF Law;
 - 8.17.11.4. provision of advice on how to avoid paying tax.
- 8.17.12. During the reporting period, the sector's risk rating was medium, unchanged from the 2020 NRA. Proposals for actions to mitigate the risks identified in the sector: continue improving the

knowledge of AML/CTPF among the people working in the sector and improving their understanding of AML/CTPF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.18. Independent Legal Service Providers

- 8.18.1. At the end of the reporting period, there were 2091 independent legal service providers under the supervision of the SRS, 107 of which registered this type of business for the first time. Thus, in 2022 the total number of independent legal service providers registered with the SRS decreased by 245 or 10.5%. The decline in the number of sector entities can be observed in the other years of the reporting period and in relation to the NRA 2020 reporting period data. The number of independent legal service providers at the end of the NRA 2023 reporting period was 662 entities or 24% fewer than at the end of the NRA 2020 reporting period.

*Table 8.18.1 – Independent legal services registered with the SRS
Number of providers, 2019–2022*

	2019	2020	2021	2022
Independent legal service providers (number)	2753	2465	2336	2091

- 8.18.2. Independent legal service providers become entities under the AML/CTPF Law whenever, acting on behalf of their customers, they provide them with assistance in planning or conducting transactions, participate in such transactions, or perform other professional transaction-related activities for their customers in relation to:
- 8.18.2.1. the purchase or sale of real estate, or company shares;
 - 8.18.2.2. the management of the customer’s money, financial instruments, and other assets;
 - 8.18.2.3. the opening or managing of all types of accounts with credit institutions or financial institutions;
 - 8.18.2.4. the establishment, management, or operation of a legal entity or legal structure, and the making of investments necessary for the establishment, management, or operation of a legal entity or legal structure.
- 8.18.3. Independent legal service providers often offer a wide range of services to their customers. Legal services can be provided on their own, through a legal services contract, or in combination with accounting and tax consulting services. Therefore, these service providers may be members of the Association of Accountants of Latvia or the Latvian Association of Tax Consultants that have codes of ethics binding to the members. However, membership in these associations is voluntary and their codes of ethics are not binding to all members of the profession. Moreover, the only punishment that can be imposed for non-compliance with ethical standards is exclusion from the association, which is not a sufficiently effective means of ensuring compliance with ethical standards.
- 8.18.4. It must be emphasised that in the provision of legal services, these entities often do not distinguish the services specified in the AML/CTPF Law as separate services. Most of the time, the services provided are billed as “Legal services”, which makes it difficult to find out exactly what services were provided.
- 8.18.5. Independent legal services can be provided by any merchant registered in the Register of Enterprises or the SRS tax register as a performer of economic activity. Legal training is required to provide legal services, but in practice legal services are provided by companies whose employees have no legal training. Given the absence of criteria for the establishment of an economic entity and the absence of licensing, it is difficult to set an objective threshold for professional qualifications in this sector. Currently, anyone can be an independent legal service provider, even if they have a long history of violating critical provisions of the AML/CTPF Law. Latvia does not have a legal mechanism to monitor the establishment, quality, and competence of independent legal service providers. There are no requirements for education, competence, experience, reputation, or criminal record.
- 8.18.6. Overall, given the extensive knowledge of regulatory and economic topics among professionals in this field, there is a risk that their advice is being used for ML, including unknowingly, as

- well as for tax evasion. Depending on the service provided, independent legal service providers can be used to:
- 8.18.6.1. hide or disguise BO;
 - 8.18.6.2. evade tax;
 - 8.18.6.3. create an appearance of legitimacy for criminal activities;
 - 8.18.6.4. use complex corporate ownership structures to distance the proceeds of crime from their origin and owner;
 - 8.18.6.5. avoid identification and confiscation of property;
 - 8.18.6.6. make investigations by law-enforcement agencies more difficult;
 - 8.18.6.7. circumvent sanctions (as defined by the Sanctions Law).
- 8.18.7. If continued and significant breaches of the AML/CTPF Law are found, the person should be barred from continuing to provide professional legal services, as there is a significant risk that the person may knowingly engage in the facilitation of ML by failing to perform their professional duties in accordance with the most stringent moral, ethical, and legal standards.
- 8.18.8. In order to effectively mitigate ML/TF/PF risks and ensure compliance with international AML/CTPF standards, the licensing of independent legal service providers is to be introduced by 31 December 2025. In addition, it should be stressed that the introduction of common industry standards would contribute to the provision of stable, safe, and reliable services.
- 8.18.9. An analysis of the turnover reported by independent legal service providers shows that their impact on the non-financial sector is low: in 2021, 47% of entities had an annual turnover of less than EUR 10,000, and 17% had an annual turnover between EUR 20,000 and EUR 40,000. Only 0.4% of legal service providers had a turnover exceeding EUR 1 million.
- 8.18.10. 11% of independent legal service providers served high-risk customers. 18% of customers of independent legal service providers were from the EEA, 3% from the CIS, 2% from other jurisdictions, and 77% were Latvian residents and legal entities registered in Latvia.
- 8.18.11. Compared to the NRA 2020 reporting period, the number of inspections carried out by the SRS also decreased, due to the fall in the number of independent legal service providers, with the exception of 2022, when there was an increase in the number of inspections carried out, due to the introduction of sanctions and the risk of their circumvention. The number of violations detected compared to the number of inspections decreased as well. The average fine was EUR 1179.59 in 2020, EUR 986.53 in 2021, and EUR 600 in 2022.

Table 8.18.2 – Number of inspections and sanctions carried out by the SRS for independent legal service providers, 2019–2022

	2019	2020	2021	2022
On-site inspections	204	147	120	295
Off-site inspections	0	35	29	3
Number of entities punished		49	26	23
including with suspension of business ⁵⁴⁰		3	5	3
including with fines		49	26	23

- 8.18.12. The following breaches were found during inspections of independent legal service providers: failure to conduct and document a risk assessment of their activities, failure to identify and investigate customers, failure to provide information to the supervisory authorities, failure to update the risk assessment and improve the ICS, failure to report suspicious transactions, failure to appoint a person in charge, ICS that is incomplete and not updated, failure to monitor transactions, failure to carry out a risk assessment and develop an ICS to manage the risk of breach and circumvention of sanctions.

⁵⁴⁰ Decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;

- 8.18.13. FIU received 2 suspicious transaction reports in 2020, no reports in 2021, and 3 reports from independent legal service providers in 2022. The number of reports may still not reflect the presumed risk exposure of the sector and increases its vulnerability.
- 8.18.14. The most used feature/typology of suspicious transactions used in these reports (3 in total) submitted to the FIU are: "origin of funds and/or economic grounds for transactions unclear due to the customer's lack of explanation, or explanation difficult to verify". In terms of the indicators of suspicious transactions, the SRS survey data suggest that 8% of independent legal service providers needed additional information on the role of the customer's business risk in identifying suspicious transactions.
- 8.18.15. Key risks identified in the independent legal services sector:
 - 8.18.15.1. collusion with other regulated sector entities;
 - 8.18.15.2. deliberately failing to report suspicious transactions;
 - 8.18.15.3. deliberate structuring of transactions and legal entities to conceal the flow of funds and BO;
 - 8.18.15.4. preparation of documents for fictitious transactions;
 - 8.18.15.5. providing advice on ML.
- 8.18.16. The sector risk rating for the reporting period is medium. Proposals for actions to mitigate the risks identified in the sector: implement independent legal services provider licensing, continue improving the knowledge of AML/CTPF among the people working in the sector and improving their understanding of AML/CTPF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.19. Sworn Advocates

- 8.19.1. According to Section 3(1)(4) of the AML/CTPF Law, sworn advocates become obliged entities under the AML/CTPF Law whenever, acting on behalf of their customers, they provide them with assistance in planning or conducting transactions, participate in such transactions, or perform other professional transaction-related activities for their customers in relation to:
 - 8.19.1.1. the purchase or sale of real estate, or company shares;
 - 8.19.1.2. the management of the customer's money, financial instruments, and other assets;
 - 8.19.1.3. the opening or managing of all types of accounts with credit institutions or financial institutions;
 - 8.19.1.4. the establishment, management, or operation of a legal entity or legal structure, and the making of investments necessary for the establishment, management, or operation of a legal entity or legal structure.
- 8.19.2. The AML/CTPF Law was originally written with only credit institutions in mind, and was later extended to non-financial sector entities, without changing the original overall structure of the AML/CTPF Law, and applying it equally to all entities.⁵⁴¹ In the view of the LCSA, in order to improve the effectiveness of the AML/CTPF legal framework, it is necessary to amend the AML/CTPF Law such that it clearly separates the requirements set for the entities of the financial sector from those that apply to non-financial sector entities (advocates, notaries, etc.), as there are a number of differences in rights, duties, and procedures between the financial and non-financial sectors. For example, non-financial sector entities cannot track the cash flows of their customers, while credit institutions that monitor customer accounts on a day-to-day basis can.
- 8.19.3. As of 31 December 2022, the Latvian Collegium of Sworn Advocates had 1346 members, of whom:
 - 8.19.3.1. 1213 were active sworn advocates, 122 of them were suspended, 7 terminated;
 - 8.19.3.2. 118 were assistant advocates, 14 of them were suspended;
 - 8.19.3.3. 13 EU member state advocates practising in Latvia under the name of their profession adopted in their country of registration;


⁵⁴¹ On 13 August 2008, the Prevention Law replaced the Law on the Prevention of Money Laundering of 17 December 1997 whose Section 3 stated that the purpose of the Law was to 'prevent the use of the financial system of the Republic of Latvia for money laundering'. Only later was the purpose of the law changed to 'to prevent money laundering in the Republic of Latvia'.

- 8.19.3.4. 2 EU member state advocates whose professional qualifications were deemed appropriate for permanent practice in Latvia.
- 8.19.4. In December 2022, in order to perform its advocate supervision function, the LCSA conducted an annual remote inspection of the non-public section of every advocate's profile, covering the risk categories of legal assistance provided by advocates in 2022, following with the risk categories and requirements set in the AML/CTPF Law and the Sanctions Law. 143 suspended or disbarred advocates and 25 assistant advocates who could not yet practice law were exempted from the remote inspection. Thus, the remote inspection covered 1178 supervised entities.
- 8.19.5. As a result of the 2022 remote inspection process, entities supervised by the LCSA were divided into three general risk categories in terms of the nature of their professional activities:
- 8.19.5.1. 495 advocates practising only in courts and as part criminal proceedings (lower-risk category, and according to Section 3(1)(4) of the AML/CTPF Law they are not obliged entities under the AML/CTPF Law);
- 8.19.5.2. 370 advocates practising in courts, criminal proceedings, and transactions (medium-risk category, and depending on the type of legal assistance provided, may or may not be obliged entities under the AML/CTPF Law according to Section 3(1)(4) of the AML/CTPF Law);
- 8.19.5.3. 120 advocates practising exclusively as part of transactions (higher-risk category; these are entities under the AML/CTPF Law).
- 8.19.6. 8 more advocates reported that they did not provide legal assistance in courts, criminal proceedings, and transactions in 2022, or did not practice law at all in 2022 due to health or other reasons. The rest of the advocates who were not exempted from the remote inspections, but did not take part were contacted individually.
- 8.19.7. Thus, according to the results of the remote inspections, in 2022, out of the total number of advocates, only 490 were obliged entities under the AML/CTPF Law. The same assessment in 2020, concluded that there were 786 advocates subject to the AML/CTPF Law. A similar assumption can be made for 2021, although no remote inspections took place that year. It can be concluded that the number of advocates subject to the AML/CTPF Law decreased during the reporting period.
- 8.19.8. In 2020, 1 infringement was detected during the inspections and the offender was sanctioned with a duty to take a certain action. In 2021, inspections revealed irregularities in the activities of 4 advocates, which led to the decision of the LCSA to initiate disciplinary proceedings against these 4 advocates. In 2022, the disciplinary committee of the LCSA imposed a punishment set in Section 78(1)(2) of the AML/CTPF Law (warning) on 2 advocates, for violating the laws and regulations in the field of AML/CTPF in the manner that pertained to keeping proper KYC documentation, revealed during inspections in 2021. For 2 other advocates, the disciplinary case was closed, as the disciplinary committee did not detect any violations of the laws and regulations in the field of AML/CTPF in their activities.
- 8.19.9. During the reporting period, the FIU received 16 suspicious transaction reports from sworn advocates: 3 in 2020, 7 in 2021, and 6 in 2022. To improve FIU reporting, the LCSA proposes the provision of free access to public registers and efficient one-stop-shop access to information.
- 8.19.10. ML threats for the sworn advocate sector during the reporting period were as follows:
- 8.19.10.1. the desire of some individuals to obtain highly skilled legal assistance and, therefore, to seek the services of sworn advocate in order to achieve their ML objectives, for example, in the preparation of transaction documents. Because the law does not confer on sworn advocates the power to make any certifications of legitimacy, and because the LCSA did not identify any such threats in the sworn advocate sector during the reporting period, the threat is assessed to be medium-low. However, it cannot be completely ruled out that some individuals may have intentions to use sworn advocates in the context of ML. This applies in particular to the preparation of transaction documents and/or the establishment of legal structures enabling the concealment of the origin of proceeds of crime and/or the BO in the context of EU sanctions against Russia for its military aggression against Ukraine that began on 24 February 2022;

- 8.19.10.2. sworn advocates may be unwittingly involved in ML when providing legal assistance for transactions. As in the previous assessment period, the likelihood of this risk is considered to be medium-low for 2020–2022, as no such risk has been identified by the LCSA in the sworn advocate sector during the reporting period, and the LCSA made training in the topics of AML/CTPF and compliance with international and national sanctions mandatory for all sworn advocate on 1 January 2020 (as a risk mitigation measure); however, the possibility that a sworn advocate may unwittingly be involved in ML cannot be completely ruled out;
- 8.19.10.3. there is a possibility that sworn advocates may knowingly engage in ML when providing legal assistance for transactions. However, the likelihood of this is low, as the reputational requirements, the level of personal accountability for sworn advocates, as well as the punishments specified in the AML/CTPF Law and the Law on Advocates, including possible disbarment, are additional motivators for sworn advocates not to engage in ML. According to information available to the LCSA, there has so far been no legally effective court judgment against a sworn advocate for committing a criminal offence related to the breach of sanctions related to AML/CTPF, or imposed by UN, EU, and other international organisations, or sanctions imposed by the Republic of Latvia; the LCSA did not detect any such threat in the sector of sworn advocates during the reporting period. In addition, no ethical breaches, such as negligence or wilful blindness towards suspicious transactions involving sworn advocates were found. Furthermore, no involvement of the sector supervised by the LSAA was found in the criminal proceedings initiated during the reporting period, according to the information about criminal proceedings initiated in accordance with Section 195 of the Criminal Law and the parties involved in such proceedings, as provided by law-enforcement agencies to the FIU for the purposes of NRA 2023. Therefore, just as for the NRA 2020 reporting period, the level of this threat is deemed to have been low in 2020–2022.
- 8.19.11. The ML vulnerabilities for the sworn advocate sector during the reporting period were as follows:
- 8.19.11.1. low number of suspicious transaction reports submitted by the sworn advocate sector to the FIU;
- 8.19.11.2. a sworn advocate cannot obtain all the information and documents necessary for a proper KYC investigation from public registers free of charge;
- 8.19.11.3. a sworn advocate cannot verify in any way that is independent of the customer the financial transparency of the customer, to check the validity of identity document of a customer that is a non-resident private individual, and to determine if the customer is a foreign PEP, PEP family member, or PEP-affiliated person.
- 8.19.12. One ML risk in the sworn advocate sector is that some of the services provided by advocates may be attractive to offenders seeking highly qualified legal assistance in order to hide the origin of proceeds of crime. There is a risk that advocates may be unwittingly involved in and/or used for the purposes of ML, for example in the preparation of documents for transactions and/or in the creation of legal structures that enable the concealment of the origin of the proceeds of crime and/or of the BO.
- 8.19.13. Given that the ML vulnerability of the sworn advocate sector is medium and the ML threat is medium-low, the ML risk for the sworn advocate sector is deemed medium for the reporting period, unchanged from the NRA 2020 reporting period.

8.20. Sworn Notaries


- 8.20.1. The number of sworn notaries is set by Cabinet Regulations, but during the reporting period, reaching retirement age, retiring at own initiative, and other factors reduced their number, while the passing of qualification examinations increased their number. According to Cabinet Regulations, there are 113 (since 24 December 2021; previously 108) sworn notary positions in Latvia, although some of them are occasionally vacant. At the end of the reporting period, there were 106 sworn notaries in Latvia.
- 8.20.2. A sworn notary works alone or sets up an office with one or more employees, depending on necessity and available resources. A third of the notaries have assistants who perform notarial functions in the absence of the notary, including in the fulfilment of the AML/CTPF Law.

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- 8.20.3. Sworn notaries are entities under the AML/CTPF Law when they:
- 8.20.3.1. prepare notarial deeds or private transactions, pursuant to Section 116(4) of the Notariate Law, pertaining to the purchase or sale of real property, or shares in a company;
 - 8.20.3.2. accept custody over property within the meaning of Section 65(3, 3.1) of the Notariate Law, that is, managing the customer's money, financial instruments, and other assets;
 - 8.20.3.3. provide other legal assistance within the meaning of Section 66 (1)(4) of the Notariate Law, that is, establishing, managing or operating a legal structure or legal entity.
- 8.20.4. During the reporting period, around 95% of the entities' customers were resident natural individuals and legal entities, with an overwhelming majority being natural individuals. Almost 5% of the entities' customers were non-resident natural individuals, while non-resident legal entities were the entities' customers in less than one percent of the transactions relevant to AML/CTPF. Sworn notaries are entities under the AML/CTPF Law only in 4 cases defined in that law, accounting on average for 1–2% of all notarial actions performed by sworn notaries during the reporting period.
- 8.20.5. Sworn notaries are supervised by the Council of Sworn Notaries of Latvia (CSNL). The CSNL is a representative and supervisory sworn notary institution that consists of 9 practicing notaries elected for 3 years from among practicing notaries by the plenary assembly of notaries. The CSNL conducts training and inspections for the sector.
- 8.20.6. On 5 June 2020, the CSNL approved an AML working group of 3 notaries, supervised by 1 CSNL member, whose duty is to collect the AML/CTPF knowledge of supervisors within the sector and to transfer it from the AML working group to other sworn notaries through professional channels. The AML working group regularly gathers key information about the topics of AML/CTPF, including lessons learned from CSNL inspections, and participates in discussions and workshops intended for notaries and notary assistants and staff members, covering topics that may be unclear to them.
- 8.20.7. In 2020, 17 individual inspections of sworn notaries were carried out by the CSNL; 4 medium-risk, 9 low-risk notaries, and 4 notaries who had started their practice in 2020 were inspected; no breaches were detected in their activities and there was no need to impose corrective measures.
- 8.20.8. In 2021, based on the findings of NRA 2020, the CSNL organised a targeted inspection of all entities on a matter where they may have consistent lack of understanding, i.e. the use of the notary's escrow account and KYC procedures in the exercise of the duties of this position. Statistical information and answers to theoretical and practical questions/tasks were received from all entities. A due diligence of 15 notaries in this field was initiated in 2021 and completed in 2022; deficiencies were found in the work of 2 notaries, which were imposed a period of supervision. After the end of the period of supervision (to determine the necessity of corrective measures), the notaries demonstrated that the identified deficiencies had been eliminated and would not be tolerated in the future. Therefore, in the opinion of the CSNL, the use of corrective measures was not necessary during the reporting period and would not be justified.
- 8.20.9. On average, reports on suspicious transactions were received from approximately 13% of the total number of notaries during the reporting period; based on the number of reports in relation to the number of reporters, it can be concluded that more than one report was received from individual reporters. The number of reports is in line with the number of transactions covered by the AML/CTPF Law, while the number of reporters is in line with the fact that the activities covered by the AML/CTPF Law are most often not within the competence of notaries and, therefore, are not subject to its KYC requirements and possible duty to report.
- 8.20.10. The indications of potential criminal offences and typologies included in the suspicious transaction reports represent the opinions of the entities of what is happening in practice: transaction documents that would constitute notarial subjectivity within the scope of the AML/CTPF Law are most often used in the regions, where notarial deeds represent a relatively significant percentage of the total activities of the entity, because of the relatively low notarial costs caused by the transaction amounts, and where the most frequently detected potential

offences are artificially low prices, which could be indicative of informal cash-in-hand settlements, and evasion of capital gains tax. In cities where there are more valuable properties, such as Riga and Jurmala, the preparation of the transaction documents is carried out by other professionals, meaning that the notary does not become an entity under the law. In smaller-scale transactions, the existence of other predicate offences or typologies is unlikely.

- 8.20.11. The most significant threats in the sector come from corruption offences, property crimes, in particular fraud, and tax offences.
- 8.20.12. The number of real properties frozen by the FIU gradually decreased during the reporting period; however, in the notarial sector, real estate is potentially the most common instrument for committing criminal offences. Notaries may be used as the final stage of setting up a transaction to certify transactions that are concluded in a manner that is not in line with the market situation (over-pricing, under-pricing), thereby committing tax offences: evasion of capital gains tax, violation of restrictions on the use of cash-in-hand, use of funds obtained through corruption or other predicate offences as payment, etc. Other fraud mechanisms related to real estate include previously concluded fictitious agreements, transactions with backdated documents, unverifiable dates, forged documents, etc.
- 8.20.13. The most significant risks of the sector during the reporting period were:
 - 8.20.13.1. using notaries in financial crime, entering into economically unjustified transactions (including legalisation of fictitious transactions) and engaging in tax evasion schemes;
 - 8.20.13.2. using notaries as representatives of public authorities to give transactions a semblance of credibility and public nature, taking advantage of the exceptional nature of cases of legal subjectivity in the sector and the fact that some of the persons involved in fraud schemes do not understand where the notary is and is not responsible for the nature of the transaction, including in what is relevant to AML/CTPF.
- 8.20.14. Given the low number of cases in which notaries are involved in ML/TF in general and the fact that persons intending to commit ML through the acquisition of property take advantage of the possibility provided by the state for the transaction not to fall within the remit of the AML/CTPF Law, no sector-specific typologies and sector-specific practices were identified during the reporting period.
- 8.20.15. Given that the sector has not undergone any significant changes on the level of regulatory framework, the scope of functions covered by the AML/CTPF Law, or its customer portfolio, the sector remains at a medium-low level of risk.
- 8.20.16. Proposals for mitigating actions to address the risks identified in the sector:
 - 8.20.16.1. Taking into consideration the very small number of cases in which a notary is an entity under the AML/CTPF Law, the fact that the most significant threats to the sector are related to real estate, as well as the fact that in Latvia, real estate has historically been a popular instrument for money laundering, in order to minimise the risk and prevent the situation whereby some real estate transactions are not supervised by an entity under the AML/CTPF Law, the state must create a mechanism that excludes the existence of private real estate transactions and guarantees public reliability of land registry records not only at the regulatory level but also in practice.
 - 8.20.16.2. There is a need for regulatory framework that is specifically designed for the non-financial sector, and not just tailored to it, focusing on the differences between the non-financial sector and the financial sector in the area of AML/CTPF. The law's entities in the non-financial sector should be able to access information about a customer's finances that is not the information provided by the customer, which may be, and is likely to be, deliberately altered as a result of a criminal offence in order to allay the suspicions of the entity; reasonable grounds existing for non-financial entities to directly receive information about a customer's financial standing would facilitate the detection of criminal offences.

8.21. Sworn Auditors

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- 8.21.1. At the end of the reporting period, there were 180 (153 of them with an active certificate) sworn auditors and 114 sworn auditor companies (3 with the licence temporarily suspended) in the Republic of Latvia. The supervision of sworn auditors and sworn auditor company in accordance the AML/CTPF Law and in relation to the provision of professional services by sworn auditors is done by the Latvian Sworn Auditor Association (LSAA). If a sworn auditor or sworn auditor company provides tax consultancy or outsourced accounting services, they are supervised by the SRS.
- 8.21.2. The number of new certificates issued to sworn auditors was stable between 2018 and 2021 (inclusive) (with 5 new sworn auditor certificates issued per year) and in 2022, for the first time in a long period, there was a significant increase in the number of certificates granted (12 new sworn auditor certificates). At the same time, the number of sworn auditor companies was on a downward trend, except for 2022, when a slight increase was recorded. The difference between the changes in the number of certificates and licences is mainly due to whether the new sworn auditor sets up their own practice (usually a limited company) or join another existing sworn auditor company, where they have often previously worked as assistants to a sworn auditor. Of the 17 certificates granted in 2021 and 2022, only 5 new sworn auditors set up their own companies.
- 8.21.3. A majority (60.9% in 2021–2022) of sworn auditor firms⁵⁴² provided only audits of annual reports and limited review services, which are services that they must perform as per the laws and regulations of the Republic of Latvia (Law on Annual Statements and Consolidated Annual Statements, Law on Local Governments, Financial Instrument Market Law, Credit Institutions Law, Law on Savings and Loan Associations, Insurance and Reinsurance Law, Private Pension Fund Law, Law on Investment Management Companies, Law on Investment Firms, and Law on Alternative Investment Funds and Managers Thereof). In the 2021–2022, 39.1% of the practices provided professional services to their customers that were other than audit services.
- 8.21.4. The services, on which auditor reports are submitted in accordance with international assurance and related services standards, are mostly based on the requirements of Latvian laws and regulations, where auditors must provide assurance on various customer calculations or on compliance with requirements. In the last 2 years, some sworn auditor companies provided other services not regulated by international professional standards. 17–18% of the total number of customers of sworn auditor practices received such services. During the 2020–2021, 40 practices provided such services, and during the 2021–2022 period, 36 practices provided such services. These other types of services included tax consultancy, accounting services, company establishment and legal services, due diligence services.
- 8.21.5. The provision of accounting services, tax consultancy and legal services is supervised by the SRS under the AML/CTPF Law. The number of practices providing such services is limited. According to the LSAA, the only practice whose legal services unit provided legal services in 2021–2022 was no longer doing so in the 2022–2023 period, as the employees of that unit set up a limited company to operate as a law firm that falls under the supervision of the LSAA in the area of AML/CTPF.
- 8.21.6. The LSAA conducts targeted inspections to verify whether sworn auditor practices comply with the requirements of the AML/CTPF Law and the Sanctions Law in all of their professional services, including audit services. The LSAA also conducts comprehensive inspections that examine the quality assurance in the audit services provided by sworn auditor practices, including compliance with the requirements of the AML/CTPF Law and the Sanctions Law.

⁵⁴² Including self-employed sworn auditors.

Table 8.21.1 — Inspections carried out during the reporting period and their results.

	2020–2021 period	2021–2022 period
Number of on-site inspections	57	71
including only those pertaining to AML/CTPF	26	19
including those pertaining to AML/CTPF and other fields of supervision	31	52
Number of off-site inspections	7	-
including those pertaining to AML/CTPF	6	-
Violations, and sanctions imposed by the LSAA		
Quantity	4	2
Punishment type	Corrective actions imposed on auditors for deficiencies identified. No violations were found.	For 2 sworn auditor companies, licences were suspended for 6 months

- 8.21.7. In 2022, for the first time, 2 sworn audit firms were sanctioned with the suspension of their licence for 6 months. Thus, the sector's evaluation in terms of the availability and enforcement of administrative punishments improved over the reporting period.
- 8.21.8. According to information provided to the FIU, the number of reports submitted by the sworn auditor sector during the reporting period fluctuated, with 2022 (36 suspicious transaction reports) showing a significant increase compared to 2020 (29 suspicious transaction reports) and 2021 (10 suspicious transaction reports). Based on experience and knowledge of the particular nature of the work of sworn auditors, LSAA concludes that suspicious transactions reported by sworn auditors are usually identified as part of annual reports auditing services. This is confirmed by the information gathered by the FIU on the average age of suspicious transaction reports submitted by the sworn auditor sector, which indicates that the reported transactions took place 1–2 years ago, which is consistent with the auditing of historical financial information. Based on the statistics compiled by the FIU, the ability of sworn auditors to identify suspicious transactions is steadily improving.
- 8.21.9. The typologies used in the suspicious transaction reports are appropriate to the specific nature of the sworn auditor sector, as auditors can identify significant transactions may give rise to suspicions of tax evasion in the course of providing auditing services. By far the majority of the reports submitted by sworn auditors during the reporting period were related to possible tax offences.
- 8.21.10. The services provided by sworn auditors do not themselves pose a risk of ML as the risk of using the services provided by sworn auditors for ML is low. However, the threat of ML arising from other external processes affects the environment in which the customers of sworn auditors operate and may contribute to criminal offences by those customers. Customers of sworn auditors are typically exposed to the threat of ML arising from tax offences, corruption offences in the area of public procurement, and breaches of national and international sanctions.
- 8.21.11. Given the analysis of the threat and vulnerability level as part of the sector risk assessment, as well as the improvements observed in the mitigation of vulnerabilities during the reporting period, the risk of ML in the sworn auditor's sector decreased compared to the NRA 2020, and is currently assessed as medium-low.
- 8.21.12. Proposals for mitigating actions to address the risks identified in the sworn auditor sector:
- 8.21.12.1. the FIU and law-enforcement agencies must provide more regular information about current AML/CTPF prevention methods and typologies to supervisory institutions, so that the supervisory can forward it to the entities supervising them.
- 8.21.12.2. improve the awareness of sworn auditors in the field of tax offences by organising specialised training, bringing in experts from the SRS and other institutions.

- 8.21.12.3. improve the understanding of entities under the AML/CTPF Law on practices used to breach and circumvent sanctions by obtaining information from the FIU and law-enforcement agencies on the most typical sanction-breaching and circumvention practices identified and by organising specialised training.

8.22. Real Estate Agents

- 8.22.1. As of 31 December 2020, there were 1385 real estate agents under the supervision of the SRS, of which 102 registered this type of business for the first time. As of 31 December 2021, there were 1511 real estate agents under the supervision of the SRS, of which 208 registered this type of business for the first time. As of 31 December 2022, there were 1429 real estate agents under the supervision of the SRS, of which 129 registered this type of business for the first time.
- 8.22.2. According to NRA 2020, as of 31 December 2019, there were 1508 real estate agents under the supervision of the SRS. Thus, compared to the previous assessment period, the number of real estate agents tended to decrease each year, except for 2021, when the number of real estate agents increased slightly compared to 2019. At the end of the reporting period, there were 5% fewer real estate agents than at the end of the NRA 2020 reporting period.
- 8.22.3. The Law on the Activity of Real Estate Agents took effect on 1 August 2020, requiring all real estate agents to be registered in the Register of Real Estate Agents. Since 1 July 2021, only persons registered in the Register of Real Estate Agents may provide real estate agent services. The Law on the Activity of Real Estate Agents sets the legal grounds for the activities of real estate agents, makes provisions for the supervision of real estate agent activities, including the possible striking of a real estate agent from the Register of Real Estate Agents for significant violations of laws and regulations. The introduction of the Register of Real Estate Agents will facilitate the provision of consistent, safe, and reliable agent services, help with combatting the ML/TF/PF that takes place through real estate transactions in which agent services are provided, and ensure the supervision of the activities of real estate agents by, among other things, making it possible to remove a real estate agent from the Register of Real Estate Agents in the event of a gross violation of the requirements of the AML/CTPF Law.
- 8.22.4. A natural individual who has established an ICS in accordance with the AML/CTPF Law, has not been convicted of a deliberate property crime, a deliberate economic crime, or a crime related to terrorism, or who has been convicted of such a crime but whose criminal record has been retracted or expunged, as well as who has professional liability insurance, may act as a real estate agent. Similarly, in order to become a real estate agent, it must be a legal entity or partnership that has established an ICS under the AML/CTPF Law, whose board members, shareholders, and BO (natural individuals) have not been convicted of intentional crime against property, intentional economic crime, or a crime associated with terrorism, or has been convicted of or has been sentenced for such offences but has seen its criminal record expunged, and which has not been subject to compulsory measures (liquidation) or a restriction on the right to provide agent services, and which has taken out professional indemnity insurance.
- 8.22.5. The MoE maintains a publicly accessible register on its website. A person wishing to start providing agent services submits an application to the MoE and encloses a copy of the professional liability insurance policy, a statement that the person has created an ICS in accordance with the AML/CTPF Law, a certificate of the competent authority confirming the absence of criminal record if the real estate agent is an EU citizen or a merchant registered in an EU Member State, as well as documents confirming that the merchant has not been subject to compulsory measures (liquidation) or a restriction of rights that prohibits the provision of agent services.
- 8.22.6. The MoE strikes the real estate agent from the register if it is excluded from the Commercial Register, and the real estate agent is excluded from the register of taxpayers and taxpayer entities as a performer of economic activity, or on based the real estate agent's application, or if the real estate agent does not meet the requirements specified in the Law on the Activity of Real Estate Agents, and in other cases.

- 8.22.7. The main duty of real estate agents is to provide comprehensive and truthful information about a very wide range of topics: not just price or general features of the property, but also management, construction, and tax. Before the introduction of the register of real estate agents, anyone could become a real estate agent. Even if the person violates the requirements of the AML/CTPF Law, they are not prohibited from continuing to provide agency services. This did nothing to improve the prevention of ML risks. Now that Latvia has regulations governing real estate agent services, is possible to ensure full supervision of the professional activities of these persons in order to prevent ML/TF/PF and to pursue stable, safe, and reliable provision of real estate agent services.
- 8.22.8. According to Section 3(1)(6) of the AML/CTPF Law (in the version of the Law in effect before 11 July 2021), entities under the AML/CTPF Law are persons acting as agents or intermediaries in transactions in real estate, including when acting as agents in leasing real estate, for transactions for which the monthly lease fee is EUR 10,000 or more. Since 12 July 2021, when amendments to the AML/CTPF Law took effect, entities under that Law include real estate agents as defined in Section 3(1)(6) of that Law. Real estate agent services include the provision of the following services for consideration: Making offers for real estate transactions, negotiating and preparing the documents necessary to conclude real estate transactions, drafting and explaining the conditions of real estate transactions (including the rights and obligations associated with the transaction).
- 8.22.9. In a survey conducted by the SRS during the reporting period, 39% of real estate agents indicated that their annual turnover in 2021 did not exceed EUR 10,000. A turnover between EUR 20,000 and EUR 40,000 was the most frequently specified, by 20% of real estate agents. Only 1% indicated a turnover of more than EUR 1 million. It can thus be concluded that the turnover of real estate agents is small relative to the non-financial sector overall. Given the features of real estate agents' customers, it should be noted that 14% of real estate agents served high-risk customers, 5% of their customers were PEP, and 5% of their customers were from the CIS, 13% of real estate agents had customers from EEA countries, and 80% of customers were Latvian residents and legal entities registered in Latvia.
- 8.22.10. Compared to the NRA 2020 reporting period, the number of (on-site) inspections increased, which is due to the fact that the register of real estate agents is recognised by the state and is public, and thus, inspections were carried out of real estate agents in order to update and improve the register. At the same time, the number of violations detected relative to the number of inspections decreased.

Table 8.22.1 – Number of inspections of real estate agents carried out in 2019–2022

	2019	2020	2021	2022
On-site inspections	58	76	124	159
Off-site inspections	230	29	29	4


- 8.22.11. In 2020, 16 entities registered as real estate agents were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law, with:
- 8.22.11.1. 5 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders, with an additional fine;
- 8.22.11.2. 16 decisions to impose fines totalling EUR 14,550.
- 8.22.12. In 2021, 5 entities registered as real estate agents were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law, with:
- 8.22.12.1. 2 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
- 8.22.12.2. 5 decisions to impose fines totalling EUR 11,050.
- 8.22.13. In 2022, 31 entities registered as real estate agents were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law, with:
- 8.22.13.1. 4 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
- 8.22.13.2. 30 decisions to impose fines totalling EUR 14,750.

- 8.22.14. The most common breaches found during inspections of real estate agents were: failure to carry out an ML/TF/PF risk assessment, deficient development and updating of the ICS, failure to identify customers and conduct KYC procedures, failure to notify the SRS in time about the type of business and appointment of the person in charge, failure to conduct a sanctions breach risk assessment, failure to develop an ICS for managing sanctions breach risk, and failure to identify BO.
- 8.22.15. The FIU received 8 suspicious transaction reports from real estate agents in 2020, 10 reports in 2021, and 4 reports in 2022. The number of reports may not reflect the presumed risk exposure of the sector, given that only two different entities under AML/CTPF Law submitted reports: 21 or 95% of them were by the same entity and one, by another real estate agent.
- 8.22.16. An additional factor increasing vulnerability during the reporting period was that the FIU froze 91 real properties. The number of frozen real properties was on a downward trend, with 45 frozen in 2020, 28 in 2021, and 18 in 2022. The low number of suspicious transaction reports is also a cause for concern.
- 8.22.17. According to the information provided by law-enforcement agencies, 4 criminal proceedings involving real estate agent and manager sector were initiated during the reporting period. One of the proceedings was initiated by the State Police for the alleged illegal acquisition, transport for the purpose of sale, and sale of narcotic drugs/psychotropic substances, possibly in a large amount and in an organised group. Large-scale ML took place through the acquisition of movable and immovable property worth more than EUR 400,000, registered in the names of the buyer and third parties, at least as from 2004. 3 processes were initiated by the SRS Tax and Customs Police Department during the reporting period. They all are related to suspicious financial transactions by Latvian and foreign legal entities, possibly involving large-scale tax evasion and large-scale ML, carried out between 2016 and 2020. In one of these cases, evidence shows that ML was committed for at least EUR 7.7 million.
- 8.22.18. The main risks identified for the real estate agent sector are:⁵⁴³
- 8.22.18.1. deliberate structuring and organising of ML transactions;
 - 8.22.18.2. deliberately failing to report suspicious transactions;
 - 8.22.18.3. deliberate failure to register business and the status as an entity under the AML/CTPF Law.
- 8.22.19. During the reporting period, the sector's risk rating was medium-high, unchanged from the 2020 NRA. Proposals for actions to mitigate the risks identified in the sector: continue improving the knowledge of AML/CTPF among the people working in the sector and improving their understanding of AML/CTPF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.23. Lottery and Gambling Organisers

- 8.23.1. The Law on Gambling and Lotteries sets different approaches for the organising of lotteries and of gambling. The monopoly for organising national lotteries belongs to the state. National lotteries are organised by SJSC "Latvijas Loto", 100% of the shares of which are held by the Ministry of Finance. Local or local one-off lotteries can be organised by legal entities, and in some cases, by associations or religious organisations. In Latvia, gambling and lotteries can be organised only by those with appropriate gambling or lottery licences. Gambling and lottery licences are issued by the LGSI. The licence is issued for an indefinite period, but must be re-registered with the LGSI annually. The criteria for obtaining the licence are specified in Chapter 3 of the Law on Gambling and Lotteries.
- 8.23.2. As of 31 December 2022, there were 19 licensed gambling operators engaging in the gambling market. They operated 204 gambling rooms, 84 betting shops, 2 casinos, 1 bingo parlour, and 18 organisers had licences for interactive gambling. The number of casinos and gambling

⁵⁴³ The FIU carried out an in-depth assessment of the ML risks in the real estate sector as part of its study 'Assessment of money laundering risks in the real estate and construction sector'. Available at: https://fid.gov.lv/uploads/files/2023/N%C4%AA%2Cb%C5%ABniec%C4%ABba_risku%20nov%C4%93rt%C4%93jums.pdf.



rooms decreased during the reporting period, while the number of interactive gambling licences increased. In 2020, given the COVID-19 restrictions and inconsistent business in the sector, gambling revenue amounted to EUR 159.647 million; EUR 128.044 million in 2021, and EUR 264.776 million in 2022. The COVID-19 restrictions have led to a significant increase in the share of interactive gambling in the sector. Interactive gambling revenue as a percentage of total gambling revenue was 35.61% in 2020, 85.17% in 2021 and 46.83% in 2022.

- 8.23.3. In the Republic of Latvia, a legal AML/CTPF framework was developed and functions for the organising of lotteries and gambling at the national level, with a supervisory authority, the LGSI. The gambling and lotteries sector is subject to strict supervision, which includes licensing procedures and AML/CTPF audits (determination of BO, reputation checks for the board members and persons in charge, analysis of financial transactions, etc.), as well as sanctions for gambling, lottery, and AML/CTPF offences. The legislation sets a limit of cash transactions (up to EUR 7200) in gambling and lotteries, as well as the identification of customer transactions of EUR 2000 or more, and KYC procedures. In 2022, the transitional period set by local governments for the closure of gambling rooms (except for 4 and 5-star hotels where gambling was allowed) ended.
- 8.23.4. The LGSI uses different types of AML/CTPF inspections, both on-site and off-site, to conduct its supervision as efficiently as possible with the human and technical resources available. On-site AML/CTPF inspections are carried out on the premises where gambling or lotteries are organised: gambling rooms, casinos, betting shops, bingo parlours, lottery ticket outlets and gambling or lottery organiser offices. Off-site AML/CTPF inspections review documentation or information about gambling or lottery operators that ensures compliance with the AML/CTPF Law, or audit the interactive gambling or lottery system of the interactive gambling or lottery operator. In addition, LGSI officials participate in all cash collection procedures related to casino operations, both on-site and remotely, using special accounting systems and CCTV footage. Since 2019, all gambling machines are connected to a single network, to which the LGSI has access, to track the flow of cash in the gambling machines, and this information is used to carry out targeted AML/CTPF inspections.
- 8.23.5. During the reporting period, no violations were identified that would result in the suspension or termination of a gambling or lottery licence; however, the LGSI made 8 decisions on infringements of the AML/CTPF Law, which resulted in 5 warnings and 3 fines for a total amount of EUR 65,263.90.
- 8.23.6. During the reporting period, the LGSI continued to conduct training on AML/CTPF to improve the level of awareness among the entities operating in the sector: 6 training courses in 2020, 9 in 2021, and 7 in 2022. A total of 3 training courses were held for LGSI staff.
- 8.23.7. During the reporting period, the total number of STRs in the sector was 69. However, during the reporting period, issues were identified in the detection of suspicious transactions in gambling rooms. Gambling operator staff directly handling customers do not have a sufficient level of knowledge to identify the features of a suspicious transaction. The ability to identify a suspicious transaction is directly dependent on the ability of the staff to identify the features of a suspicious transaction and to react to a potential ML/TF risk in a timely manner. The detection of suspicious transactions is more efficient for operators of remote gambling, as they use innovative technologies to track the origin of transactions. Interactive gambling operators continue to be the most active reporters, with around 75% of STRs coming from interactive gambling operators during the reporting period.
- 8.23.8. Lotteries and gambling operators continue to receive regular training in AML/CTPF, though the quality of the training and the quality of the later testing of the knowledge acquired has resulted in insufficient levels of knowledge among the staff and their inability to use this knowledge in practice.
- 8.23.9. During the reporting period, COVID-19 restrictions reduced the availability of gambling services to customers, thereby reducing the flow of cash-in-hand in on-site lottery and gambling venues. However, following the lifting of the restrictions there has been an increase in cash-in-hand transactions. The sector is characterised by cash-in-hand transactions present in on-site gambling venues. Customers of gambling and lottery operators can use both cash and non-cash transactions in a single visit.

- 8.23.10. Partial anonymity of the gambling service is typical of the premises where the gambling takes place: gambling rooms, betting shops, and bingo parlours. A customer can anonymously gamble in on-site gambling venues without registration/identification, except casinos, for up to EUR 2000.
- 8.23.11. Given the vulnerability factors of the sector, it can be concluded that the criminal offences that poses the most significant ML threat in physical gambling services are tax offences, illicit movement of excise goods, and illicit movement of narcotics. For remote gambling, the most significant ML threats come from tax offences, as well as match-fixing, which is an issue in both off-site and on-site gambling and betting venues.
- 8.23.12. Given the partial anonymity of on-site gambling services, and the circulation of cash and number of declared winnings, the ML method in which the funds used for gambling are obtained through criminal activities and then returned as winnings is still present in the sector.
- 8.23.13. During the reporting period, the storing of funds in a gambling account became a feature not only in off-site gambling, but also in on-site gambling with the introduction of customer cards. Contributions of funds to an off-site gambling customer's account, or contribution to the customer's card, and transfer back to the bank account without participation in the game or minimal/non-essential participation to disguise the purpose, thereby giving the impression of receiving winnings or dividing the winnings into lots, avoiding paying taxes.
- 8.23.14. In off-site gambling, bets can be placed on multiple possible outcomes, thereby reducing or eliminating the risk of losing money, and in online poker, there is a risk of players colluding and deliberately losing a game. Both on-site and off-site gambling can be used to spend the proceeds of crime, enabling criminals to spend the proceeds of crime as lifestyle spending with no intention of committing ML, with the sole intent of personal entertainment.
- 8.23.15. During the reporting period, the following ML/TF risks were identified in the gambling and lotteries sector:
- 8.23.15.1. use of gambling services for the storing or movement of proceeds of crime;
 - 8.23.15.2. using of gambling services for ML by obtaining funds for gambling through the proceeds of crime and then receiving them as winnings;
 - 8.23.15.3. using the proceeds of crime for lifestyle spending on gambling.
- 8.23.16. The sector's risk rating is medium-high, unchanged compared to the NRA 2020 reporting period.
- 8.23.17. Proposals for measures to mitigate the ML/TF risk for gambling operators:
- 8.23.17.1. improve application of ICS measures for increased control of storage of funds in gambling customer accounts and loyalty cards;
 - 8.23.17.2. compulsory registration of gambling operator customers at gambling venues: gambling rooms, betting shops, and bingo parlours;
 - 8.23.17.3. improve the ICS measures for confirming the authenticity of winnings;
 - 8.23.17.4. develop an automated gambling record-keeping system, including primary data on gambling rooms, interactive gambling, betting shops, and casinos;
 - 8.23.17.5. improve the training for entities under the AML/CTPF Law and introduce follow-up knowledge tests for their staff.

8.24. Extrajudicial Debt Recovery Service Providers

- 8.24.1. In 2020, there were 29 debt recovery service providers licensed by the Consumer Rights Protection Centre (CRPC) in Latvia, with an average of 24 in 2021, and 20 in 2022. The number of cases handed over to the sector and the total amount of debt in these cases are shown in Table 8.24.1. Detailed sector statistics are published on the CRPC website annually.⁵⁴⁴

Table 8.24.1 — Number of cases handed over to extrajudicial debt recovery service providers and the total amount of debt

	2020	2021	2022 ⁵⁴⁵
Turnover of licensed debt recovery service providers	EUR 28.1 million	EUR 39.0 million	EUR 26.7 million
Total assets	EUR 102.8 million	EUR 102.1 million	EUR 83.2 million
Total number of debt cases handed over	1,443,778	1,379,775	1,326,371
Total amount of debt cases	EUR 1860.2 million	EUR 1777.3 million	EUR 1858.9 million

- 8.24.2. The extrajudicial debt recovery sector includes companies of all sizes, including companies with foreign shareholders. In addition to the provision of extrajudicial debt recovery services, some companies also offer other types of services, such as legal services, credit information services, movable asset recovery services, call centre services, IT development services, and retail. According to the results of a survey conducted by the CRPC in early 2023, 19% of licensed debt recovery service providers had other business activities accounting for more than 75% of their turnover, while 42.9% reported debt recovery as their sole business.
- 8.24.3. The customers of licensed debt recovery service providers are mainly legal entities: credit institutions, consumer loan providers, electronic communications service providers, management and utility service providers, medical (treatment) service providers, and other goods and services industries. At the end of 2021, licensed debt recovery service providers had a total of 2702 customers, while at the end of 2022 a total of 2139 customers. The number of high-risk customers of licensed debt recovery service providers also decreased, from 103 (at the end of 2021) to 66 (at the end of the reporting period in 2022).
- 8.24.4. During the reporting period, the CRPC carried out a total of 127 off-site and 7 on-site AML/CTPF inspections of licensed debt recovery service providers. The number of full on-site inspections was affected by the COVID-19 pandemic.

Table 8.24.2 — AML/CTPF inspections carried out of entities in 2020–2022

	2020	2021	2022	Total
Off-site:				
Inspections of funding raised	0	4	11	15
BO inspections	1	0	1	2
General inspections of licence requirements	4	6	12	22
Risk assessment inspections	3	14	1	18
Company employee in charge inspections (+ procedures)	0	1	3	4
ICS inspections	0	2	3	5
Off-site merchant inspections (projects)	7	0	12	19
Other	25	17	0	42
Off-site in total:	40	44	43	127
On-site:				
Full comprehensive on-site inspections (projects)	3	3	1	7

- 8.24.5. During the reporting period, CRPC adopted 17 decisions in relation to AML/CTPF violations detected, including 5 decisions in 2020 (2 cases with a fine of EUR 5000), 3 decisions in 2021 (1 case with a fine of EUR 4000) and 9 decisions in 2022 (none of the cases resulted in a fine). The decisions were taken in connection with the assessment of the risk associated with AML/CTPF, failure to provide information to the CRPC, violations detected during the on-site and/or off-site inspections, failure to comply with legal obligations imposed by the CRPC, as well as breaches of AML/CTPF requirements detected during the licence re-registration process.

⁵⁴⁵ 2022 data on turnover and total assets in the sector are provided for 16 debt recovery service providers (no information is available for the Latvian branch of PlusPlus Baltic OU, SIA Intrum Latvia, SIA Baltic Business Advice, and SIA Skogsrav).

- 8.24.6. During the reporting period, 13 STRs (6 in 2020, 4 in 2021, and 3 in 2022) were submitted to the FIU by debt recovery service providers. Although there was a decrease in the number of reports per year, the number of reports increased compared to the NRA 2020 reporting period, when only 2 STRs were submitted over a 3-year period.
- 8.24.7. In assessing the ability of debt recovery service providers to identify suspicious transactions, several industry-specific factors need to be taken into consideration, including those that affect its attractiveness for engaging in and subsequently detecting ML activities. For instance, a debt recovery service provider conducts KYC procedures before entering into a transaction. Meanwhile, after the transaction is established, it receives payments from debtors who are debtors of the customer and about whom the debt recovery service provider can obtain only a limited amount of information. There can also be cases where a payment is made by a person whose contact details are not available to the debt recovery service provider, or the debtor themselves is no longer interested in communicating with the debt collector after the debt has been paid. As the industry itself is often perceived negatively in emotional terms, consumers often avoid communication with it.
- 8.24.8. In addition, it should be noted that the customers of licensed debt recovery service providers are predominantly providers of services that are used on a daily basis. In 2020 49.5%, in 2021 49.7%, and in 2022 50.0% of the total number of consumer debt portfolio cases were referred by credit institutions and consumer loan providers, themselves entities under the AML/CTPF Law. These debt cases accounted for 91.6% of the total debt portfolio in 2020, 91.8% in 2021, and 90.8% in 2022. Since the CRPC only monitors the licensed segment of debt recovery service providers⁵⁴⁶, it is more likely that if a person wants to engage in ML by recovering a fictitious debt, they will choose a debt recovery service provider that is not subject to licensing requirements.
- 8.24.9. Overall, the ability of licensed debt recovery service providers to identify suspicious transactions is rated as satisfactory. However, the supervision identified signs that raise concerns about the ability of the AML/CTPF ICS of some debt recovery service providers to identify suspicious transactions.
- 8.24.10. Given the specific service provided by debt recovery service providers and the national threats identified, the sector has characterised ML threats from cashless cross-border payments, corruption offences, property offences, and tax offences.
- 8.24.11. The sector's ML vulnerability, threats, and risk are all considered to be as medium-low in the reporting period, as well as in NRA 2020. This is due to the comprehensive assessment of the sector during the reporting period, given that FIU did not identify the involvement of the sector in criminal proceedings under Section 195 of the Criminal Law in the information that has been collected.
- 8.24.12. Proposals for mitigating actions to address the risks identified in the debt recovery services sector:
- 8.24.12.1. assign a supervisory authority for debt recovery service providers that are not required to be licensed by the CRPC (note that the criterion is the licence, not the fact that the debt is recovered from legal entities, i.e. if a debt recovery service provider is licensed by the CRPC, then the supervision of its debt recovery activities falls within the remit of the CRPC);
 - 8.24.12.2. to mitigate the risk of ML/TF for assignment transactions in which debt recovery service providers buy or sell debt portfolios once the size of a transaction or similar subsequent transactions reaches a certain amount, set an obligation to report the transaction to the supervisory authority within a certain deadline and, whenever necessary, to provide the necessary documentation;
 - 8.24.12.3. clarify the CRPC guidelines for the entities and provide training to them;
 - 8.24.12.4. increase the number of full and targeted on-site inspections.

⁵⁴⁶ The licence requirement is set by Section 5 of the Law on Extrajudicial Recovery of Debt: *A provider of debt recovery services is entitled to recover a debt in the name of or on behalf of a creditor, if it has registered as a merchant or a performer of professional activities and has received the special permit (licence) for debt recovery (...)* The requirement referred to in Paragraph one of this Section shall not apply to sworn advocates and the administrator in accordance with the provision of the Covered Bonds Law. Available at: <https://likumi.lv/ta/id/252964-paradu-arpustiesas-atgusanas-likums>.


8.25. Vehicle Sales and Brokerage Service Providers

- 8.25.1. As of 31 December 2020, 264 vehicle sales and brokerage service providers ("vehicle dealers"), including legal entities and natural individuals, were under the supervision of the SRS, of which 36 vehicle dealers registered this type of business for the first time. As of 31 December 2021, there were 256 vehicles dealers under the supervision of the SRS, of which 47 registered this type of business for the first time. And as of 31 December 2022, there were 277 vehicles dealers under the supervision of the SRS, of which 49 registered this type of business for the first time.
- 8.25.2. Compared to the NRA 2020 reporting period, the number of vehicle dealers was on a slight downward trend. As of 31 December 2019, there were 296 vehicle dealers under the supervision of the SRS, while on 31 December 2022, there were 277, or 19 (6%) more.
- 8.25.3. A taxpayer becomes an entity under the AML/CTPF Law in this sector if its customers make payments directly in cash or credit the cash to the dealer's account in a credit institution in the amount of EUR 10,000 or more. Overall, the size of the vehicle dealer sector and its share in the economy can be assessed as low. The Latvian vehicle dealer market includes new and used cars. The used car segment has historically accounted for a significant share of the overall market. It is important to note that car sales also take place between private individuals.
- 8.25.4. Based on a survey of entities in the sector conducted by the SRS, 36% of the entities had a turnover of less than EUR 10,000. 20% of the entities had a turnover of more than EUR 500,000, and 13% have a turnover of more than EUR 1,000,000. Similarly to the turnover of precious metals dealers, vehicle dealers with a turnover of more than EUR 1 million had a higher share of the market. This is due to the value and market prices of the goods involved, but overall, the impact of sector's turnover on the financial condition of the non-financial sector is assessed as small.
- 8.25.5. 9% of vehicle dealers provided services to high-risk customers, 4% to PEP customers, and 49% of vehicle dealers accepted cash payments. 24% of vehicle dealer customers were from the EEA, 3% from the CIS, and 72% were Latvian residents and legal entities registered in Latvia.
- 8.25.6. 14 on-site inspections of vehicle dealers and one off-site inspection of vehicle dealers took place in 2020. 32 on-site inspections of vehicle dealers and 14 off-site inspections of vehicle dealers took place in 2021. In 2022, 11 on-site inspections took place. The average fine imposed was EUR 1508.33.
- 8.25.7. In 2020, 11 entities registered as distributors of vehicles were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law:
 - 8.25.7.1. 6 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
 - 8.25.7.2. 11 decisions were adopted to impose fines totalling EUR 16,100.
- 8.25.8. In 2021, 31 entities registered as vehicle dealers were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law, with:
 - 8.25.8.1. 1 decision to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
 - 8.25.8.2. 1 decision to impose a fine totalling EUR 2000.
- 8.25.9. In 2022, 11 entities registered as vehicle dealers were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law. The reduction in the punishment imposed is because during the inspection it was found that vehicle dealers were registered as entities under the AML/CTPF Law, but cash transactions of EUR 10,000 or more were not accounted for and therefore no punishments were imposed.
- 8.25.10. Detected breaches by vehicle dealers: failure to develop an ICS, failure to conduct KYC procedures, failure to identify customer AML/CTPF risks, failure to retain customer identification and KYC documents, failure to ascertain customer BO, failure to cooperate with

- the SRS and produce requested documents, failure to submit and report suspicious transactions to the FIU.
- 8.25.11. The FIU received no suspicious transaction reports from vehicle dealers in 2020, one in 2021, and 3 suspicious transaction reports in 2022. The number of reports still does not reflect the sector's presumed risk exposure, which increases the sector's vulnerability. The low number of reports may indicate the failure of vehicle dealers to identify and report suspicious transactions. This is also confirmed by the fact that in some inspections, the vehicle dealer had not reported a suspicious transaction to the FIU.
- 8.25.12. During the reporting period, the following typologies were identified in the suspicious transaction reports submitted by the sector to the FIU: the amount of cash transactions is not representative of the customer's profile and/or type of business; the origin of the funds and/or the economic grounds for the transactions is not clear, as the customer does not provide an explanation or provides an explanation that is difficult to verify; negative information about the customer, its transaction partner, or its representative is publicly available, which in the context of the transactions carried out, raises suspicions of ML/TF. In terms of the features of suspicious transactions, the sector survey data show that 7% of vehicle dealers need additional information about the role of the risk inherent in the customer's business in identifying suspicious transactions and 13% need additional information about the role of the jurisdiction in identifying suspicious transactions.
- 8.25.13. The vulnerability of the vehicle dealer sector is mitigated by Section 30(1)(1) of the Law on Taxes and Fees, which states that taxpayers engaging in business activity may not affect cash-in-hand transactions exceeding EUR 7200.
- 8.25.14. The main threats affecting the sector that stem from national threats:
- 8.25.14.1. vehicles can be the end product of integration, or used in lifestyle spending by criminals. Ownership can be concealed through legal entities, persons involved in organised crime, relatives, and other close associates;
- 8.25.14.2. vehicles can be used to convert the proceeds of crime into other valuables, with the aim of moving them away from their origin and reselling them. This can include the involvement, whether knowingly or unknowingly, of the vehicle dealer.
- 8.25.15. The main risks identified in the vehicle dealer sector are:
- 8.25.15.1. selling of vehicles to legal entities with features of shell companies and structuring of transactions to reduce the amount of payable tax;
- 8.25.15.2. structuring, failure to report cash-in-hand payments; involvement of third parties.
- 8.25.16. During the reporting period, the sector's risk rating was medium, unchanged from the 2020 NRA. Proposals for actions to mitigate the risks identified in the sector: continue improving the knowledge of AML/CTPF among the people working in the sector and improving their understanding of AML/CTPF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.26. Trade in Precious Metals, Precious Stones, and their Products

- 8.26.1. As of 31 December 2020, there were 135 precious metals dealers under the supervision of the SRS, of which 4 registered this type of business for the first time. As of 31 December 2021, there were 123 precious metals dealers under the supervision of the SRS, of which 7 registered this type of business for the first time. As of 31 December 2022, there were 119 precious metals dealers under the supervision of the SRS, of which 7 registered this type of business for the first time.
- 8.26.2. Compared to the NRA 2020 reporting period, the number of precious metals dealers was on a downward trend. As of 31 December 2019, there were 159 precious metals dealers under the supervision of the SRS, while on 31 December 2022, there were only 119, or 40 (25%) less.
- 8.26.3. A taxpayer becomes an entity under the AML/CTPF Law in this sector if its customers make payments directly in cash or credit the cash to the dealer's account in a credit institution in the amount of EUR 10,000 or more.

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- 8.26.4. The AML directorate of the SRS selects entities for on-site and off-site inspections using a risk-based approach. The inspection determines if the entity under the AML/CTPF Law engaged in transactions whereby its customers make payments directly in cash or credit the cash to the dealer's account in a credit institution in the amount of EUR 10,000 or more. Accordingly, inspection may be carried out both of registered entities under the AML/CTPF Law and of parties that are not registered as such, but the information available to the SRS indicates that they act in a way that is consistent with that of an entity under the AML/CTPF Law.
- 8.26.5. Any merchant who registers with the Register of Enterprises or the SRS tax register as an economic activity performer may trade in precious metals, precious stones, and their products, function as a broker in such transactions. There are no special education or professional qualifications requirements. Because of this, there is no certainty as to the level of education and professionalism of the registered precious metal dealers that are entities under the AML/CTPF Law, as no criteria have been introduced for setting up this type of business. Taxpayers engaging in business activities with precious metals, precious stones, and their products register their places of business with State Limited Company "Latvijas probes birojs".
- 8.26.6. During the reporting period, the SRS conducted a survey of the sector's entities, including questions about their annual turnover. 31% of precious metals dealers indicated that their annual turnover did not exceed EUR 10,000, while 13% of them stated that their annual turnover exceeded EUR 1 million. 19% of the sector had a turnover of between EUR 160,000 and EUR 1 million. It should be noted, however, that information about turnover may also be given for the entirety of the business of these entities, not only for the sale of precious metals, precious stones, and their products, or for brokerage services in such transactions.
- 8.26.7. On average, 6% of the entities in this sector work with high-risk customers, 3% with PEP customers, and 75% accept cash payments. 22% of the entities' customers are from the EEA, 2% are from the CIS, and 76% of the customers are Latvian residents and legal entities registered in Latvia.
- 8.26.8. In 2020, 7 on-site inspections took place. In 2021, 2 on-site inspections and 1 off-site inspection took place. In 2022, 5 on-site inspections took place. The average fine was EUR 550, which is less than for other sectors.
- 8.26.9. Compared to the NRA 2020 reporting period, the number of precious metals dealers was on a downward trend, while the number of inspections carried out decreased only marginally.
- 8.26.10. In 2020, 3 entities registered as precious metal dealers were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law: 3 decisions to impose fines totalling EUR 1750 were adopted.
- 8.26.11. In 2021, 1 entity registered as a precious metals dealer was punished for breaches of the AML/CTPF Law and the Sanctions Law with a fine of EUR 450.
- 8.26.12. In 2022, no precious metals dealers were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law.
- 8.26.13. Breaches found during the SRS inspections of precious metals traders: failure to fully develop the ICS, failure to identify the customer's ML/TF risks, failure to promptly notify the SRS about the type of business and the appointment of the person in charge, failure to carry out a sanctions breach and circumvention risk assessment, failure to develop a sanctions breach and circumvention risk management ICS.
- 8.26.14. The FIU received 12 suspicious transaction reports from dealers of precious metals in 2020, 19 in 2021, and 25 in 2022. The number of reports received is a good indicator, but the fact that all these reports were submitted by the same entity under the AML/CTPF Law is to be considered a negative circumstance. This may suggest a lack of awareness of suspicious transactions among the rest of the sector.
- 8.26.15. The most used feature/typology of suspicious transactions used in these reports (19 in total) submitted by precious metals dealers to the FIU are: 'origin of funds and/or economic grounds for transactions unclear due to the customer's lack of explanation, or explanation difficult to verify'. Another typology was used multiple times (5 reports): negative information is publicly

available about the customer, its transaction partners, or its authorised representatives, which in the context of the transactions carried out gives rise to suspicion of ML. In terms of the features of suspicious transactions, the sector survey data show that 2% of precious metals dealers need additional information about the role of the risk inherent in the customer's business in identifying suspicious transactions and 13% need additional information about the role of the jurisdiction in identifying suspicious transactions.

- 8.26.16. The vulnerability of the sector is mitigated by Section 30(1)(1) of the Law on Taxes and Fees, which states that taxpayers engaging in business activity may not affect cash-in-hand transactions exceeding EUR 7200.
- 8.26.17. The main threats affecting the sector that stem from national threats:
- 8.26.17.1. the stable value and liquidity of precious metals and stones make them convenient for the placement and layering of proceeds of crime in moving them away from their origin. Their small size relative to their value can be also used in cross-border schemes;
 - 8.26.17.2. integration, lifestyle spending.
- 8.26.18. The main presumed risks of precious metals dealers:
- 8.26.18.1. structuring of transactions;
 - 8.26.18.2. handling and processing of precious metals whose original origin is difficult to ascertain;
 - 8.26.18.3. insufficient understanding of suspicious transactions.
- 8.26.19. During the reporting period, the sector's risk rating was medium, unchanged from the 2020 NRA. Proposals for actions to mitigate the risks identified in the sector: continue improving the knowledge of AML/CTPF among the people working in the sector and improving their understanding of AML/CTPF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.27. Dealers and Brokers in other Goods

- 8.27.1. As of 31 December 2020, there were 1972 dealers and brokers in other goods under the supervision of the SRS, of which 575 registered this type of business for the first time. As of 31 December 2021, there were 2290 dealers and brokers in other goods under the supervision of the SRS, of which 535 registered this type of business for the first time. As of the end of the reporting period, 31 December 2022, there were 2528 dealers and brokers in other goods under the supervision of the SRS, of which 572 registered this type of business for the first time.
- 8.27.2. Compared to the previous reporting period, the number of dealers increased significantly. As of 31 December 2019, there were 1611 dealers in other goods under the supervision of the SRS, while on 31 December 2022, there were 2528, or 917 (57%) more. This increase is mainly due to the clarification of records of entities, with the inclusion of persons registered as brokers in the provision of these services. For the most part, this type of activity is not registered as the only type of business of these entities under the AML/CTPF Law.
- 8.27.3. A taxpayer becomes an entity under the AML/CTPF Law in this sector if its customers make payments directly in cash or credit the cash to the dealer's account in a credit institution in the amount of EUR 10,000 or more.
- 8.27.4. Based on a survey conducted by the SRS during the reporting period, 39% of the entities in the sector had an annual net turnover of less than EUR 10,000. The second largest turnover range was between EUR 10,000 and EUR 20,000, reported by 13% of the sector. Only 7% of the sector's entities had a net turnover of more than EUR 1,000,000 per year.
- 8.27.5. Only 6% of dealers in other goods served high-risk customers, 1% provided their services to PEP customers, and 33% accepted cash payments. In terms of the jurisdiction, the customers break down as follows: 19% of dealers in other goods' customers are from the EEA, 3% from the CIS, 4% from other jurisdictions, and 75% are Latvian residents and legal entities registered in Latvia.

- 8.27.6. In 2020, the SRS carried out 38 on-site inspections and 10 off-site inspections of dealers in other goods; in 2021, 98 on-site inspections and 37 off-site inspections were carried out. In 2022, 77 on-site inspections and 2 off-site inspections took place. The number of violations detected compared to the number of inspections carried out decreased. The average fine during the reporting period was EUR 1411.29.
- 8.27.7. Compared to the NRA 2020 period, the number of dealers tended to increase, and the number of inspections also increased (in 2019, the SRS carried out 43 on-site and 17 off-site inspections).
- 8.27.8. In 2020, 11 entities registered with the SRS as distributors of other goods were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law:
 - 8.27.8.1. 3 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
 - 8.27.8.2. 11 decisions to impose fines totalling EUR 11,200.
- 8.27.9. In 2021, 8 entities registered with the SRS as distributors of other goods were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law:
 - 8.27.9.1. 6 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
 - 8.27.9.2. 8 decisions to impose fines totalling EUR 15,600.
- 8.27.10. In 2022, 12 entities registered with the SRS as distributors of other goods were sanctioned for breaches of the AML/CTPF Law and the Sanctions Law:
 - 8.27.10.1. 10 decisions to suspend business with a prohibition to register changes in the Commercial Register for the reorganisation of the company and changes in its shareholders;
 - 8.27.10.2. 12 decisions to impose fines totalling EUR 16,950.
- 8.27.11. Violations detected among dealers in other goods: failure to take KYC measures, failure to identify a customer's ML/TF risks, failure to determine a customer's BO, failure to carry out a risk assessment of a customer's breach of sanctions, failure to notify the appointment of a person in charge of the entity.
- 8.27.12. The FIU received no STRs from dealers in other goods in 2020 and 2021, and 1 STR in 2022. The number of reports still does not represent the presumed risk exposure of the sector and further work to boost the awareness of dealers in other goods in the field of detection of suspicious transactions is needed. In terms of the features of suspicious transactions, the sector survey data show that 5% of dealers in other goods need additional information about the role of the risk inherent in the customer's business in identifying suspicious transactions and 11% need additional information about the role of the jurisdiction in identifying suspicious transactions.
- 8.27.13. The vulnerability of the dealers and brokers in other goods sector is mitigated by Section 30(1)(1) of the Law on Taxes and Fees, which states that taxpayers engaging in business activity may not affect cash-in-hand transactions exceeding EUR 7200.
- 8.27.14. The main threats affecting the sector that stem from national threats:
 - 8.27.14.1. various types of goods can be the end product of integration, or used in lifestyle spending by criminals. Ownership can be concealed through legal entities, persons involved in organised crime, relatives, and other close associates;
 - 8.27.14.2. goods can be used to convert the proceeds of crime into other valuables, with the aim of moving them away from their origin and reselling them. This can include the involvement, whether knowingly or unknowingly, of the dealer of the goods.
- 8.27.15. The main presumed risks of dealers in other goods:
 - 8.27.15.1. structuring, breaking up of transactions, using of third parties;
 - 8.27.15.2. lack of understanding of suspicious transactions;
 - 8.27.15.3. deliberate failure to register business and the status as an entity under the AML/CTPF Law.

- 8.27.16. During the reporting period, the sector’s risk rating was medium, unchanged from the 2020 NRA. Proposals for actions to mitigate the risks identified in the sector: continue improving the knowledge of AML/CTPF among the people working in the sector and improving their understanding of AML/CTPF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

8.28. Entities Involved in the Circulation of Art Objects and Antiquities

- 8.28.1. In February 2023, after revising the list of AML/CTPF Law entities involved in the circulation of cultural objects compiled and used by the NCHB, the NCHB’s representatives reduced the number of these entities to 76 legal entities. This was done for two reasons. First, several previously listed entities had ceased their business and gone into liquidation, due to difficulties and low turnover experienced by those involved in the circulation of cultural objects during the COVID-19 pandemic and due to the inability of the companies to recover or adapt to the current situation. Second, several entities under the AML/CTPF Law changed their field of business in previous years, abandoning their involvement in the circulation of cultural objects, and switching to trade in other types of goods or services.
- 8.28.2. By the end of 2019, the number of legal entities subject to the AML/CTPF Law was reduced to 90, and by the end of 2020, to 79. However, the NCHB sectoral risk assessment for 2021 reported that as part of a revision of the list, legal entities were added with which the NCHB had come into contact in its work, increasing the number of the entities under the law to 93.
- 8.28.3. The cultural object circulation sector consists of parties that buy and sell art and antiques. The NCHB can supervise and inspect activities related to the trade in cultural objects when done by a legal entity registered as dealing in art and antiques. Sometimes, entities operating in the circulation of cultural goods register under the categories of “jewellery” and “second-hand goods”. Legal entities registered under these categories are more difficult to identify, as each entity must be checked individually to discover transactions involving cultural objects.
- 8.28.4. Since the monitoring of the sector began in 2019, the Latvian art market saw low activity domestically, due to low purchasing power and the limited number of art categories of interest. Consequently, Latvia is not considered a country of destination for the movement of cultural objects. The NCHB reports that antiques shops can mostly only sell cultural and artistic objects with a value of up to EUR 1000, turning into a kind of souvenir shops for tourists. Given the impact of the COVID-19 pandemic on the tourism industry, antique shops and galleries were hit hard by the absence of foreign tourists and the inability to sustain their business.
- 8.28.5. On 2 February 2021, amendments to Section 229 of the Criminal Law and its sub-sections took effect, introducing stricter sanctions for illegal dealing in cultural objects and antiquities. These changes significantly reduced the amount of looting in archaeological sites belonging to the Republic of Latvia, the number of illegal transactions with archaeological artefacts, and the number of archaeological artefacts seized/confiscated during searches.
- 8.28.6. The officers of the Circulation of Cultural Objects Unit were both observers and active participants in five meetings on the 1970 UNESCO Convention, three meetings on the Hague Convention, and five international conferences on the prevention of the illicit circulation of cultural objects. Regular participation in the EC cultural object return expert working group and the expert group that handles the customs matters pertaining to the circulation of cultural objects.
- 8.28.7. During the reporting period, the spread of COVID-19 largely led to the suspension of on-site inspections of art and cultural object dealers, followed by an active resumption in March 2023. During the reporting period, there was more attendance at large public antiquities trading events and more active off-site inspections and website monitoring.


Table 8.28.1 — Statistics on website monitoring and crimes related to archaeological artefacts belonging to the Republic of Latvia

	2020	2021	2022
Possible illegal trade in archaeological artefacts detected as part of website monitoring	134	59	19

Number of illicit trade cases reported by the NCHB to the State Police or other law-enforcement agencies	38	29	4
Number of archaeological artefacts of Latvian origin detected in the illicit trade	935	365	50
Criminal cases for the illegal storage and sale of archaeological artefacts	11	7	2
Archaeological artefacts assessed at the meetings of the NCHB Commission for the Assessment of Archaeological Artefacts	2000	2624	661
Total value of archaeological artefacts belonging to the Latvian state (EUR)	-	14,579	8173

- 8.28.8. During the reporting period, none of the Preventive Law entities monitored by the NCHB reported suspicious transactions to the FIU. Meanwhile, 1 entity operating in the sector submitted 1 threshold statement for persons and entities involved in the trade of art and antiquities where the transaction amount is equivalent to EUR 50,000 or more.
- 8.28.9. Threats in this area are mainly related to the transit and export of cultural objects. Although Latvia is not one of the countries of destination for the movement of cultural objects, it borders countries that are.
- 8.28.10. Since February 2022, when the Russian Federation resumed its war within Ukraine, the transit of cultural objects has also decreased, given that in February 2022, all exports of cultural objects to Russia largely stopped. Later, in the context of Council Regulation (EU) 2022/428 of 15 March 2022 amending Regulation (EU) No 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, the EU banned the export of any luxury goods from the EU to Russia in the amount exceeding EUR 300.
- 8.28.11. The threat is also posed by a segment of the cultural object market that the NCHB cannot control and whose activities and schemes come to the attention of the NCHB only when criminal proceedings have already been initiated and the SP consults NCHB experts on the provenance of the cultural objects. This market segment consists of natural and legal entities that did not register their business as that which takes place in the field of circulation of cultural objects but that buy/sell cultural objects anyway.
- 8.28.12. Within the sector, it has been observed that since the changes in the Criminal Law and the suspension of the cultural object market aimed towards Russia, the number of crimes related to cultural objects, especially archaeological artefacts belonging to Latvia, has decreased. Entities supervised by the NCHB also comply with the AML/CTPF Law and its requirements, not creating any suspicions of illegal activities or financial schemes.
- 8.28.13. Risk is created by entities who have not officially registered their activities with the SRS: persons transporting certain cultural objects without permits, namely, the included in the categories defined by Cabinet Regulation 846, individuals or legal structures purchasing and/or using cultural objects in financial schemes, which cannot be known to the NCHB without the involvement of law-enforcement agencies.
- 8.28.14. The 2020/2021 sectoral risk assessment determined the NCHB cultural objects sector to have medium-level risk. In summary, the entire reporting period is assessed to have had a medium-low risk, which is the same as in the NRA 2020 reporting period (2017–2019).
- 8.28.15. The following measures should be taken to continue reducing the risk:
- 8.28.15.1. continue the NCHB's cooperation with law-enforcement agencies, customs, post, maintaining communication on current events in the sector;
 - 8.28.15.2. continue cooperation law-enforcement agencies and cultural heritage protection agencies in other countries, particularly the Baltic States, to reduce the illegal cross-border movement of cultural objects;
 - 8.28.15.3. continue working on the introduction of licensing in the cultural objects sector.

8.29. Transactions with Movable and Immovable Cultural Heritage Sites

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- 8.29.1. In the context of the AML/CTPF Law, the NCHB conducts the risk assessment of transactions with national cultural heritage sites within the framework of the procedure for exercising the pre-emption right, which is to be followed in accordance with Section 8(1) of the Law on Protection of Cultural Monuments, Cabinet Regulation 534 'Regulations on the procedure and conditions of exercising the pre-emption right for national cultural heritage sites' of 5 July 2011, and guidelines prepared by the NCHB. Given that the procedure for exercising the state's pre-emption right applies to transactions with independent real properties registered as separate national cultural heritage sites in the state list of protected cultural heritage sites, the state pre-emption right provision was used in 36 out of 83 transactions submitted during the reporting period.
- 8.29.2. During the reporting period, the NCHB received and assessed only one transaction with a movable national cultural heritage object, listed as a part of an immovable cultural heritage site in the National List of Protected Cultural Heritage Sites. The procedure for the exercise of the state's pre-emption right was used on the grounds that the object of the transaction, although inseparable in terms of its cultural and historical value, was separable from the immovable property forming a part of the heritage site in terms of its ownership.
- 8.29.3. During the reporting period, 12 private legal entities, 5 public legal entities, and 21 natural individuals sold national cultural heritage objects subject to the procedure for exercising the state's pre-emption right, while 22 private legal entities, of which 1 was registered as a company with 100% foreign capital and 1 was registered under the laws and regulations of the Republic of Estonia, 1 public legal entity, and 13 natural individuals, acquired those objects.
- 8.29.4. In accordance with Sections 2 and 3 of the Cabinet Regulation 534 "Regulations on the procedure and conditions of exercising the pre-emption right for national cultural heritage sites" of 5 July 2011, when selling a national cultural heritage object, the purchase agreement or its copy (presenting the original purchase agreement) be submitted to the NCHB or its regional office before the ownership rights are registered in the Land Register (for immovable national cultural heritage sites) or before the property is handed over (for movable national cultural heritage objects). Consequently, when deciding on the exercise of the state's pre-emption right, the NCHB is entitled to assess transactions with cultural heritage sites only to the extent of the documents submitted (i.e. the purchase agreement).
- 8.29.5. In one case, the NCHB found that the owner of a national cultural heritage object had not complied with the requirements of the law, failing to report the sale of a cultural heritage object, thus preventing the NCHB from examining the transaction with the cultural heritage object in the context of AML/CTPF. This case was reviewed by the NCHB, with additional information requested, and the transactions verified in line with the NCHB guidelines. The examination of the information obtained did not reveal any grounds for a report. A warning was issued for failure to comply with the law. To prevent the recurrence of similar cases, an information letter was sent to the Land Registry Division with a request to pay more attention to the fulfilment of the requirements for the protection of cultural heritage sites prior to the registration of ownership over a national cultural heritage site in the Land Register.
- 8.29.6. In order to facilitate the availability of information to the parties involved in transactions, the NCHB publishes the instructions for the use and conservation of each cultural heritage object in the form of a general administrative deed in the Official Publisher of the Republic of Latvia "Latvijas Vestnesis", including a paragraph on the duty to report that owners of national cultural heritage objects have, i.e. the obligation to report any suspicious transaction to the FIU.
- 8.29.7. In transactions with national cultural heritage sites, the threat is posed by the acquisition of cultural heritage sites that are recognised as cultural assets for the public at large through their inclusion in the list of protected cultural heritage sites, using funds for which there is suspicion that they have been acquired directly or indirectly because of a criminal offence or are being used with the aim of financing terrorist activities or proliferation. Similarly, immovable cultural heritage sites can be used in ML schemes, fraud, and tax evasion. Regarding the parties to the transaction, there is a risk that one/some of the parties to the real estate purchase agreement (their representative or BO) are linked to high-risk countries or are on a sanctions list.
- 8.29.8. The following risks have been identified for transactions with national cultural heritage sites:

- 8.29.8.1. the possibility to pay part of the purchase price in cash when buying a cultural heritage site, with a total transaction amount different from that in the official documents;
 - 8.29.8.2. the possibility that a request for a review of the state's pre-emption right is not submitted (violation of the legal procedure), which results in the NCHB not being provided with information about the transaction with a cultural heritage site and not being able to carry out an examination of the transaction;
 - 8.29.8.3. discrepancies between the transaction's value and average market prices;
 - 8.29.8.4. the price of the property gradually increases, and both the original and the final owner are affiliated;
 - 8.29.8.5. the possibility to sell the immovable property by dividing it into several parts, as a result of which the regulation on the exercise of the pre-emption right on a national cultural heritage site does not apply and it is not possible to carry out a verification of the transaction;
 - 8.29.8.6. the pre-emption right cannot be exercised if the property is disposed of through other means than sale, such as a gift. The risk arises in situations where there has been a change of ownership over a cultural heritage site without a sale (e.g. by donation, exchange).
- 8.29.9. During the reporting period, 3 transactions were exposed to risks attributable to the protection of immovable cultural heritage site sector:
- 8.29.9.1. a transaction where an immovable national cultural heritage site was resold within a short period of time, giving rise to suspicions of a deliberate gradual increase in the value of the property;
 - 8.29.9.2. a transaction where the purchase price of the real property was not in line with the average market price, leading to suspicions that the value of the transaction had been deliberately reduced;
 - 8.29.9.3. a transaction that was not reported to the NCHB, thus preventing the NCHB from verifying the transaction.
- 8.29.10. In all the cases, due diligence took place in accordance with the NCHB guidelines and internal control procedures. After the due diligence, it was concluded that there were no high risks and no features of a suspicious transaction and, therefore, no grounds for reporting the transactions to the FIU.
- 8.29.11. Taking into consideration the internal control procedures of the NCHB and the number and nature of transactions during the reporting period, the risk level for transactions with national cultural heritage sites is considered low, i.e. the risk has a low likelihood of occurrence. The value of the risk assessment decreased significantly compared to NRA 2020 due to the approval of internal control procedures for the verification of transactions with national cultural heritage sites by the NCHB on 16 October 2019.

8.30. Insolvency Administrators

- 8.30.1. There are 152 insolvency administrators in the profession,⁵⁴⁷ of which 145 are active (7 administrators are [suspended](#) or [disqualified](#)). Having been appointed, an administrator is required to take a qualification examination every five years,⁵⁴⁸ after which the head of the Insolvency Control Service extends the administrator's certificate for another five years. The necessity to hold administrator examinations for admitting new administrators to the profession is decided by the Insolvency Advisory Council,⁵⁴⁹ at the request of a member of the council or the head of the Insolvency Control Service,⁵⁵⁰ thus there is no set period for the regular admission of new administrators to the profession.
- 8.30.2. The Insolvency Law provides the insolvency administrator with broad powers in insolvency proceedings, including the power to take over and dispose of the debtor's property, to make

⁵⁴⁷ According to insolvency register data, retrieved on 8 March 2023. The current number of administrators is public information. Available at: <https://maksatnespeja.ur.gov.lv/insolvency/practitioner/lv>.

⁵⁴⁸ Section 16.² of the Insolvency Law.

⁵⁴⁹ The Insolvency Advisory Council is an inter-sectoral institution with an advisory and coordinating function whose aim is to provide the MoI with advice on current insolvency affairs, and to contribute to the development and implementation of insolvency policy. Available at: <https://likumi.lv/ta/id/167185-maksatnespejas-jautajumu-konsultativas-padomes-nolikums>.

⁵⁵⁰ Section 16.¹ of the Insolvency Law.

decisions affecting the interests of the creditors, and to become the sole legal manager (official) of the insolvent company with the broadest powers to make decisions and enter into transactions.⁵⁵¹ In given insolvency proceedings, the court appoints the administrator using a list of administrator candidates maintained by EIAS⁵⁵² and the automated and random selection tool of the court information system.⁵⁵³ Consequently, the administrator in the given insolvency proceedings is appointed at random and cannot choose its customer, the insolvent entity, nor can it choose not to conduct business with that customer.

- 8.30.3. At the beginning of 2023, there were approximately 2400 insolvency proceedings active, with an average of 18 insolvency proceedings per administrator (5 legal entity insolvency proceedings and 13 natural individual insolvency proceedings). While the number of administrators was on a downward trend in the last few years, the number of insolvency proceedings fell as well. In the opinion of the Insolvency Advisory Council, insolvency administrators currently have appropriate workload, enabling them to perform their duties under the AML/CTPF Law.
- 8.30.4. Since 12 July 2021⁵⁵⁴ administrators are independently and simultaneously supervised in terms of compliance with the AML/CTPF Law by two supervisory and control bodies, the Insolvency Advisory Council and the Association of Administrators, while only the MCA can sanction an administrator for breaching the AML/CTPF Law.⁵⁵⁵ Overall, these regulatory changes have a negative impact on the sector, as it is not possible to conduct coherent and effective supervision of the sector with two institutionally independent authorities.
- 8.30.5. As part of its independent supervision activities, the Insolvency Advisory Council carried out inspections of 26 insolvency proceedings between 12 July 2021 and 31 December 2022, with 9 unscheduled and 17 scheduled inspections to check the administrators' compliance with the requirements of the AML/CTPF Law. Of all inspections carried out, 13 resulted in sanctions, in 12 cases, the administrator was explained what deficiencies there were in their work, and what action was expected to remedy the irregularities found.⁵⁵⁶ In 2021, the Insolvency Advisory Council adopted one decision imposing a sanction (warning). In 2022, the Insolvency Advisory Council sanctioned 7 administrators for breaches of the AML/CTPF Law: 3 decisions issuing a warning, and 4 decisions imposing a total fine of EUR 1650. The most significant breaches identified were: continued failure to report suspicious transactions to the FIU, continued failure to inspect customers, continued failure to ascertain whether a debtor's BO qualifies as a PEP, a family member of a PEP, or a person closely related to a PEP, failure to ascertain whether the sale of real estate is suspicious and disclosure to third parties of the fact of reporting to the FIU. The Association of Administrators completed 10 inspections before 31 December 2022, one of which was conducted in person at the insolvency administrator's practice, while nine inspections took place remotely, requiring the insolvency administrators to provide all the information and documents necessary for the inspection. The information obtained from the on-site and off-site inspections was used to plan future supervisory activities, including training. The inspections mainly identified a number of deficiencies in the context of the internal control system put in place by the insolvency administrators, the AML/CTPF professional risk assessments, which the entities under the law were informed about; the deficiencies were explained, and the administrators were accordingly requested to remedy them and resubmit the documentation.
- 8.30.6. During the reporting period, FIU received a total of 79 STRs, which is considered to be a high rate among non-financial sector entities under the law. The typologies of transactions mainly identified in the submitted reports were as follows: the origin of the funds and/or the economic grounds for the transactions are not clear as the customer does not provide an explanation, or provides an explanation that is difficult to verify (32); the payments are payments of transit nature: the funds are transferred further shortly after they are credited to the account (10); the turnover on the customer's account and/or other indications suggest an imitation of

⁵⁵¹ Section 24.2 of the 21 December 2015 ruling of the Republic of Latvia Constitutional Court in case No 2015-03-01 Available at: <https://likumi.lv/ta/id/278733-par-2014-gada-25-septembra-likuma-grozijumi-maksatnespejas-likuma-2-panta-un-2014-gada-30-oktobra-likuma-grozijumi-likuma-par-i>.

⁵⁵² Electronic insolvency records system.

⁵⁵³ Section 19 of the Insolvency Law.

⁵⁵⁴ *Amendments to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing*. Available at: <https://likumi.lv/ta/id/324250-grozijumi-noziedzigi-iegotu-lidzeklu-legalizacijas-un-terorisma-un-proliferacijas-finansesanas-noversanas-likuma>.

⁵⁵⁵ Section 45(1)(10) of the Prevention Law in the context of Section 77(1) of the Prevention Law.

⁵⁵⁶ One of the inspections is still ongoing.

economic transactions (9), which are consistent with the typologies identified in the sector. It should be noted that the increase in the number of reports recorded can also be attributed to the monitoring activities of the Insolvency Advisory Council, as failure to report on time is one of the most frequent violations detected.

- 8.30.7. The insolvency sector is vulnerable to corruption due to the exclusive competence of administrators to take over the debtor's documents and current bank accounts, to assess the debtor's transactions and the actions and responsibility of the debtor's former officials. The possibility of misappropriation of funds is also linked to the administrator's duty to manage the debtor's funds. The threats arising from the conduct of other parties involved in the insolvency proceedings, on the other hand, are mainly related to delays in the insolvency proceedings, failure to provide the administrator with complete information and documents, which in turn prevents the administrator from fully assessing the debtor's transactions.
- 8.30.8. Typologies found in the insolvency sector:
- 8.30.8.1. funds are moved and structured with the goal of move them away from their place of origin, imitating what appear to be legitimate transactions.
 - 8.30.8.2. funds are moved and structured with the goal of move them away from their place of origin, imitating what appear to be legitimate transactions, and then are invested in the purchase of real estate or movable property.
 - 8.30.8.3. through fictitious lending, funds are moved from their place of origin with the aim of moving them away from where they were gained.
 - 8.30.8.4. accounts of domestic and foreign legal entities that do not formally have the features of a shell entity are used to move funds from their place of origin under the cover of fictitious transactions, with the aim of moving them away from where they were gained.
 - 8.30.8.5. unexplained income of natural individuals for which it is impossible to ascertain the origin.
- 8.30.9. The sector's risk level is assessed as medium-low. Given that administrators only became entities under the AML/CTPF Law on 1 January 2020, NRA does not identify any specific risks that would apply specifically to the insolvency sector and administrators as entities under the AML/CTPF Law.
- 8.30.10. Proposals for mitigating actions to address the risks identified in the sector:
- 8.30.10.1. given the challenges identified in the supervision of the insolvency administrator sector, with the supervision done by two bodies (the Association of Administrators and the Insolvency Advisory Council), it is necessary to consider possible solutions for improving the supervision model:
 - 8.30.10.1.1. continue work on the development of uniform instructions and guidelines, building cooperation between the supervisory authorities and consolidating the supervisory functions through joint training of staff directly involved in the supervision of compliance with the requirements of the AML/CTPF Law,
 - 8.30.10.1.2. centralise the supervision of compliance with the requirements of the AML/CTPF Law as pertains to administrators and establish a single supervisory and control body, the Insolvency Advisory Council, proposing appropriate amendments to the AML/CTPF Law.
 - 8.30.10.2. given that the AML/CTPF Law was originally intended for the financial sector and has been gradually extended to non-financial sector entities over time, without changing the structure of the law, but instead extending the requirements equally to all entities, there is still room for improvement in the regulatory framework by separating the requirements for financial and non-financial sector entities, as certain rights, obligations, requirements, and procedures still differ between the financial and non-financial sectors.
 - 8.30.10.3. assign 2 additional official positions in the Insolvency Advisory Council for performing the functions specified in the AML/CTPF Law and provide additional funding to increase the remuneration of the legal consultants performing the functions specified in the AML/CTPF Law, thus boosting the capacity of the institution.
 - 8.30.10.4. Include AML/CTPF in the minimum requirements for training and amend the Cabinet Regulation accordingly to ensure that administrator candidates also learn the requirements of AML/CTPF Law before applying for their examination.

- 8.30.10.5. Continue preventive supervision measures (preparation of information materials, organising of free information events, explaining of wrongful courses of actions).
- 8.30.10.6. Explore ways to improve the access of entities under the AML/CTPF Law to information about BO of legal entities incorporated abroad.
- 8.30.10.7. Amend the regulations to ensure that information about the debtor's transactions in the three years prior to the declaration of insolvency proceedings, as obtained from credit institutions, is available to administrators free of charge.

8.31. Provision of Guarantees and other Documents that Impose an Obligation

- 8.31.1. The number of guarantee service providers did not change during the reporting period and compared to the NRA 2020 reporting period, and 1 guarantee service provider was under the supervision of the SRS throughout this period.
- 8.31.2. According to the 26 October 2017 amendments to the AML/CTPF Law that took effect on 9 November 2017, certain groups of entities were divided into smaller categories, including the separation of guarantee providers as an individual group of entities under the AML/CTPF Law. A guarantee agreement is an obligation, and the guarantee provider's capacity to take this obligation is assessed before it is taken, so it cannot be transferred to a third party without the consent of the creditor, such as a bank or another legal entity. The rules governing guarantees are included in the Liability Law chapter of the Civil Code, Sections 1692 to 1715.
- 8.31.3. The Law on the Credit Register defines a guarantee service as a financial service, whereby the customer is provided a letter of credit and guarantee insurance or other service, whereby the provider undertakes to assume the liability for the person's debt within the amount of the obligation, without exempting the person from the liability. The loan provider is the first party to be informed of the transfer of duty to settle the obligations. If the guarantee provider is a legal entity who takes over the repayment of a loan from another natural individual or legal entity, there is a risk of ML, if from the outset, the transaction takes place with a hidden agenda, and the obligations accepted do not correspond to the status of the person. Thus, the loan provider should inform the relevant supervisory authority of cases where loan liability is transferred to a guarantee provider that is a third party, whose capacity to cover the liability is in doubt.
- 8.31.4. On 16 June 2016, the Civil Cases Department of the Supreme Court of the Republic of Latvia adopted a ruling in case No C12183912 (SKC-178/2016), in which the Supreme Court came to the opinion that the insolvency of the main debtor and the exemption of the main debtor from outstanding liability does not terminate the guarantee, because the purpose of the guarantee (namely, taking over a third party's liability to a creditor) is not accomplished. The guarantee provider is thus required to cover the debtor's obligations towards the creditor even if the debtor is in financial difficulty and has been declared insolvent.
- 8.31.5. In 2022, the sector risk assessment included the largest ever survey of entities, with almost 4000 surveyed in total. The guarantee service provider under the supervision of the SRS was not sent the survey as it had not submitted its annual reports for 2021, and only entities under the AML/CTPF Law that had a turnover of more than EUR 0 were included in the sample. It is therefore not possible to provide an assessment of this sector group during the reporting period. Also, no monitoring activities took place for this entity during the reporting period.
- 8.31.6. During the reporting period, the FIU did not receive any suspicious transaction reports from a guarantee service provider, which is appropriate given the size of the sector, the number of participants, and its risk exposure.
- 8.31.7. The main perceived risks in the guarantee provider sector:
 - 8.31.7.1. deliberate failure to register as an entity under the AML/CTPF Law;
 - 8.31.7.2. entering into fictitious guarantee contracts;
 - 8.31.7.3. payment of guarantee obligations with proceeds of crime.
- 8.31.8. The sector's risk rating was low over the review period, unchanged from NRA 2020. Proposals for actions to mitigate the risks identified in the sector: continue improving the knowledge of



AML/CTPF among the people working in the sector and improving their understanding of AML/CTPF risks, continue improving the mechanism for monitoring and reporting suspicious transactions and strengthening the effectiveness of monitoring activities.

TRANSLATION

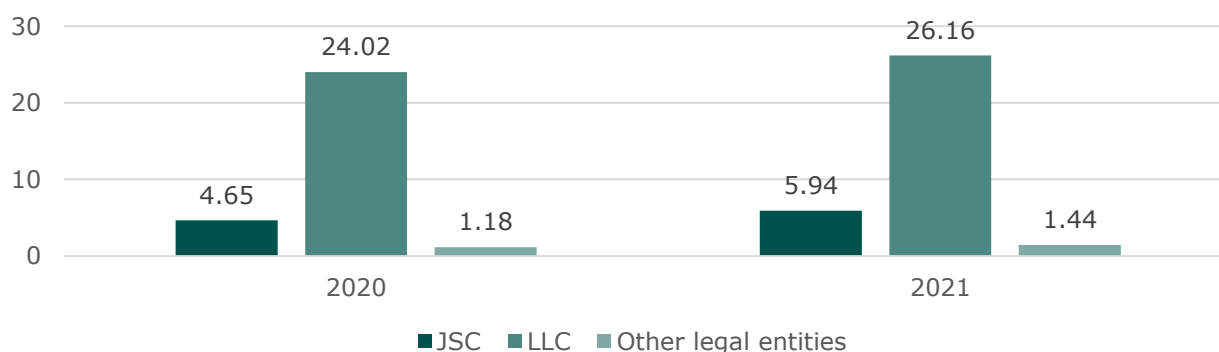
9. ML/TF Risks for Legal Entities and Legal Structures

- 9.1.1. This chapter assesses the ML/TF risks in the legal entities sector, including NGO. The assessment provides a profile of the sector over the reporting period, analyses the AML/CTPF regulatory requirements applicable to the sector and their sufficiency for ensuring compliance; the assessment also analyses the financial flows and assesses the sufficiency of supervision and control in the sector. The assessment also covers the actions taken to mitigate the ML/TF risks identified in the NRA 2020 and sets the actions to be taken in the future.
- 9.1.2. The first assessment of the ML/TF risks among legal entities, including NGO, for 2017 and 2018, was made in 2019. That risk assessment was later updated, complemented with data for 2019, and included in the NRA 2020 report. Thus, this is the second assessment of the ML/TF risks among legal entities and NGO. For better consistency, to make it possible to compare the different reporting periods, and to ensure continuity of conclusions, this assessment uses the same methodology as NRA 2020 (the methodology is shown in Annex 2 'Methodology description and NRA preparation process').
- 9.1.3. The 'Legal entity risks' analyses information about the company forms of legal entities (SIA, limited company, and AS, joint-stock company), as they are the most numerous types of these in Latvia (Table 9.1.1) and they predominate in the circulation of funds in the country's economy (Chart 9.1.1). These forms of legal entities are also most frequently reported in suspicious transaction reports (Table 9.1.3). The assessment also includes the ML/TF risks of non-resident legal entities operating in Latvia.

Table 9.1.1 – Number of legal entities

	Number of entities registered in 2020	Total as of 31 December 2020	Number of entities registered in 2021	Total as of 31 December 2021	Number of entities registered in 2022	Total as of 31 December 2022
LLC	8235	135,547	8493	131,884	7904	130,371
JSC	25	975	26	962	19	939
Total (LLC and JSC)	8260	136,522	8519	132,806	7923	131,310
Societas Europaea	0	9	0	9	0	9
Limited partnerships	1	135	13	144	9	148
General partnerships	39	749	59	771	32	776
Cooperative society	7	1795	12	1776	6	1609
Grand total	8307	139,210	8603	135,506	7970	133,852

Chart 9.1.1 – Current assets of legal entities, broken down by type of business, EUR billion



* At the time of the preparation of NRA 2023, the 2022 accounts submission deadline required by regulations had not yet occurred.

- 9.1.4. During the NRA 2020 reporting period, the number of foreign legal entities opening accounts with Latvian financial institutions decreased significantly (from 36,359 legal entities on 31 December 2017 to 10,291 legal entities on 31 December 2019). During the period under review, a similar trend was observed, with the number of foreign legal entities opening accounts with Latvian financial institutions decreasing each year (Table 9.1.2). At the same time, the number of domestic legal entities opening accounts with Latvian financial institutions also decreased.

Table 9.1.2 – Number of legal entities that opened accounts with Latvian financial institutions during the reporting period

Total number of legal entities as of:	2020	2021	2022
LLC	20,251	15,337	14,488
Joint-stock companies (incl. Societas Europaea)	341	217	182
Limited partnerships	12	10	8
Other legal entities (general partnerships, cooperatives)	130	99	77
Other legal entities (associations, religious organisations and their institutions, political parties, foundations)	1681	1392	1340
TOTAL:	22,415	17,055	16,095
Number of non-resident legal entities	618	505	440

- 9.1.5. The number of suspicious transaction reports involving joint-stock companies (AS) registered in Latvia remained relatively stable across the reporting period, with an increase in 2021. At the same time, the number of unique JSCs that appeared in suspicious transaction reports fell over the reporting period, with 94 such JSCs in 2022, or around 10% of the total number of JSCs registered in the country. When discussing JSCs, it is important to note that suspicious transaction reports often involve various financial sector JSCs through which such transactions take place (e.g. issuing of loans), whereby the JSC itself is almost never identified as a suspicious entity in these transactions. Meanwhile, suspicious transaction reports involving limited companies (LLCs) account for 31.2% of all suspicious transaction reports in 2022. This is 24.2% lower than in 2021. The number of unique LLCs that appeared in STRs in 2022 is 2065, representing 1.6% of the total number of limited companies in 2022 (Table 9.1.3)

Table 9.1.3 – Number of reports on suspicious transactions involving legal entities

Suspicious transaction reports:	2020	2021	2022
(from Latvian authorities) related to JSC	261	334	265
% of total	5.4%	5.8%	4.0%
number of JSC involved	132	143	94
(from Latvian authorities) related to LLC	2477	3176	2365
% of total	51.3%	55.4%	31.2%
number of LLC involved	3713	2855	2065
Total number involving a Latvian legal entity	2738	3510	2330
Total number	4833	5729	6617

- 9.1.6. The section “Non-governmental organisation risks” assesses the ML/TF threats, vulnerabilities, and risks for associations, foundations, religious organisations and their institutions, and political parties. In Latvia, NGO have the status of legal entities, so in addition to their own inherent ML/TF risks, NGO are also exposed to the ML risks inherent to legal entities, as described in the section ‘Legal entity risks’.

9.2. Legal Entity Risks

Legal Entity Description

Regulatory framework

- 9.2.1. The scope of legal entities in Latvia, in accordance with the FATF methodology⁵⁵⁷, includes:
- 9.2.1.1. Limited liability companies (LLC, JSC, Societas Europaea)
 - 9.2.1.2. limited partnerships;
 - 9.2.1.3. foundations;
 - 9.2.1.4. other legal entities (general partnerships, cooperatives, associations, religious organisations and their institutions, political parties)
- 9.2.2. It should be noted that although associations, foundations, religious organisations, their institutions, and political parties are legal entities under Latvian law, the assessment of their AML/CTPF risks, vulnerabilities, and threats has been assessed separately and included in the section [“Risks of non-governmental organisations”](#), because their specific nature and, consequently, the risks they face differ. International standards also require rigorous assessment and monitoring.
- 9.2.3. Sole proprietorships, agricultural and fishing enterprises also gain rights as legal entities once they register with the Register of Enterprises, but according to the FATF definition, they are legal entities created to organise the property of a single natural individual, i.e. they do not property that is separated from the natural individual. Based on the definition in the FATF Guidelines, they are not considered legal entities and are therefore not analysed in NRA 2023.
- 9.2.4. Scope of legal entities covered in this section of the risk assessment:
- 9.2.4.1. Latvian commercial legislation defines 5 types of merchants: sole proprietorship, which is a natural individual registered in the Commercial Register, two types of companies, and two types of partnerships:
 - 9.2.4.1.1. partnerships can be registered as general partnerships and limited partnerships: they do not have legal entity status, but they do have the rights of a legal entity. The property of the members of a partnership, except for the limited partners in a limited partnership, is not separate from the property of the legal entity itself.
 - 9.2.4.1.2. Companies can be registered as a limited liability companies (LLCs) or a joint-stock companies (JSCs). An LLC is a private corporation, while an JSC is a corporation whose shares may be traded in public. The minimum share capital of an JSC is EUR 35,000. An LLC can be registered as a small-capital LLC with a minimum share capital of 1 cent or as an LLC with a minimum share capital of EUR 2800. When registering a company in the Register of Enterprises, state fees must be paid, the lowest of which is for a small-capital LLC (EUR 20). Also, when registering a small-capital SIA, the founders need not submit a bank statement or other document on the payment of the share capital if the founders have confirmed the full payment of the share capital in the registration form. Small-capital LLC with a minimum share capital of 1 cent were introduced by Amendments to the Commercial Law of 22 April 2010 with the aim of facilitating the establishment of companies and encouraging economic growth by increasing the involvement of citizens, especially the unemployed, in commercial activities, thus providing for the right of founders to set the size of the share capital of the company in accordance with their financial situation.
 - 9.2.4.2. A Societas Europaea is a company recorded in the Commercial Register that can transfer its registered address from one EU country to another without going into liquidation or setting up a new company in another EU country.
 - 9.2.4.3. A cooperative is a voluntary association of persons whose purpose is to pursue of the shared economic interests of its members. A cooperative is a legal entity whose operation, organisational structure, establishment, liquidation, and reorganisation are governed by the Co-operative Societies Law.

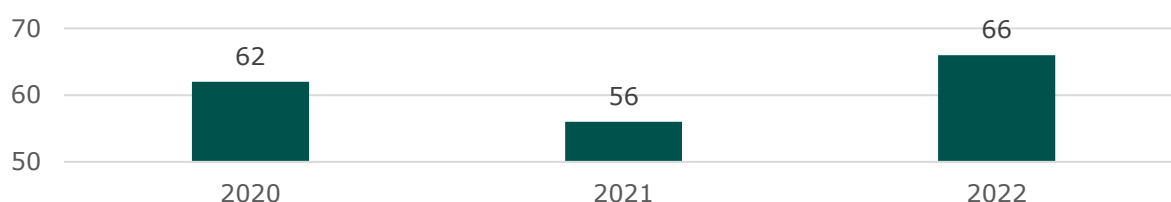
⁵⁵⁷ FATF Methodology for assessing compliance with the FATF Recommendations and the effectiveness of AML/CTPF systems, p. 69. Available at: <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

- 9.2.5. Implemented to provide a business-friendly and stable legal environment, with a particular focus on modernising the legal framework for joint-stock companies and promoting transparency, amendments to the Commercial Law took effect during the reporting period. These amendments (1) improve the procedures for the registration and accounting of shares and the availability of information about shareholders; (2) update the procedures for convening and holding shareholder meetings, as well as the availability of documents for shareholders and shareholder meetings; (3) revise the procedures for paying for shares, and (4) expand the requirements for disclosure of a company's BO, as specified in the AML/CTPF Law. The amendments to the Commercial Law maintain the division of shares into registered and bearer shares, as well as both types of registration and accounting of shares: entry in the register of shareholders and registration in the financial instruments account. This addressed the practical shortcomings that existed in the past: the lack of transparency in most joint-stock companies, the availability of information about shareholders of joint-stock companies, and the availability of information about shareholders and BO of joint-stock companies in one location.

Registration procedures and trends

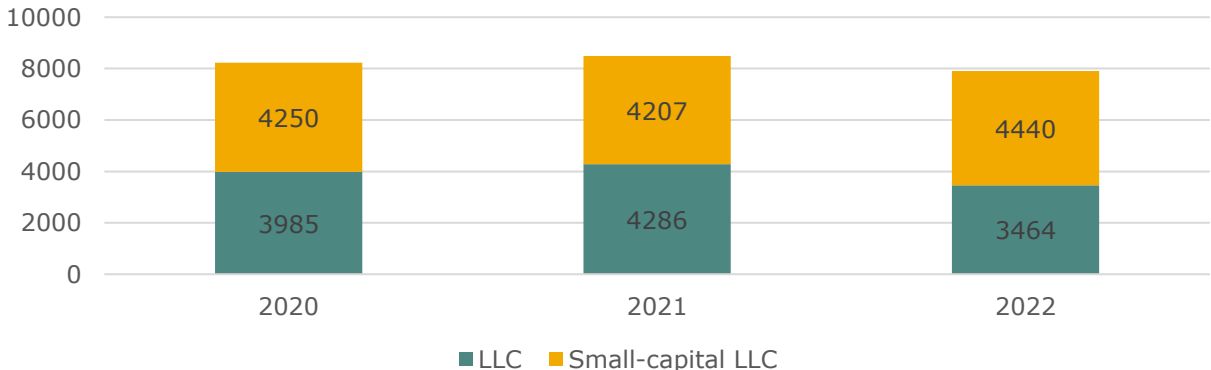
- 9.2.6. When registering a legal entity, the Register of Enterprises checks if all the documents required by laws and regulations have been submitted, whether they are legally effective and whether their form complies with laws and regulations or the articles of association, whether the scope and content of the information and provisions contained in the documents comply with laws and regulations and other documents in the registration entry, and whether any other legal obstacle is registered in the Register of Enterprises. As part of these inspections, the Register of Enterprises verifies the legal capacity and, if applicable, the capacity to act of the persons concerned, but does not check the actual circumstances of the preparation of the documents. Simultaneously with the registration of a legal entity in the Register of Enterprises, the SRS also grants it the status of a taxpayer, which ensures the recording of tax payments, taxes, fees, and other mandatory payments imposed by the state. Furthermore, it should be noted that with the amendments to the AML/CTPF Law taking effect on 1 July 2019, the Register of Enterprises uses a risk-based approach to the registration of legal entities, i.e., in addition to the general registration requirements, it also assesses the ML/TF risks and, if necessary, reports them to the FIU. On average, the Register of Enterprises reported 62 parties per month in 2020, 56 in 2021, and 66 in 2022 (Chart 9.2.1).

Chart 9.2.1 — Average monthly number of parties reported by the Register of Enterprises to the FIU



- 9.2.7. In addition to the supervision conducted by the SRS in the context of tax fraud schemes, in particular VAT fraud, as well as the establishment of fictitious companies, a number of measures to improve cooperation between the SRS and the Register of Enterprises were put in place, which, among other things, mitigated the ML/TF risks of legal entities:
- 9.2.7.1. Persons at risk (of violating tax laws and regulations) listed by the SRS are not registered by the Register of Enterprises as persons entitled to represent companies.
 - 9.2.7.2. Laws and regulations specify cases when, in order to register a company, it is necessary to obtain statement by the SRS that there are no visible risks of tax fraud.
 - 9.2.7.3. In addition to the SRS restrictions, the Register of Enterprises also enforces prohibitions for persons to hold certain positions due to administrative or criminal proceedings, i.e. it does not register as them as shareholders or representatives if they are prohibited from acquiring shares or holding certain positions.
- 9.2.8. It should be noted that these risk mitigation measures are so far limited to the shareholders of joint-stock companies, i.e. only information about the shareholders of joint-stock companies listed on a regulated market is available in the Register of Enterprises.

9.2.9. Legal entity registration trend during the reporting period:

Trends during the reporting period	Explanation	Statistics												
Most common forms of legal entity registered														
<p>In Latvia, the limited liability company (LLC) is the most frequently registered type of companies, and joint-stock companies (JSC) are less common.</p> <p>In 2021, there was an increase in the registration of JSCs and LLCs (and other legal entities).</p> <p>Overall, there was a decrease in the total number of legal entities, namely, 3.8% fewer legal entities on 31 December 2022 than on 31 December 2020.</p>	<p>The decrease in the total number of active legal entities is explained by the fact that since 2019 the Register of Enterprises continues to remove economically inactive legal entities from the records of registered companies, striking them from the Commercial Register. At the same time, cases were found where simplified liquidation was used for malicious purposes (see Sections 9.2.10 to 9.2.13 for more details).</p>	Table 9.1.1												
Small-capital LLC														
<p>The trends in registration of small-capital LLCs tend to fluctuate.</p> <p>2021 saw a drop in registrations. 5.2% more entities were registered in 2022 than in 2021, and 4.3% more entities than in 2020.</p> <p>Overall, the popularity of small-capital LLCs continued to grow and they remained the most frequently registered type of legal entities in Latvia.</p>	<p>The popularity of small-capital LLCs can be explained by the low registration requirements (lowest state fee, no need to provide a bank statement confirming the payment of the share capital) and the low share capital requirement (small-capital LLC with a minimum share capital of 1 cent, or basic LLC with a minimum share capital of EUR 2800).</p>	Chart No 9.2.2												
<p style="text-align: center;"><i>Chart No 9.2.2 – Number of small-capital LLCs registered during the reporting period</i></p>  <table border="1" data-bbox="220 1435 1436 1803"> <thead> <tr> <th>Year</th> <th>LLC</th> <th>Small-capital LLC</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>3985</td> <td>4250</td> </tr> <tr> <td>2021</td> <td>4286</td> <td>4207</td> </tr> <tr> <td>2022</td> <td>3464</td> <td>4440</td> </tr> </tbody> </table>			Year	LLC	Small-capital LLC	2020	3985	4250	2021	4286	4207	2022	3464	4440
Year	LLC	Small-capital LLC												
2020	3985	4250												
2021	4286	4207												
2022	3464	4440												
Founders (shareholders) of legal entities														
<p>Legal entities registered during the reporting period were mostly established by legal entities and</p>	<p>The presence of specific countries of residence of the founders is self-explanatory, given that they include Latvia's neighbouring</p>	Chart 9.2.3 and Chart 9.2.4												

<p>natural individuals registered in Latvia.</p> <p>The countries of residence of non-resident individuals who established legal entities in the country were most often Russia, Ukraine, Lithuania, Estonia, and Belarus.</p> <p>The countries of residence of non-resident legal entities who established legal entities were most often Estonia, Lithuania, Germany, Luxembourg.</p>	<p>countries and countries with which Latvia has close export and import ties, including Russia and Belarus.</p>	
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Chart No 9.2.3 – Country of residence of private individuals that were shareholders of legal entities established

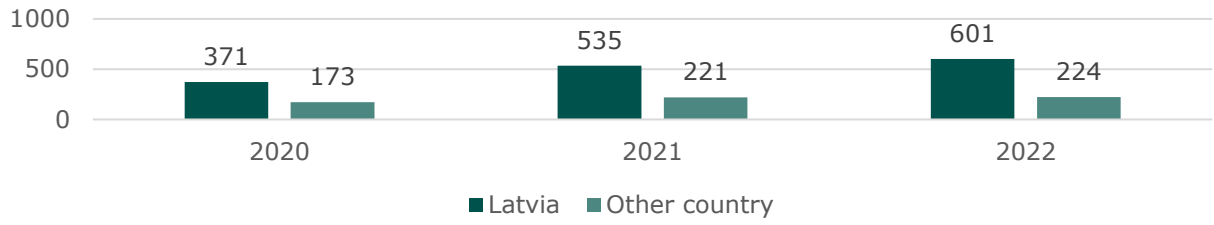
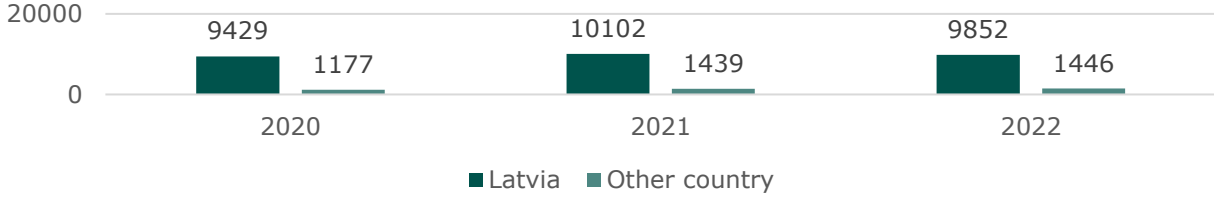


Chart No 9.2.4 – Country of registration of legal entities that were shareholders of legal entities established



LLC founders (shareholders)

<p>The number of LLCs with only non-resident shareholders increased. As of the end of 2020, 38.6% of the shareholders of the 8843 LLCs that only had legal entities as shareholders were foreign legal entities; it was 40% of the shareholders of 8527 LLCs at the end of 2021, and 40.7% of the shareholders of 8617 LLCs at the end of 2022.</p> <p>As of 31 December 2022, as well as on 31 December in 2020, 2021, and 2022, LLCs whose only shareholders were legal entities accounted for 6.5% of the total number of all LLCs registered with the Register of Enterprises, while LLCs whose shareholders were</p>	<p>Although the number of limited liability companies with only non-resident shareholders increased, information about their BO was registered, thus reducing the risk of ML/TF. In addition, as of the end of 2022, 90% of the total number of registered BO were Latvian residents.</p> <p>Of the 160,843 LLCs that had disclosed their BO at the end of 2022, only 445 were identified as having only non-resident legal entities as shareholders, declaring the status as "BO cannot be ascertained".</p>	<p>Chart No 9.2.5</p>
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foreign legal entities accounted for 2.6% of the total number of LLCs, with minimal fluctuations.

The most common countries of residence for non-resident LLCs shareholder legal entities were Estonia, Lithuania, Cyprus, Denmark, Sweden, Germany, Netherlands, UK. This list of countries of residence for foreign entities remained unchanged since the previous reporting period.

Chart 9.2.5 – LLC whose only shareholders are legal entities that are non-resident legal (thousands)



Legal entity registration rejections

During the reporting period, the Register of Enterprises adopted 276 decisions to refuse the registration of legal entities.

The main grounds for refusing the registration of legal entities were (1) SRS report on tax risks; (2) wrong register chosen for the information to be registered; (3) deficiencies in the submitted documents that could not be corrected; (4) risks of breach and circumvention of sanctions.

In 2022, the number of legal entity registration rejections rose significantly. This increase is due to risks identified by the SRS. The higher the number of applications

Since February 2022 and the intensification of sanctions, any application, and any changes to Register of Enterprises requested in it are reviewed in detail. If there is a risk that the registration of a change would lead to a circumvention national or international sanction, the Register of Enterprises refuses the registration of the change, ensuring that the current situation remains unchanged.

In all 6 cases where the Register of Enterprises refused registration due to perceived risks of circumvention of sanctions in 2022, a legal entity had applied for a registration of changes rather

Table 9.2.1

with risks identified, the higher the number of rejections.	than for the registration of a new legal entity. ⁵⁵⁸	
The Register of Enterprises refused registration in 6 cases due to possible attempts to circumvent sanctions in 2022.		
During the reporting period, there were no cases of refusal of registration of legal entities on the grounds of non-compliance with the AML/CTPF requirements.		

Table 9.2.1 – Number of legal entity registration rejections

	2020	2021	2022
Number of legal entity registration rejections	48	50	178

- 9.2.10. Practice shows cases where simplified liquidation proceedings are deliberately provoked for malicious purposes, i.e. as an easily accessible tool to abandon the legal person instead of initiating insolvency proceedings for it. According to a paper prepared by Finance Latvia Association for an expert discussion⁵⁵⁹, a few thousand legal entities are wound up each year under the simplified liquidation procedure, including legal entities with assets and liabilities. This allows the management board of the legal entity to avoid liability, to wind up the legal entity quickly and without expenses. In essence, this procedure is used as an alternative to insolvency proceedings.
- 9.2.11. Simplified liquidation is the involuntary dissolution of a legal entity based on a decision by a competent authority (the Register of Enterprises or the SRS). The activity of a legal entity may be terminated by a decision of the Register of Enterprises if: (1) its management board has not had the right of representation for more than three months and the corresponding violation has not been remedied within three months following a written warning; (2) the legal entity cannot be contacted at its registered address and the violation has not been remedied within one month after a written warning.⁵⁶⁰ However, its activity may be terminated by a decision of the SRS if (1) it has not submitted annual reports within one month after the imposition of an administrative punishment and at least six months have passed since the commission of the offence; (2) within one month after the imposition of an administrative punishment, the legal entity has not submitted the statements for a six-month period required by tax legislation; (3) its activity has been suspended on the basis of an SRS decision and within three months after the suspension, the violation in question has not been remedied.⁵⁶¹ That is, once certain circumstances specified in laws and regulations occur, the competent authority sends a warning to the legal entity in question, requiring it to remedy the identified violation and setting a specific deadline for doing so. If the violation is not remedied within the time set in the warning, the competent authority decides to terminate of the legal person's activities.
- 9.2.12. Once the decision adopted by the Register of Enterprises or the SRS takes effect and becomes final, an entry is made in the log of the Register of Enterprises or in the Commercial Register regarding the termination of the legal entity's activity and a notice is published in the Official Publisher of the Republic of Latvia "Latvijas Vestnesis" reporting the termination of the legal entity's activity, inviting the persons interested in the liquidation of the legal entity (any person who is in any way related to the legal entity and is interested in its liquidation) to submit a request for the appointment of an insolvency administrator to the Register of Enterprises within one month after the date of the publication. If an insolvency administrator is appointed, a

⁵⁵⁸Example: 2022 Chief Notary Public Decision No 1-5n/100. Available at: <https://www.ur.gov.lv/lv/specializeta-informacija/galvena-valsts-notara-lemumi/2022-gada-galvena-valsts-notara-lemums-nr-1-5n-100/>.

⁵⁵⁹ Finance Latvia Association expert discussion paper 'Maksātnešpēja un vienkāršotā likvidācija. Tukšie uzņēmumi un kā sabalansēt personu intereses?' (Insolvency and Simplified Liquidation. Dummy Corporations and How to Balance the Interests of Parties?). Available at: <https://www.financelatvia.eu/wp-content/uploads/2022/12/mn-vl-materials-diskusijai.pdf>.

⁵⁶⁰ Section 70 (1) of the Co-operative Societies Law, Section 314.¹(1) of the Commercial Law.

⁵⁶¹ Section 70 (2) of the Co-operative Societies Law, Section 314.¹(2) of the Commercial Law.

liquidation of the legal entity takes place. No liquidation of the legal entity takes place, and the Register of Enterprises decides to strike the legal entity from the log of the Register of Enterprises or from the Commercial Register if no person interested in the liquidation of the legal entity submits an application for the appointment of an insolvency administrator to the Register of Enterprises within the prescribed period, and no insolvency proceedings have been declared for the legal entity.

- 9.2.13. This procedure may be used in bad faith to artificially (intentionally) create the conditions for the simplified liquidation of a legal entity defined in laws and regulations, with the intent to use the simplified liquidation to avoid liability for actions that have caused actual losses to persons, have led the legal entity to its failure, and for actions related to the concealment of the legal entity's assets, as well as ML/TF.

Financial Flow Analysis

- 9.2.14. On 31 December 2022, Latvian credit institutions had 2.5 million customers, of which 94.3% were domestic customers and 5.7%, foreign customers. Only 6.3% of the total number of customers were legal entities, while 93.7% of the total number of customers were natural individuals.
- 9.2.15. According to the information provided by the Bank of Latvia, the number of shell entities continued to decline during the reporting period. The most significant share of the total number of shell entities is shell entities from third countries (Table 9.2.2). The data provided by the Bank of Latvia are for those shell entities which are allowed to be done business with, as they do not meet certain criteria for prohibiting such activities.

Table 9.2.2 – Number of shell entities

	2020	2020, %	2021	2021, %	2022	2022, %
Total number of customers	2,660,025	-	2,580,817	-	2,573,716	-
Shell entities	975	0.04	660	0.03	535	0.02
including in Latvia	52	0.002	56	0.002	47	0.002
including in other EU countries	225	0.01	152	0.01	134	0.01

- 9.2.16. According to Section 21.1 of the AML/CTPF Law, it is prohibited to enter into and maintain a business relationship or conduct a non-regular transaction with a shell entity if it simultaneously meets the following criteria: (1) there is no connection of the legal entity with an actual business activity, or the activity of the legal entity has little or no economic value, and the entity under the AML/CTPF Law has no documentary information proving otherwise; (2) in the country where the legal entity is incorporated, the laws and regulations do not require the preparation and submission of financial statements, including annual financial statements, covering its activities to the supervisory authorities of that country. It is, therefore, prohibited to conduct business with shell entities if they simultaneously meet these two shell entity criteria.
- 9.2.17. As the number of shell entities decreases, so does, naturally, the scale of their business. The turnover of shell entities continued to decrease during the reporting period, accounting for 3% of credit institution total customer turnover in 2021 (Chart 9.2.5 and Table 9.2.3). Meanwhile, 17% of shell entity deposits were for customers (shell entities) with whom business activities were terminated (frozen, seized, unclaimed, and other assets).

Chart 9.2.6 – Shell entity turnover trend (EUR million)

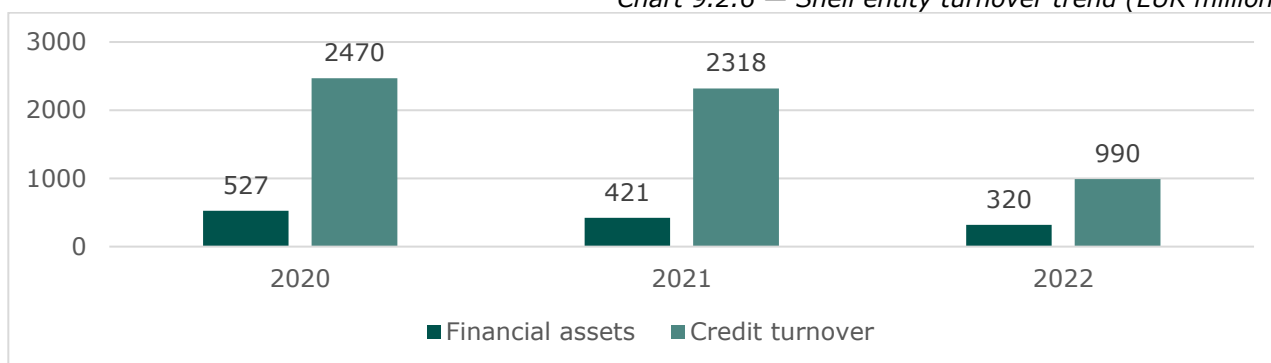


Table 9.2.3 – Shell entity turnover, as a % of total turnover of customers of credit institutions

	2020	2021	2022
Financial assets	2.0%	1.5%	1.1%
Credit turnover	1.7%	1.5%	0.6%

9.2.18. The number of non-EU legal entity customers of credit institutions continues to decrease, but information provided by the Bank of Latvia shows that such customers are still active in the Latvian financial sector. By the end of 2022, the deposits of legal entities registered outside the EU accounted for 4.6% of total deposits (Table 9.2.4).

Table 9.2.4 -Amount of deposits of legal entities as of 31 December 2022

Legal entity country of registration	Deposit amount, EUR	Deposit amount, %
Domestic	19,003,713,538	87.0%
EU	1,821,018,118	8.3%
Others	1,014,688,337	4.6%
Total:	21,839,419,993	100.0%

9.2.19. In 2021, cross-border payments of foreign customers of credit institutions slightly increased; however, according to the Bank of Latvia, payments from/to high-risk countries were decreasing. In 2021, as compared to 2020, the number of payments incoming from CIS countries decreased significantly, with payments from Russia accounting for the absolute majority, or 65%. According to the Bank of Latvia, in 2021, Russia, Czech Republic, United Kingdom, Ukraine, and Norway accounted for the largest share of foreign customer payment flows with third countries, which is logical given Latvia's geographic location and trade links with these countries.

9.2.20. Compared to 2019, the largest increase in non-cash flows in 2022 was with Lithuania and Estonia. The biggest decrease was with Russia. Given the EU sanctions against Russia and the reduction in the risk appetite of credit institutions, the flow of funds with Russia and Belarus also consequently decreased. In assessing cash flows and their volumes, it is important to take account of the inflation rates, especially in 2022.

9.2.21. With the eradication of shell companies from the Latvian financial sector, there are still potential ML risks:

9.2.21.1. There is a risk that some shell companies' reregister in other jurisdictions but continue to use the Latvian financial system.

9.2.21.2. There is a risk that some of the shell companies' activities may be transferred to legal entities in Latvia. The increase in the share of non-residents among the shareholders of Latvian legal entities could indicate the transfer of shell companies' activities to Latvian legal entities; however, according to the data, there is no increase in the share of non-residents in the total number of shareholders; on the contrary, the share of residents among the shareholders of legal entities is rising (Table 8.8 and Table 8.9). Therefore, it can be concluded that during the reporting

period, shell entities, which have been eliminated from the Latvian financial sector, did not transfer their activities to Latvian legal entities.

- 9.2.21.3. There is a risk that potential criminals may need to establish a legal entity that does not meet any of the characteristics of a shell entity under the AML/CTPF Law to engage in ML, including various legal entities in Latvia that may be established for these purposes.

BO Disclosure Requirements

- 9.2.22. Amendments to the AML/CTPF Law took effect on 9 November 2017, aimed at ensuring the availability of correct, up-to-date information about the BO of legal entities. Since then, several changes have taken place in this context, which are described in more detail in NRA 2020 and are not covered in this risk assessment. Below is a summary of the regulatory changes pertaining to the disclosure of BO during the reporting period.
- 9.2.23. Section 46 of the Transitional Provisions of the Amendments to the AML/CTPF Law, which took effect on 29 June 2019, requires foreign entities to disclose their BO by submitting an appropriate application to the Register of Enterprises since 1 July 2020. If the requirement is not met by 1 January 2021, the Register of Enterprises strikes the registered branches from the Commercial Register and the registered representative offices from the Register of Representative Offices. The legislator targeted branches and representative offices of foreign entities with the requirement for BO disclosure last due to their small number: fewer than 1800 out of a total of more than 200,000 active legal entities, companies and organisations registered in the registers of the Registers of the Enterprises, as well as their relatively low ML/TF risks.
- 9.2.24. Also, amendments to the AML/CTPF Law took effect on 1 July 2020, which set a special procedure for the exchange of information between public authorities and entities under AML/CTPF Law if it is found that information about BO recorded in the registers kept by the RoE is possibly false.
- 9.2.25. On 12 July 2021, amendments to the AML/CTPF Law took effect that expanded the scope of entities required to register or confirm the already registered information about BO whenever changes in their shareholders and board members of companies, as well as changes in the members of executive bodies and representative persons of other legal entities or general partnerships are requested.
- 9.2.26. The most common countries of registration for foreign-registered legal entities that opened accounts in Latvian financial institutions during the reporting period were Cyprus, Estonia, and the United Kingdom (Table 9.2.5). It should be noted that the number of the legal entities that were registered in Estonia in 2022 increased compared to 2020, while the number of those registered in Cyprus decreased.

Table 9.2.5 — Countries of registration of non-resident legal entities registered in the register of accounts

Country	2020	2021	2022	Total
Cyprus	140	149	69	358
Estonia	99	86	115	300
United Kingdom	112	74	49	235
Lithuania	48	41	65	154
Malta	21	13	12	154
British Virgin Islands	19	18	6	43
Switzerland	15	8	12	35
Netherlands	15	10	2	27
Ukraine	0	2	24	26
Finland	7	11	7	25

9.2.27. During the reporting period, Russia was the most frequent country of residence of BO of foreign legal entities registered in the Register of Accounts, followed by Ukraine, Lithuania, Estonia, Belarus, and Latvia (Table 9.2.6). In this context, it is important to take into consideration the increased risks of corruption, and the risks of breach and circumvention of international and national sanctions, as well as other risks associated with Russia and Belarus. According to Transparency International's Corruption Perceptions Index, neighbouring Russia and Belarus ranked 137th and 91st respectively in 2022.⁵⁶²

Table 9.2.6 – Countries of residence of unique BO (number) registered in the Register of Accounts

Country	2020		2021		2022	
	Number of BO	Number of unique BO	Number of BO	Number of unique BO	Number of BO	Number of unique BO
Russia	159	77	431	224	120	75
Ukraine	58	29	398	183	58	33
Lithuania	46	26	58	32	80	50
Estonia	37	19	29	18	69	46
Belarus	28	18	46	26	37	22
Latvia	26	18	28	18	36	23
Italy	5	2	82	36	9	6
Germany	19	8	45	24	17	11
United Kingdom	10	6	58	32	5	3
Italy	7	5	53	23	17	12

9.2.28. BO discovery trends over the reporting period:

Trends during the reporting period	Explanation	Statistics
Legal entities that disclosed their BO		
<p>By the end of 2022, 98.45% of the 133,839 active legal entities had registered information about their BO:</p> <ul style="list-style-type: none"> • 98.3% had specific information about natural individuals; • 0.01% had registered a status in that their BO could not be ascertained; • fewer than 0.01% had registered the status of BO as a shareholder in an JSC whose shares are listed on a regulated market, and the way in which control over legal entities is exercised results solely from the shareholder status. <p>As of the end of 2022, 99.69% of the total number of LLCs and 98.62% of the total number of JSCs had registered information about their BO or appropriate statements.</p>	<p>The number of legal entities disclosing their BO increased every year during the reporting period.</p> <p>As of the end of 2022, the absolute majority of active limited companies and joint-stock companies (which are the most commonly registered forms of legal entities) had disclosed their BO. It can be concluded that most of the entities that have not disclosed their BO have other legal entity forms.</p> <p>In the case of limited companies and joint-stock companies where the BO are not registered, these entities consist of legal entities that are subject to active judicial proceedings regarding the information to be registered about the BO amounts.</p>	Table 9.2.7.

⁵⁶² Transparency International: Corruption Perceptions Index. Available at: <https://www.transparency.org/en/cpi/2022>.

Table 9.2.7 – BO registration

	Specific registered information about BO	Registered with the status that BO cannot be ascertained	BO is registered as a shareholder of a listed joint-stock company	TOTAL
SIA	128,197	1430	351	129,978
AS	788	97	41	926
Societas Europaea	6	2	1	9
Limited partnerships	74	10	1	85
General partnerships	325	22	10	357
Cooperative society	144	267	0	411
Total:	129,534	1828	404	131,766

BO countries of residence

As of the end of 2022, the majority of registered BO of legal entities were residents of Latvia, accounting for 90% of the total number of registered BO.

The most frequently registered non-resident BO were residents of Russia, Lithuania, Estonia, Germany, and Ukraine.

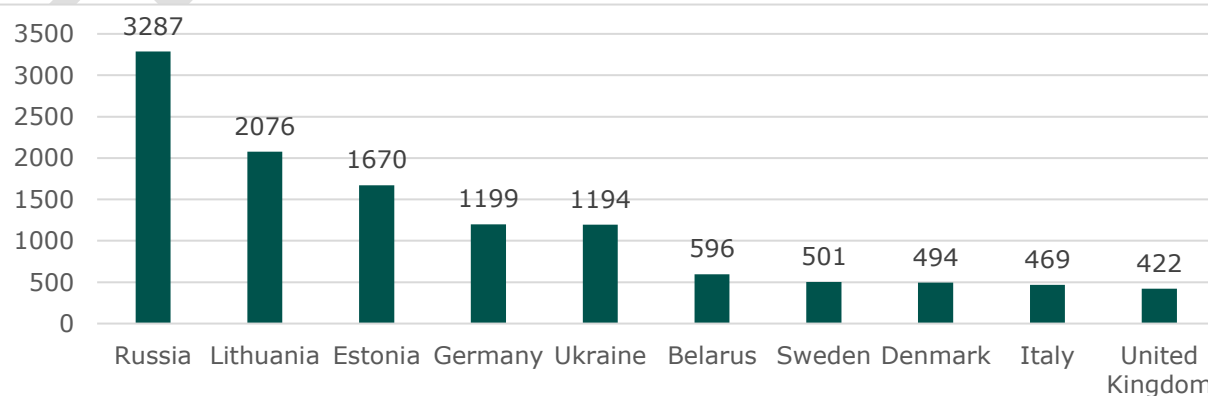
In 2022, the share of Russian and Belarusian residents among the BO of Latvian legal entities posed an increased risk of circumvention and violation of international and national sanctions.

Table 9.2.8 and Chart 9.2.6

Table 9.2.8 – BO resident share

	31.12.2020	31.12.2021	31.12.2022
Resident natural individuals that are legal entity BO	124,225	122,986	122,487
Non-resident natural individuals that are legal entity BO	14,678	13,940	13,578

Chart 9.2.7 – Countries of residence of legal entity BO that are non-residents and natural individuals



Branches and representative offices of a foreign merchant

At the end of 2020, only 159 out of 1787 entities (11%) had disclosed information about their BO.

As of 14 February 2023, 561 out of 568 entities had disclosed their BO.

At the beginning of 2021, the Register of Enterprises in conjunction with the SRS, identified active and inactive representative offices and branches. From March 2021 to 13 February 2023, a total of 1323 branches and representative offices of foreign merchants (organisations) that were inactive or had not disclosed their BO were deregistered.

Table 9.2.9

Table 9.2.9 – Number of foreign branches and representative offices, and registered BO

Number of entities registered (assets only)	as of 31 December 2020.	as of 31 December 2021.	as of 31 December 2022.
Foreign merchant branches	676	422	443
Of which disclosed their BO	122	372	403
Foreign merchant representative offices	1051	153	157
Of which disclosed their BO	36	135	142
Foreign organisation representative offices	60	13	17
Of which disclosed their BO	1	12	16

Direct control by BO

At the end of 2020, almost 98% of all LLCs that had registered their BO exercised control directly (as shareholders), while by the end of 2021 and 2022 this level slightly decreased.

For JSCs, 81.54% of registered BO were directly controlled (as shareholders) at the end of 2020, while this level slightly decreased at the end of 2021 and 2022.

Most LLCs registered in the Register of Enterprises have one to three natural individuals as shareholders and it is relatively easy to determine the BO. The de facto shareholder is also the de facto owner. It is more complicated when the control by the BO is exercised indirectly in the LLC or any other entity through other natural or legal entities and/or structures.

Table 9.2.10.

Table 9.2.10 – BO exercises control directly
(no registered entity through which this takes place)

Of total active entities	as of 31 December 2020	as of 31 December 2021.	as of 31 December 2022.
SIA	129,835	126,903	125,332
AS	654	641	626
Societas Europaea	5	6	6
Limited partnerships	45	51	58
General partnerships	226	262	276
Cooperative society	56	94	144

Indirect control by BO

During the reporting period, of all the LLCs that had registered their BO, about 2.5% (with slight fluctuations from year to year) of the BO exercised control indirectly (control is stated as being exercised through another natural or legal entity, e.g. on the basis of an authorisation agreement, on the basis of ownership, as a proxy, as an authorised representative, etc.).

For AS, in about 23% of cases, BO exercised their control indirectly. Out of a total of 3135 entities⁵⁶³ (end of 2020), in 1584 (51%) cases indirect BO control was exercised through foreign entities, as of 31 December 2021, it was 1740 (51%) out of 3411, and as of the end of 2022, 1883 (53%) out of 3553 cases.

The AML/CTPF Law requires legal entities to submit additional information about BO only when requested by the Register of Enterprises, in practice, whenever complex BO structures are included in the application, the additional information is submitted almost always immediately. In order to avoid the Register of Enterprises filing contradictory or incomplete information, the information submitted for registration is compared with the information and documents already available to the Register of Enterprises (e.g. if the stated BO also exercises control over another legal entity), the documents submitted, as well as publicly available information.

Table 9.2.11

Table 9.2.11 – BO exercises control indirectly
(control recorded as being exercised through another natural individual/legal entity)

Of total active entities	as of 31 December 2020.	as of 31 December 2021.	as of 31 December 2022.
LLC	2967	3235	3373
JSC	168	176	180
Societas Europaea	0	0	0
Limited partnerships	11	20	23
General partnerships	62	82	82
Cooperative society	1	1	1

Legal Entity Risk Profile

9.2.29. Legal entities may be exposed to high ML/TF risk as they are a popular vehicle for ML/TF schemes:

⁵⁶³ SIA and AS.

- 9.2.29.1. for imitating economic activity, including fictitious transactions, payments, documents, reports;
 - 9.2.29.2. for hiding and disguising BO by creating complex ownership structures; for using them to access the financial system through the creation of a corporate bank account and using other financial services.
- 9.2.30. International standards, i.e. FATF Recommendations 24 and 25, provide guidance on the measures to be taken to prevent the malicious misuse of legal entities for the purposes of the ML/TF. Countries must provide:
- 9.2.30.1. sufficient, accurate, and timely information about the beneficial owners and controllers of legal entities, ensuring timely access to this information by competent authorities. In countries with legal entities that may issue bearer shares or bearer share guarantees or that allow the appointment of nominee shareholders or directors, it is particularly important to ensure the appropriateness and availability of this information to ensure that such legal entities are not used for ML or TF;
 - 9.2.30.2. sufficient, accurate and timely information about trusts, including information about trust founders, trustees, and beneficiaries, which competent authorities can obtain or have access to in a timely manner.

Establishment and Ownership Structure of Legal Entities

- 9.2.31. It is not possible to register a new legal entity, partnership, or a branch or representative office of a foreign merchant in the registers of the Register of Enterprises without reporting the information about the entity's BO. Amendments to the AML/CTPF Law also broadened the scope of entities that, whenever they register other changes, they must apply for the registration of information about their BO or certify that the registered information has not changed. The Register of Enterprises also has the right to postpone the registration of the information requested if no information or documentary evidence is provided to prove the veracity of the information registered.
- 9.2.32. The rising trend of establishing of small-capital LLCs during the reporting period is a factor increasing the ML/TF risk: more than half (62.7%) of all LLCs registered in 2022 were small-capital LLCs. The creation of this form of legal entity can be an attractive instrument for engaging in ML/TF activities, as it has an easy registration procedure: it does not require large financial investments and there are no specific restrictions on its activities.
- 9.2.33. The use of legal entities to carry out ML/TF activities is facilitated by the involvement of providers of incorporation, management, and operation services for legal entities in the concealment of BO, such as the use of fictitious directors and fictitious owners. On 8 October 2018, with the goal of greater transparency in the provision of services for the establishment and operation of legal entities, amendments to the Law on the Register of Enterprises of the Republic of Latvia were adopted, (1) setting up the sharing of information between the Register of Enterprises and the SRS whenever the Register of Enterprises identifies the party that signed documents submitted to it as a provider of legal entity incorporation and operation services, and (2) ensuring that there is transparency in the activities of nominee directors and nominee owners with the Register of Enterprises refusing to make entries in the register or to add documents to the registration records if the person specified in the application is identified as a provider of this service but has not registered as such with the SRS.
- 9.2.34. Legal entities whose beneficial owners at several levels are other legal entities and whose beneficial owners are non-residents of the legal entities have a higher level of ML/TF risk. This situation makes it difficult for the Register of Enterprises and entities under the AML/CTPF Law to identify and ascertain the beneficial owners of the legal entities. The number of such legal entities tended to decrease during the reporting period, as did the number of legal entities whose shareholders were exclusively non-resident legal entities (Chart 9.2.5). Entities under the AML/CTPF Law are often limited in their analysis of the registration documents submitted by the company. These documents are relatively easy to falsify, and there is limited capability to verify data. Consequently, legal entities incorporated in other jurisdictions (low-tax or tax-free countries and territories, high-risk countries) have the highest risk exposure. At the same time, only a small number of such legal entities opened accounts in Latvian financial institutions during the reporting period (Table 9.2.12).

Table 9.12.2 – Number of non-resident legal entities registered in the Register of Accounts

Quantity as of:	2020	2021	2022
Number of unique non-resident legal entities registered	618	505	440
Number of registered accounts (not taking uniqueness into consideration)	1210	854	748
Non-resident legal entities incorporated in low-tax or tax-free countries and territories (of the number of unique non-resident legal entities registered in the register of accounts)	20	23	9

- 9.2.35. In practice, it has been found that simplified liquidations can be used for malicious purposes, including for ML/TF. This procedure may be used in bad faith to artificially (intentionally) create the conditions for the simplified liquidation of a legal entity defined in laws and regulations, with the intent to use the simplified liquidation to avoid liability for actions that have caused actual losses to persons, have led the legal entity to its failure, and for actions related to the concealment of the legal entity's assets, as well as ML/TF.
- 9.2.36. In addition, according to materials published for an expert discussion by the Finance Latvia Association, most (54–60%) of all insolvency proceedings opened during the year were without owned assets, e.g. the legal entity only had leased assets; fixed assets were written off at their depreciated value (usually zero), although they were not actually worthless; the fixed assets were then transferred to third parties as off-sets; the fixed assets were transferred to another legal entity with the intention of making a hidden transfer of business, thereby continuing the business without liabilities (the two entities share a common board member, shareholders, address, or other features).

Availability of Information, Including about BO

- 9.2.37. SNRA states that the anonymity of legal entity BO remains a significant threat to the financial system, as banks, supervisors, and law-enforcement agencies cannot quickly identify the beneficial owners of legal entities. The establishment of BO registers and the pursuit of corporate transparency are just a few examples of efforts to combat the use of shell entities. For as long as such public registers are not fully in place and access to information remains difficult, ML remains a real risk for the EU as a whole. The 2019 recommendation to fully implement the provisions on BO registers is therefore reiterated in SNRA.⁵⁶⁴
- 9.2.38. As of 7 January 2020, the Register of Enterprises information website <https://info.ur.gov.lv/en> provides free-of-charge access to the current records kept by the Register of Enterprises that does not require authentication, including information about BO (as well as information about BO of foreign trusts and similar legal structures (entities)). Access to historical records and public documents (with authentication) is also provided. Information about BO contains data not only about the natural individual, but also detailed information about how the BO's control is exercised, as well as about the entities through which the control is exercised. The Latvian Register of Enterprises is one of two registers in the EU that offer free access to the current Register of Enterprise's records in machine-readable format, including about BO.⁵⁶⁵
- 9.2.39. In terms of the availability of information about the shareholders of JSCs, it should be noted that currently, only information about the shareholders of JSCs listed on the regulated market is publicly available. However, in order to make the activities of JSCs more transparent by creating access to information about the owners of joint-stock companies, and to mitigate the ML/TF risks, the Commercial Law was amended, effective since 1 July 2023, by requiring all JSCs registered in the Commercial Register before 30 June 2023 to submit to the Register of Enterprises the company's current register of shareholders or a statement that its BO cannot be ascertained no later than 30 June 2024.
- 9.2.40. Section 18.²(6) of the AML/CTPF Law states that a legal entity may withhold information about a BO from the Register of Enterprises if the BO is a shareholder in an JSC whose shares are

⁵⁶⁴ Report from the Commission to the European Parliament and the Council on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0554>.

⁵⁶⁵ Transparency International urges EU to act on patchy beneficial ownership registers. Available at: <https://transparency.eu/eu-must-act-beneficial-ownership-registers/>.

listed on a regulated market, and the way the BO's control exercised over the legal entity results solely from their shareholder status. During the reporting period, the Register of Enterprises identified challenges and consequent risks for the verification of this information. Initially, the Register of Enterprises relied on the information declared by legal entities and on the fact that these entities were also subject to additional supervision by the stock exchanges themselves, but it was later found that the legislator had not extended this exception to all stock exchanges, as the supervision rules differ from country to country. Uniform standards for the disclosure of ownership in listed JSCs are set only at EU and EEA level. However, in practice, there are cases where shares of JSCs within the ownership structure of legal entities are listed outside the EU and the EEA (i.e. there is no single, common legal framework or it is different from the laws and regulations applicable in EU and EEA member states), consequently the legal entity cannot invoke the exception specified in Section 18.² (6) of the AML/CTPF Law. The Register of Enterprises has changed its practice since August 2021, in that it only allows the registration of this exception for JSCs listed on EU and EEA stock exchanges. Otherwise, legal entities could apply for registration with a statement that their BO could not be ascertained.

- 9.2.41. Regarding information identifying the non-resident and the documents demonstrating the control exercised from outside of Latvia, the Register of Enterprises does not rely on the information registered in the register of the other country, but conducts an identification of the BO in accordance with the AML IV Directive and national regulations. This is due to the following circumstances:
- 9.2.41.1. there are still no uniform EU-level standards on actual identification, i.e. how EU member states should apply the over-25% ownership criterion if a person indirectly owns the legal entity through different shareholders, where each of them individually does not meet the over-25% ownership threshold;
 - 9.2.41.2. The Register of Enterprises is one of the few registries that assess the BO information and supporting documents before registration: in most cases, other countries' registers first registered the information and then check it for compliance;
 - 9.2.41.3. Information about the persons through whom a BO exercises control over a legal entity is not recorded in all EU member states, because, as indicated in the EC report of 24 July 2019, member states have implemented the AML IV Directive in different ways, and there is currently no single mechanism.
- 9.2.42. The risk of there being false BO information available is mitigated by the obligation of entities under the AML/CTPF Law and the supervisory authorities to submit a report via the reporting website plg.ur.gov.lv ('BO reporting solution') if the KYC findings differ from those recorded in the Register of Enterprises. Since 1 July 2020, when this requirement took effect, 281 reports have been submitted via the BO reporting solution, of which 274 have been handed over to the State Police.⁵⁶⁶ During this period, the Register of Enterprises received information from the SP regarding 140 criminal proceedings it had initiated, 35 refusals to initiate criminal proceedings, and 16 cases, in which the Register received a report from the SP stating that there were no grounds to consider the information registered by the Register of Enterprises to be false. Given the correlation between the number of reports submitted and the number of criminal proceedings initiated, it is necessary to evaluate the procedures for reporting BO violations in order to streamline current practices.
- 9.2.43. The use of legal entities to engage in ML/TF activities is facilitated by the ability and capacity of entities under the AML/CTPF Law to identify the ML/TF risks inherent in legal entities. KYC procedures use a risk-based approach. It should be noted in this context that there may be situations in which BO reliability checks do not take place because the customer is in a low-risk category. Knowing this, potential criminals can model the company's operations and BO structure so that it does not qualify for KYC checks.

⁵⁶⁶ During the period, 55 reports were withdrawn, of which 16 were found to be false by the SP, while in the other cases it was because the applicant withdrew the report. At the same time, during the same period, the Register of Enterprises received information from the SP about the criminal proceedings it had initiated (140) or about its refusals to initiate criminal proceedings (35).

Suspicious Transaction Reports on Legal Entities Received by the FIU, and Frozen Funds

9.2.44. Given the reports received by FIU and the asset freezing orders issued, it can be concluded that, by country of registration, the legal entities whose assets were most commonly frozen were from the British Virgin Islands and the United Arab Emirates in 2020, the United Kingdom and Cyprus in 2021, and the British Virgin Islands and the United Kingdom in 2022. Latvia ranked 10th and 11th in these last two years (Chart 9.2.7, 9.2.8, 9.2.9).

Chart 9.2.8 – Breakdown of legal entities frozen in 2022, by country of registration, millions of euro

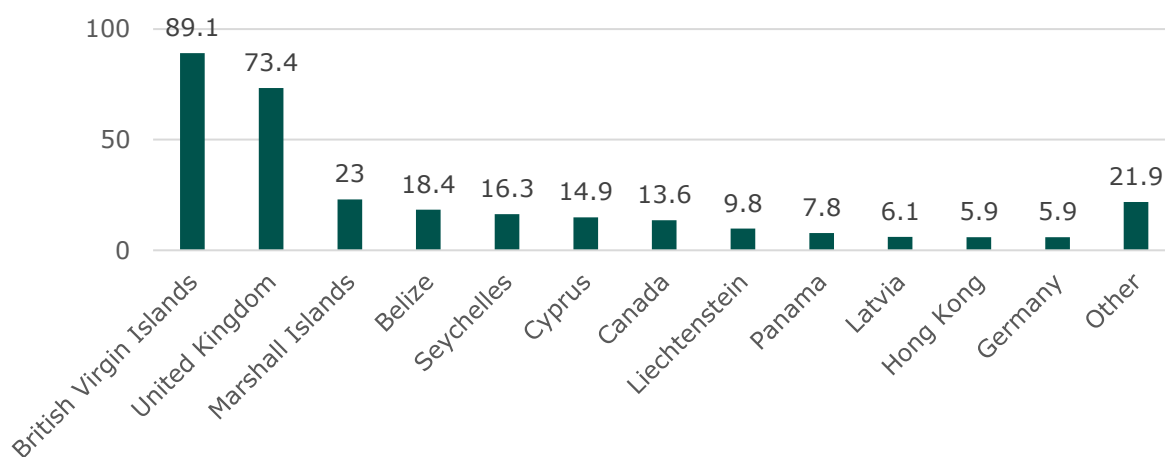


Chart 9.2.9 – Breakdown of legal entities frozen in 2021, by country of registration, millions of euro

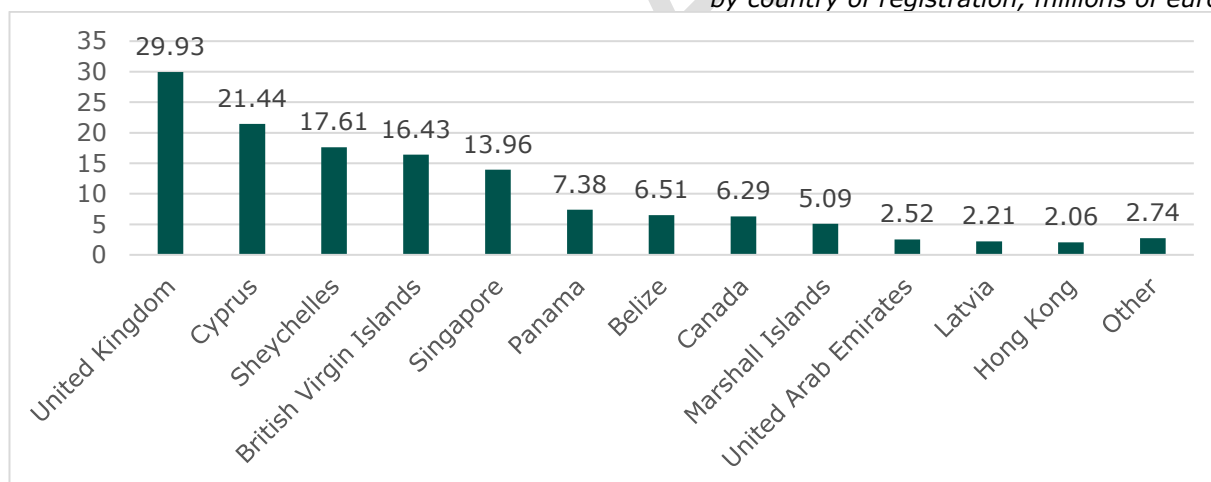
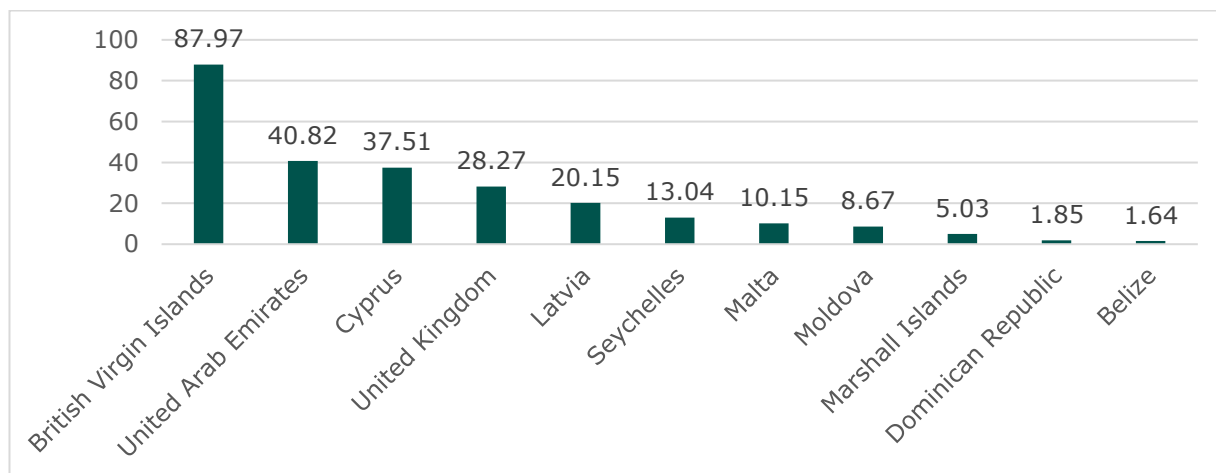
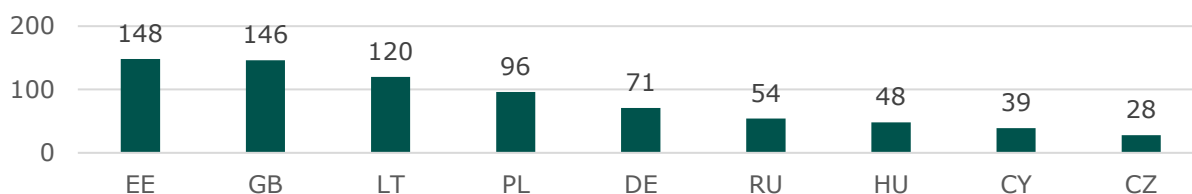


Chart 9.2.10 – Breakdown of legal entities frozen in 2020, by country of registration, millions of euro



9.2.45. More and more transaction schemes involve EU-based companies serving as fictitious intermediaries and *providing services* to many Latvian-based companies with completely different types of business in order to evade tax. Suspicious transaction reports received by the FIU (between 1 October 2021 and 1 October 2022) that involving legal entities show that 66% of the legal entities mentioned in these reports were legal entities registered in Latvia, while 34% were legal entities registered abroad. The countries of registration (outside Latvia) of legal entities most frequently mentioned in suspicious transaction reports are Estonia, Germany, Lithuania, Poland, and the United Kingdom.⁵⁶⁷ (Chart 9.2.12).

Chart 9.2.12 – Number of foreign legal entities mentioned in reports on suspicious transactions in the field of taxation



9.2.46. During the reporting period, due to the Russia's war in Ukraine, Russian and Belarusian citizens were denied the ability to obtain a temporary residence permit in Latvia by investing in companies.⁵⁶⁸ The second largest country of residence of non-resident natural individual shareholders of legal entities is Russia. Before February 2022, Russian citizens often invested in Latvia to get a temporary residence permit. Historically, a large share of funds came from Russia and Belarus, so the risk of legal entities being used as tools for ML will fall in the future. Historically, real estate investments were mainly associated with ML risks, but it can be concluded that there is also a risk associated with investments in companies. A review of the persons who have applied for a temporary residence permit through investments since 2015 and for whom suspicious transaction reports have been received shows that 93% have invested in real estate, 4% in companies, 2% in securities, and 1% in a credit institution. Taking into consideration the data of the OCMA, it can be concluded that the amount of investment in companies significantly decreased compared to the previous period, not taking into consideration the restrictions imposed on Russian and Belarusian citizens.

⁵⁶⁷ Noziedzīgu nodarījumu nodokļu jomā indikatori un gadījumu analīze, p. 7, 2023.

⁵⁶⁸ Section 23(1)(28) of the Immigration Law. Latvijas Vēstnesis, 169, 20.11.2002.; Latvijas Republikas Saeimas un MK Ziņotājs, 24, 27.12.2002. Available at: <https://likumi.lv/ta/id/68522-igracijas-likums>.

9.3. NGO Risks

Description of NGOs

Regulatory Framework

- 9.3.1. NGO are a collection of civil society organisations and informal groups that exist alongside the public and business sectors to meet particular needs in the society. The right to form associations, political parties, and other public organisations is one of the freedoms guaranteed by Article 102 of the Constitution.⁵⁶⁹ In describing the NGO sector in Latvia, one should additionally note that according to the Law on Local Governments, local governments also have the right to form and join associations and foundations;⁵⁷⁰ however, they are not considered to be voluntary associations of persons.
- 9.3.2. According to the current regulatory framework in Latvia, there are following forms of NGO:
- 9.3.2.1. associations that are voluntary associations of persons set up for the pursuit of a non-profit purpose set in their statutes;
 - 9.3.2.2. foundations which are collections of property allocated for a purpose determined by their founder and not for profit;
 - 9.3.2.3. religious organisations, including congregations, churches, dioceses, branches, where believers of the same religion or denomination associate on a voluntary basis to carry out religious activities, as well as other types of activities, in compliance with the effective law;
 - 9.3.2.4. trade unions and their associations, which are voluntary associations of persons set up to represent and defend the labour, economic, social, and professional rights and interests of workers;
 - 9.3.2.5. political parties and associations of political parties set up to engage in political activities, etc.;
 - 9.3.2.6. European economic interest groupings, which are companies set up under a contract of association to facilitate and support the economic activities of their shareholders, the purpose of which is not for profit.
- 9.3.3. In Latvia, associations and foundations are governed by the Associations and Foundations Law, Cabinet Regulation 779 'Regulations on the classification of associations and foundations' of 22 December 2015, while the activities of religious organisations, political parties, trade unions, and European economic interest groupings are regulated by the Law on Religious Organisations and other special laws.⁵⁷¹
- 9.3.4. Under the PBO Law, associations, foundations, and religious organisations and their institutions can get the PBO status. A public benefit activity is an activity that significantly benefits society or a section of it, in particular if it is directed towards charity, the protection of human and individual rights, the development of civic society, the promotion of education, science, culture, and health, the prevention of disease, the promotion of sport, the protection of the environment, relief in disasters and emergency situations, and improvement of the well-being of society, in particular of the poor and socially disadvantaged groups.⁵⁷² It should be noted that according to the PBO Law, PBO are entitled to tax benefits and other rights, while persons donating to PBO are entitled to tax benefits specified in laws and regulations.
- 9.3.5. During the reporting period, changes were introduced in the regulatory framework for the preparation of annual report of associations, foundations, and trade unions. On 19 July 2022, Cabinet Regulation 439 "Regulations on the annual reports of associations, foundations and trade unions and on the keeping of accounting records in a single-entry system" took effect,

⁵⁶⁹ Constitution of the Republic of Latvia, Article 102. *Latvijas Vēstnesis*, 43, 01.07.1993.; *Latvijas Republikas Saeimas un MK Ziņotājs*, 6, 31.03.1994.; *Valdības Vēstnesis*, 141, 30.06.1922.; *Diena*, 81, 29.04.1993. Available at: <https://likumi.lv/ta/id/57980#p102>.

⁵⁷⁰ Section 78 and 79 of the Law on Local Governments. *Latvijas Vēstnesis*, 215, 04.11.2022. Available at: <https://likumi.lv/ta/id/336956-pasvaldibu-likums>.

⁵⁷¹ Section 12 of the Associations and Foundations Law, *Latvijas Vēstnesis*, 161, 14.11.2003.; *Latvijas Republikas Saeimas un MK Ziņotājs*, 23, 11.12.2003. Available at: <https://likumi.lv/ta/id/81050-biedribu-un-nodibinajumu-likums>; Law on Religious Organisations, *Latvijas Vēstnesis*, 146, 26.09.1995.; *Latvijas Republikas Saeimas un MK Ziņotājs*, 21, 02.11.1995. Available at: <https://likumi.lv/ta/id/36874-religisko-organizaciju-likums>; Law on Political Parties, *Latvijas Vēstnesis*, 107, 07.07.2006.; *Latvijas Republikas Saeimas un MK Ziņotājs*, 15, 10.08.2006. Available at: <https://likumi.lv/ta/id/139367-politisko-partiju-likums>; Law on Trade Unions, *Latvijas Vēstnesis*, 60, 25.03.2014. Available at: <https://likumi.lv/ta/id/265207-arodbiedribu-likums>; European Economic Interest Grouping Law, *Latvijas Vēstnesis*, 106, 07.07.2004.; *Latvijas Republikas Saeimas un MK Ziņotājs*, 14, 29.07.2004. Available at: <https://likumi.lv/ta/id/90817-eiropas-ekonomisko-interesu-grupu-likums>.

⁵⁷² Public Benefit Organisation Law. *Latvijas Vēstnesis*, 106, 07.07.2004.; *Latvijas Republikas Saeimas un MK Ziņotājs*, 14, 29.07.2004. Available at: <https://likumi.lv/ta/id/90822-sabiedriska-labuma-organizaciju-likums>.

establishing the procedure for keeping accounting records using a single-entry system and setting the structure, scope, content, preparation, verification and submission procedures for the annual reports of associations, foundations, and trade unions. The provisions ensure the separation of cash and non-cash donations and gifts in the annual reports. The rules also improve the management report of NGO by including a few items of new information.⁵⁷³

- 9.3.6. During the reporting period, changes were introduced in the regulatory framework for the preparation of annual reports of religious organisations and their institutions. On 1 July 2022, Cabinet Regulation 380 "Regulations on the annual reports of religious organisations and their institutions and on the keeping of accounting records in a single-entry system" took effect. The new regulations have established the procedure for single-entry accounting, as well as the structure, scope, and content of the annual reports of a religious organisation, and the procedure for their preparation, verification, and submission. The annual reports of religious organisations now ensured the separation of cash and non-cash donations and gifts.
- 9.3.7. Finance Latvia Association regularly organises seminars on various issues related to AML/CTPF. For example, in cooperation with Civic Alliance Latvia and the FCMC, Finance Latvia Association organised a seminar on cooperation between credit institutions and associations in the field of AML/CTPF⁵⁷⁴. Finance Latvia Association worked with the Latvian Chamber of Commerce and Industry and the FCMC to organise a seminar on cooperation between credit institutions and companies in the field of AML/CTPF⁵⁷⁵. These seminars are also publicly available as recordings on the website of Finance Latvia Association.
- 9.3.8. Given that NGO in Latvia, with the exception of European Economic Interest Groupings, are legal entities, they are also exposed to ML risks inherent in legal entities, despite the fact that, according to FATF standards, NGO are mainly subject to TF risks.⁵⁷⁶ A description of ML risks for legal entities is provided in the chapter "[Legal entity risks](#)".

NGO Monitoring

- 9.3.9. Monitoring the NGO sector is a key prerequisite for reducing its vulnerability. NGO are not obliged entities under the AML/CTPF law, but in practice there are certain mechanisms for monitoring NGO:
- 9.3.9.1. Given that the SRS monitors NGO in terms of tax policy and assesses their financial flows within its remit, the measures taken by the SRS mitigate the vulnerability of NGO to ML/TF.
- 9.3.9.2. Within the scope of its competence, the SSS carries out terrorism risk assessments for NGO registered in Latvia, and pays attention to the activities that NGO registered abroad engage in in Latvia.
- 9.3.9.3. The cash flow risk of NGO is monitored on a day-to-day basis by obliged entities under the AML/CTPF Law, in both the financial and the non-financial sectors.
- 9.3.10. According to FATF,⁵⁷⁷ the following aspects must be taken into consideration when monitoring NGO:
- 9.3.10.1. NGO registration process;
- 9.3.10.2. access to information about the activities of NGO and their controllers;
- 9.3.10.3. quality of annual reports;
- 9.3.10.4. supervision of the use of funds in line with the objectives of NGO;
- 9.3.10.5. supervision of BO or persons in whose interests NGO operate;

⁵⁷³ Information to be included in the management report: (1) field or fields of activity (the main field of activity of the NGO indicated on a voluntary basis at the end of the reporting year); (2) details about the NGO's structure (description of the NGO's structure and/or organisational diagram). (3) information about the policies governing the activities, if any (e.g. code of ethics, transparency policy, conflict of interest policy, membership policy, personnel policy, funding guidelines, remuneration policy, procurement policy, diversity management policy); (4) information about the decision-making process, indicating what matters are decided by the shareholders, and how effective internal communication, planning, and control are arranged. Information must be provided about whether the organisation has a strategy and management system (description of internal processes, procedure for action in the organisation's fields of activity); (5) information about financial management: financial decision-making processes; how financial planning and control is exercised (i.e. budget approval and supervision procedures); drafting of the organisation's budget (if it is prepared every year, and how compliance with it assessed); (6) information about the financial fundraising activities carried out by the organisation during the reporting year, such as project grants, subsidies, donations and gifts, business activities, membership fees, inheritances, investments in securities.

⁵⁷⁴ Finance Latvia Association. Video: *Seminar on cooperation between credit institutions and associations in combatting money laundering*. Available at: <https://www.financelatvia.eu/news/notiks-seminars-par-kreditiestazu-un-biedribu-sadarbibu-naudas-atmazgasanas-noversana-2/>.

⁵⁷⁵ Finance Latvia Association. Video: *Seminar on cooperation between credit institutions and companies in combatting money laundering*. Available at: <https://www.financelatvia.eu/news/notiks-seminars-par-kreditiestazu-un-uznemumu-sadarbibu-naudas-atmazgasanas-noversana/>.

⁵⁷⁶ The national TF risk assessment is described in Chapter 5 of this document, where the national TF risk is identified as low.

⁵⁷⁷ FATF *Best Practices on Combating the Abuse of Non-Profit Organisations, Recommendation 8*, 18. lpp. Available at: <https://www.fatf-gafi.org/media/fatf/documents/reports/BPP-combating-abuse-non-profit-organisations.pdf>.

9.3.10.6. quality of accounting records and compliance with document retention rules.

- 9.3.11. However, the FATF stresses that not all NGO have the same level of risk when it comes to supervisory activities, so not all NGO need to be subject to the same rigorous supervisory mechanism. To avoid overburdening NGO with supervisory measures and requirements, it is necessary to identify a set of Latvian NGO that are at risk of TF (this group is defined in Section 9.3.42). It should be noted that in general, NGO registered in Latvia have a low level of TF risk, because Latvia's national TF risk level is low.
- 9.3.12. In the NGO sector, all PBO are subject to closer and regular supervision. Given that PBO donors are entitled to tax benefits, the SRS closely monitors the use of funds by PBO.⁵⁷⁸ If PBO donations are not used as intended, PBO status may be withdrawn.⁵⁷⁹ Organisations that have been granted PBO status are required to submit an annual report and a report on the previous year's activities and a plan for future activities to the SRS by 31 March each year.⁵⁸⁰ When preparing their annual reports, PBO are required to fill in the fields of the annex to the annual reports called 'Detailed information about donations and gifts used', which must also state how the donations were used, the field and the target group for which the donations or gifts were used, as well as information about the number of public benefit recipients.
- 9.3.13. For other NGO that do not have PBO status, the SRS conducts preventive and supervisory measures, which include assessing potential ML/TF risks, evaluating the information provided in the annual reports in combination with other information available to the SRS. If necessary, NGO are asked to provide additional information, such as supporting documents for a transaction or bank statements.

Registration Trends

- 9.3.14. Just like an LLC, an NGO acquires the status of a legal entity when it is filed in the corresponding register. As indicated above, with registration as a legal entity (NGO) in the Register of Enterprises, it is also granted the status of a tax payer by the SRS, which ensures the accounting of taxes, fees, and other mandatory payments imposed by the state. The verification of the documents carried out by the Register of Enterprises prior to registration is described in section "Legal entity risks", Section [9.2.6](#).

Trends during the reporting period	Explanation	Statistics	ML/TF risks
Most common forms of registered NGO			
Information provided by the RoE shows that during the reporting period, as in the past, the most frequently registered form of NGO was associations, followed by foundations, religious organisations, and then other forms of NGO. A total of 25,797 NGOs were registered as of the end of 2020, 26,461 as of the end of 2021, and 27,004 as of the end of the reporting period.	While the total number of active NGO increased by the end of the reporting period, the number of new NGO registered steadily fell every year.	Table 9.3.1	N/A

⁵⁷⁸ Public Benefit Organisation Law, Sections 4 and 11. Available at: <https://likumi.lv/ta/id/90822-sabiedriska-labuma-organizaciju-likums>.

⁵⁷⁹ Public Benefit Organisation Law, Section 14. *Latvijas Vēstnesis*, 106, 07.07.2004.; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 14, 29.07.2004. Available at: <https://likumi.lv/ta/id/90822-sabiedriska-labuma-organizaciju-likums>.

⁵⁸⁰ Cabinet Regulation 407 'Regulations on the form for the annual activity report and future activity plan of an association, foundation, religious organisation or its institution' of 5 May 2010. *Latvijas Vēstnesis*, 72, 07.05.2010. Available at: <https://likumi.lv/ta/id/209358-noteikumi-par-biedribas-nodibinajuma-religiskas-organizacijas-vai-tas-iestades-iepriekseja-gada-darbibas-parskata-un-turpmakas->.

Table 9.3.1 – Number of NGO

	Number of NGO registered in 2020	Total on 31 December 2020	Number of NGO registered in 2021	Total on 31 December 2021	Number of NGO registered in 2022	Total on 31 December 2022
Associations	124	22,863	847	23,481	124	24,002
Foundations	55	1540	47	1566	48	1597
Religious organisations (congregation/church/diocese, branch)	4	959	12	969	2	962
Trade unions	5	227	4	231	1	230
Trade union federations	0	4	0	4	0	4
Trade union permanent branches	1	122	4	125	0	124
Political parties	0	66	7	69	0	69
Political party associations	0	12	0	12	1	12
European economic interest group	0	4	0	4	0	4
Total	936	25,797	921	26,461	848	27,004

Type of activity reported by the NGO

51.65% of the NGO registered in 2022 did not indicate the type of activity.

6.13% of the NGO reported 'association or foundation not otherwise classified' as their type of activity.

In the end of the reporting period, 88.67% of all NGO had not indicated the type of activity.

Although half of the NGO established during the reporting period did not indicate the type of activity, the situation has improved compared to the previous period, and needs further work.

Associations and foundations are classified according to the field of their activities, but the regulatory framework does not set a binding obligation to specify it.⁵⁸¹

NGO that chooses to report their field of activity most often operate in housing management, education, sport, or culture.

Chart 9.3.1 and Chart 9.3.2

Section 9.3.47 and Section 9.3.52

⁵⁸¹ The field of activities is registered in the Register of Enterprises in accordance with Cabinet Regulation 308 'Regulations on the state fee for registration in the Register of Associations and Foundations' of 15 April 2004.

Chart 9.3.1 – NGO registered during the reporting period that did not report a specific type of activity

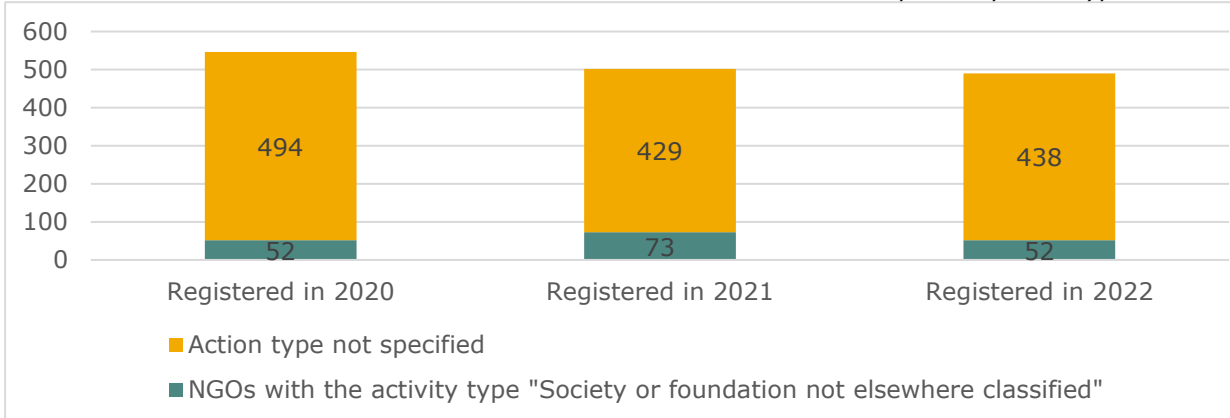
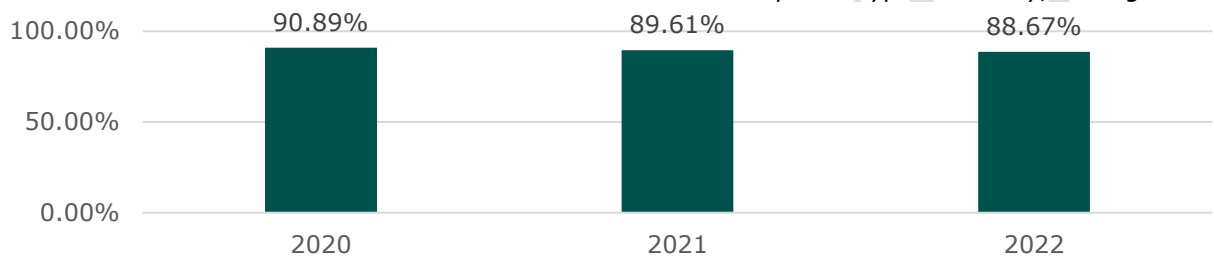


Chart 9.3.2 – Share of NGO that did not report a specific type of activity, among all NGO



PBO status

In the end of 2022, 1651 NGO (6.11% of all NGO) with PBO (public-benefit organisation) status were registered in the country.

During the reporting period, PBO status was granted to 229 NGO and revoked for 1140 NGO.

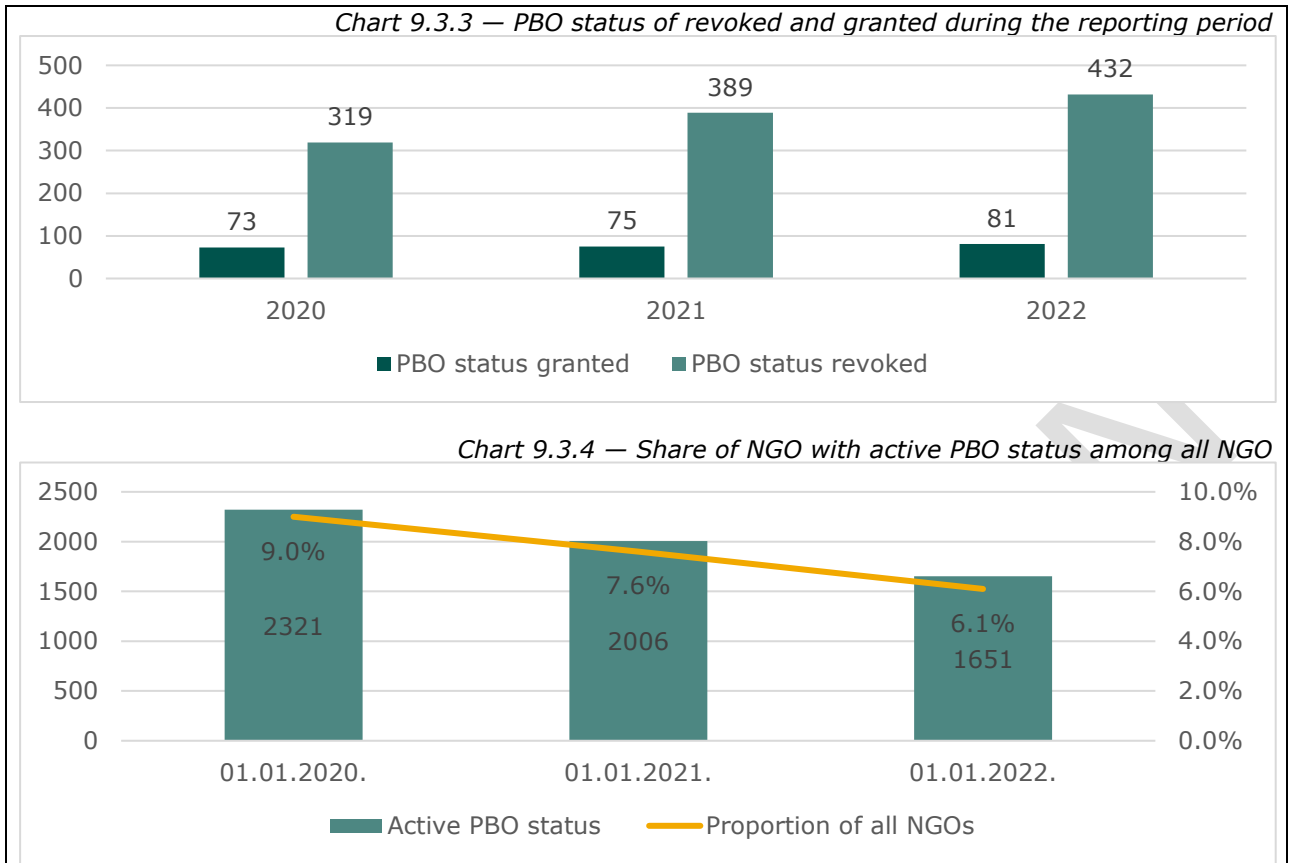
The share of NGO with PBO status decreased each year during the reporting period.

According to the information provided by the SRS, the reasons for the revocation of the PBO status were not related to violations of the requirements of the AML/CTPF Law.

In one case, PBO status was revoked due to sanctions imposed against Russia in relation to the outbreak of war in Ukraine.

Chart 9.3.3 and Table 9.3.4

Section 9.3.53



9.3.15. Although NGO are required to register with the Register of Enterprises and the SRS just like any other legal entity, as of the end of the reporting period, only half of all active NGO had indicated a specific field of activity in accordance with Cabinet Regulation 779, using the statistical classification of economic activities (NACE) codes. It should be noted that NGO do not engage in for-profit economic activities, unlike other legal entities. As a result, the NACE code system was found not to be appropriate for the registration of the fields of activity of NGO during the NRA 2020 reporting period. In accordance with Section 5.2 of Cabinet Order 940 'On the plan of action to prevent money laundering, terrorism, and proliferation financing during the 2023–2025 period' of 13 December 2022 the deadline for the development of an appropriate classifier was set to 31 December 2023. In addition, it should be noted that credit institutions, when setting up transactions with NGO, also record the fields of their activities in accordance with the classification included in Cabinet Regulation 779 (Table 9.3.2).

Table 9.3.2 – Fields of activity of NGO that were customers of financial institutions

Field of activity name	Number of customers (NGO) as of 31 December 2019.	Number of customers (NGO) as of 31 December 2023.
Association or foundation not otherwise classified	3138	4028
Development and housing management	2618	3125
Sports associations and foundations	1949	1878
Employer organisations, trade unions, professional associations and foundations	1736	1077
Culture and recreation	1935	862
Religious organisations and their institutions	613	802
Research and education	1278	731
Social support measures for individuals	274	210
Health	195	185
Justice and protection of interests	90	76
Media and communication	80	73
Environmental and animal protection	72	68
Political parties	34	55
Philanthropic intermediation and promotion of volunteering	31	41
Youth association or foundation	59	39
NGO with unregistered field of activity	-	29
Volunteer firefighter organisations	30	24
International activities	15	8
TOTAL	14,147	13,311

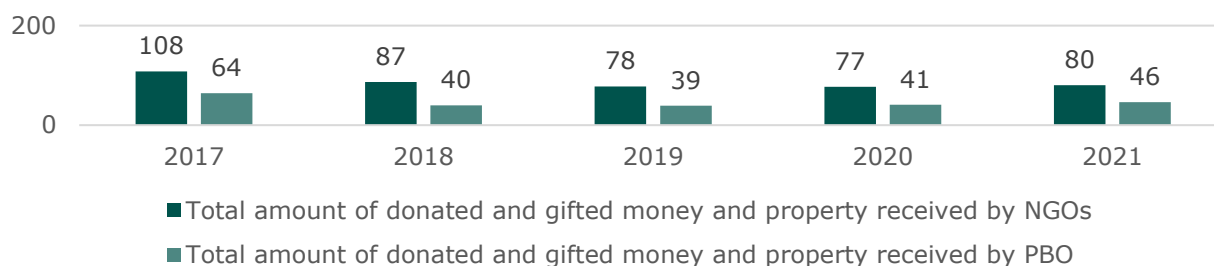
Financial Flow Analysis

- 9.3.16. NGO cannot operate for profit, so the NGO sector's income comes from membership fees, enrolment fees, and other seasonal contributions, donations and gifts, from grants received from the state and local governments, dividends received from investments in companies, as well as funding (grants) for various projects, including funding by the EU, EEA and other foreign entities.
- 9.3.17. It should be noted that if an NGO receives project funding, including from the state and local governments, EU, EEA and other foreign funds, additional monitoring takes place during the implementation of the project to ensure that the funding provider can confirm that the funding allocated to the project is used in accordance with the project's purpose and that the project's goals are being achieved. The monitoring mechanism should be defined in the project contract, which, among other things, sets the necessity for and frequency of inspections for the compliance of financial reports, including by the funder of the project and an independent auditor.
- 9.3.18. Section 7 of the Associations and Foundations Law enables associations and foundation to engage in business activities, in the form of additional activity that is related to maintaining or using its property, and to engage in other business activities to attain the goals of the association or foundation; This means that all income from such business activities must be invested in the achievement of the organisation's goal. However, there is a risk that the income generated from business activities is disguised as membership fees and donations. In its monitoring of NGO, the SRS has identified NGO for which business revenue accounts for the

largest share of total revenue. It should be noted that although regulations do not prohibit NGO from engaging in business activities that account for even 100% of all of their income, the SRS assesses the activities on their merit, assessing whether it is a business activity or is to considered a hidden commercial activity.

- 9.3.19. As regards the turnover of financial assets of NGO, the SRS has at its disposal information that is shown in the annual NGO reports. Before 1 July 2022, when Cabinet Regulation 380 took effect, and 19 July 2022, when Cabinet Regulation 439 took effect, the laws and regulations did not set an obligation to provide information to the SRS on the way donations are received: in cash or with a bank transfer. However, once in place, these regulations required annual reports to distinguish between cash and non-cash donations and gifts. Information available to the SRS also enables the identification of the total amount of donations and gifts, cash, and property received in the annual reports submitted by NGO in terms of the country of the donor.
- 9.3.20. According to the information provided by the SRS from the annual reports submitted by NGO, including PBO, the total amount money and property donated and gifted to NGO in 2020 and 2021 was more than EUR 157 million. In 2020, 53% of donations and gifts were received directly by PBO, and in 2021, it was 56% (Chart 9.3.5).

Chart 9.3.5 – Total money and property received by NGO, including PBO, donations and gifts, millions of euro



- 9.3.21. According to the information provided by the SRS, in 2020 and 2021, as in the previous reporting period, the largest total amount of donations and gifts that went to PBO originated from Latvia. The top 10 donor countries in terms of total donations were USA, Germany, Seychelles, Austria, and Cyprus. It should be noted that although donations and gifts received from Seychelles (1.62%), Cyprus (0.89%) and the United Arab Emirates (0.27%) represent only a small share of the total donations and gifts received by PBO during the reporting period, these are associated with known risks. Information about the practice of the FIU and law-enforcement agencies suggests that shell entities incorporated in these jurisdictions (Seychelles in particular) are often involved in ML schemes (Table 9.3.3). Information included in NGO annual reports shows that the absolute majority of donations and gifts received from Seychelles went to one NGO registered in Latvia.

Table 9.3.3 – Top 10 countries from which NGO received donations and gifts

1.	LV	73,155 742.99	6.	Cyprus	750,000.00
2.	USA	2,911,930.09	7.	United Kingdom	579,266.02
3.	Germany	2,803,202.73	8.	Russia	484,566.66
4.	Seychelles	1,367,000.00	9.	Sweden	336,535.18
5.	Austria	1,268,143.00	10.	Bulgaria	250,000.00

- 9.3.22. Information on financial flows provided by credit institutions shows that the number of incoming transactions is almost 2.5 times higher than the number of outgoing transactions, but there is no significant difference in the total value of transactions, as the average amount per outgoing transaction is 2.5 times higher than the average amount per incoming transaction (Table 9.3.4).

Table 9.3.4 – Incoming and outgoing NGO transactions

	Number of transactions	Total transactions (EUR)	Average amount per transaction (EUR)
Incoming			
Domestic	8,320,070	1,962,193,155.54	235.84
Foreign	178,788	324,095,194.99	1812.73
Payment card transactions	5242	1,790,441.73	341.56
Outgoing			
Domestic	3,380,630	2,113,291,170.51	625.12
Foreign	171,909	139,656,070.83	812.38
Payment card transactions	419	33,565.82	80.11
Total			
Domestic	11,700,700	4,075,484,326.05	348.31
Foreign	350,697	463,751,265.82	1322.37
Payment card transactions	5661	1,824,007.55	322.20
TOTAL	12,057,058	4,541,059,599.42	376.63

9.3.23. Domestic transactions account for almost 98% of the financial flow of payments to NGO, and 86% of all funds used for domestic transactions by NGO. A similar trend can be observed in the financial flow of outgoing payments: 95% of transactions were domestic, accounting for 94% of all funds used in the outgoing transactions. Overall, 97% of the transactions were domestic payments, which accounted for 90% of all the funds used in the transactions (Table 8.27).⁵⁸² Compared to NRA 2020, the total amount of incoming and outgoing NGO transactions increased for both domestic and foreign transactions during the reporting period.

9.3.24. The most frequent and the largest number of transactions in the reporting period took place within Latvia (91% of the total amount of transactions). The top 10 countries from which the highest total amount of transfers was received include Switzerland, Lithuania, Germany, UK, and US. The largest total outgoing payments went to Lithuania, Germany, Estonia, UK, and Poland (Table 9.3.5). Compared to the previous period, Lithuania, Belgium, and Ireland are the countries that did not previously feature in the top 10 countries from which payments were received. The top three countries in terms of outgoing transactions remained unchanged during the reporting period. While these countries do not include countries in military conflict or their neighbours, it should be kept in mind that TF schemes take place on a global scale, so any country's financial system can be used to channel funds for TF.

Table 9.3.5 – Countries most frequently involved in transactions with NGO


Total NGO financial flows by country (EUR)				By number of transactions			
Incoming payments		Outgoing payments		Incoming transactions		Outgoing transactions	
LV	19,217,218.54	LV	21,026,813.15	LV	8,084,412	LV	3,374,198
CH	66,613,827	LT	28,988,376	LT	61,714	EE	25,055
LT	43,535,978	DE	14,829,440	DE	27,970	LT	24,951
DE	38,894,116	EE	11,434,140	EE	14,909	IE	16,603
GB	30,908,618	GB	7,676,190	FI	12,196	USA	12,453
USA	19,580,016	PL	6,576,414	GB	12,036	DE	8087
BE	17,523,791	USA	4,973,341	BE	11,053	FI	6559
EE	15,737,445	BE	4,740,215	NL	7528	NL	6266
IE	12,712,000	AT	4,743,467	IE	7215	GB	5620
HU	6,301,000	RU	2,793,035	SE	2589	LU	4849

⁵⁸² Information provided by credit institutions.

- 9.3.25. Credit institutions have found that during the reporting period, payments were also made to countries listed by the EC as having poor AML/CTPF systems.⁵⁸³ It is important to note that the number of such payments is small and for relatively small amounts. The most frequent and largest total incoming transactions (among the countries included in the above EC list) were from Ghana and the Bahamas, while the largest total outgoing transactions were to Nigeria (Table 14.2). The bulk of the total outgoing transactions to Nigeria consisted of two payments made by a sports NGO. The credit institution assessed the transactions and the purpose of the payment and concluded that they were consistent with the business activities of the company and the information available to the credit institution about the NGO in question.
- 9.3.26. Most credit institution customers that are in the group of NGO defined by FATF as having high TF risk are involved in sport, culture and recreation, religion, research and education. At the same time, the highest number of credit institution customers that are NGO are registered as 'association or foundation not otherwise classified' as the type of activity (Table 8.29). Credit institutions note that the field of activities declared by an NGO in the Register of Enterprises does not always correctly represent the actual activities of the organisation, so it is necessary to assess each situation individually to obtain quality information.
- 9.3.27. Information about the financial and non-financial performance of an NGO, as well as other information about an NGO that is available to government authorities and that can be used to identify and assess the actual performance of an NGO, is not available in one place. NGO submit annual reports to the SRS within the deadlines specified in laws and regulations; however, NGO are not required to publish their annual reports and/or the activity report themselves. The SRS hands the received annual reports electronically over to the RoE within five working days, ensuring the public availability of the accounts. Information about the periods for which NGO annual reports have been submitted is available in the RoE. At the same time, the SRS ensures that the information included in the annual reports under the PBO Law, as submitted by NGO with PBO status, is published in the database by the SRS. In general, information about NGO is not available in a single website.
- 9.3.28. During the NRA 2020 reporting period, the need to use simplified liquidation procedures on NGO that do not actually engage in their activities was identified. If an NGO is not actually continued, its current accounts in credit institution systems become inactive, but the NGO itself is not officially liquidated. A simplified liquidation procedure would allow credit institutions to close their current accounts in full through a simplified procedure after the NGO is struck from the RoE. Section 5.2(2.2) of the Action Plan states that the simplified liquidation of NGO is to be implemented by 1 July 2024.
- 9.3.29. No information about the specific purposes of the transactions was collected, but credit institutions report that the financial flows were mostly in line with the field of activity indicated by the customer (NGO), although 33% of credit institution NGO customers are registered under the 'Other' field of activity⁵⁸⁴ (Table 8.29).
- 9.3.30. Detailed NGO financial flow breakdown (Table 14.1):
- 9.3.30.1. For the group of NGOs with factors increasing the risk of TF (defined in Section 9.3.43), the total amount of incoming payments accounts for 31% of all the payments credited to the accounts of all NGO. It should be noted that during the reporting period, the total amount of payments directed to this group of NGOs increased each year (EUR 196 million in 2020, EUR 220 million in 2021, and EUR 288 million 2022). Of these, sports associations and foundations, as well as research and education NGO, received the highest total of incoming payments during the reporting period.
- 9.3.30.2. The NGO that effected the highest total outgoing payments also received the highest total incoming payments. Accordingly, the total outgoing payments of the NGO included in the group of NGOs with factors increasing the risk of TF represent 31% of the total outgoing payments of all NGO.

⁵⁸³ European Commission. *High risk third countries and the International context content of anti-money laundering and countering the financing of terrorism*. Available at: https://finance.ec.europa.eu/financial-crime/high-risk-third-countries-and-international-context-content-anti-money-laundering-and-countering_en.

⁵⁸⁴ Information provided by credit institutions.

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- 9.3.30.3. The largest amount of cash contributions is made by religious organisations, accounting for 64% of the total cash contributions of all NGO with TF risk factors. Meanwhile, the total amount of cash payments made by these NGO represents 26% of all cash payments made by NGO customers of credit institutions. There is a risk that religious organisations may be involved in ML activities that involve the laundering of cash in hand. In addition, donations are mostly made anonymously, so in order to detect the involvement of these NGO in ML/TF, it would be necessary to study in detail if the use of the donations received matched the stated purposes of the NGO.
- 9.3.30.4. NGO whose activities are related to culture, recreation, and sport account for the largest share of cash-in-hand expenses. NGO active in the field of sport have a slightly higher share of cash-in-hand expenses than cash-in-hand contributions, which may indicate that this type of NGO engages in activities that contribute to the informal economy, i.e. paying for goods and services in cash to possibly avoid taxes. For religious organisations, on the other hand, despite the fact that the largest share of the money they receive is in cash, they only cover 4% of their expenses in cash. The total of all cash-in-hand expenses paid NGO with factors increasing the risk of TF accounts for 47% of all cash-in-hand expenses paid by NGO customers of credit institutions.
- 9.3.30.5. In 2022, the amount of funds received as cash-in-hand by NGO with factors increasing the risk of TF was 52% of the total amount of funds received in cash by all NGO. Compared to 2020, the amount of cash-in-hand received decreased by 4%. Thus, the reporting period saw a decline in cash-in-hand payments received by the group of Latvian NGO exposed to TF risks.
- 9.3.30.6. It is important to note that NRA 2020 identified a negative trend in the ration of funds received as cash to expenses paid in cash in the financial flows of NGO operating in certain fields: that is, the amount of cash amounts received by NGO in certain fields was almost 3 times lower than the amount of cash those NGO paid as expenses. During the current reporting period, this trend was no longer observed and the ratio of cash received to cash spent was consistent for all NGO in all fields of activity.

BO disclosure requirements

- 9.3.31. In terms of the nature of BO disclosure by NGO, it should be noted that this is generally very different from the disclosure of BO by companies and other forms of legal entities, as the NGO sector does not use the traditional approach to shared ownership. In most cases, it is not possible to identify a BO that is a specific natural individual for entities in the NGO sector because the goals of an NGO or the range of persons it covers is too broad; furthermore, NGO are not for profit, which makes it difficult to identify the beneficial owner.
- 9.3.32. Whenever the BO of an NGO cannot be ascertained, a statement that the legal entity's (NGO's) BO cannot be determined must be submitted for registration, specifying reasons. It should also be noted that if it is not possible to identify the BO of the legal entity (NGO), then according to Section 18(7) of the AML/CTPF law, entities under the AML/CTPF law may consider the person who holds a position in the senior management body to be a BO of the legal entity (NGO).
- 9.3.33. Although a foundation acquires the status of a legal entity as soon as it is registered, given the similarities between a trust and a foundation in their structure and operating principles, the main features of a trust should be further assessed. The most fundamental principle of a trust is the separation of property, or assets forming a separate group of property. A similar provision is also included in Section 2(2) of the Associations and Foundations Law.⁵⁸⁵ However, Section 86(3) of the law states that persons who grant property to a foundation after its filing in the register are not be deemed to be its founders. The Associations and Foundations Law does not require founders to contribute any amount of money or other property to the foundation's share capital. The term 'aggregate of property' used in the law is, therefore, understood as the manner through which financial assets from various sources are contributed

⁵⁸⁵ Foundations are aggregates of property allocated for a purpose determined by their founder and not for profit;

during the lifetime of the foundation.⁵⁸⁶ The structure of the trust also has a certain separation of owners. Like a trust, a foundation is a closed organisation that one cannot become a member of and has no members, only founders and supporters, its property is separated, and it has one or more governing bodies (complex governance structure). Although most trusts are established (they do not have to be registered in public registers to be considered established) rather than registered, the fact of registration does not affect the existence and functioning of a trust.

- 9.3.34. Section 1(8) of the AML/CTPF law states that a legal structure is an entity that is not a legal entity but that has independent legal capacity and capacity to act and whose structure may include a founder, an authorised representative, a supervisor (manager), or positions of equivalent status, and a beneficiary (if the natural individual benefiting has not yet been determined): the person in whose interest the legal structure is established or operates, or any other natural individual who effectively exercises ultimate control over the legal structure through ownership or other means. As noted, a foundation acquires the status of a legal entity upon registration and has permanent legal capacity and capacity to act. Its structure includes one or more founders, a management board (equivalent to an authorised representative), a different governing body (equivalent to a supervisor), if any,⁵⁸⁷ and a beneficiary that is determined according to the above criteria. In view of the above, and taking into consideration the definition of a foundation and a legal formation as well as the principles for their operation, it follows that a foundation, although legally regarded as a legal entity, is to be essentially considered a legal formation.
- 9.3.35. However, in national and local government foundations, where the national or local government is the sole manager, it is not possible to identify the natural individual who would be considered a BO in this formation, given the definition of a public person.
- 9.3.36. In terms of religious organisations and their institutions, it should be noted that the essence of the activity of religious organisations is to unite within a single religious organisation or denomination to engage in religious activities within a certain area. Religious activity is the practice of a religion or belief, through worship, religious ceremony, and teaching of religion. The conduct of religious activities does not imply that a church official can be the owner of the organisation. Consequently, given the nature of religious organisations and the purpose of their activities, it is generally not possible to ascertain the BO of a religious organisation, as there is in fact no natural individual who owns the religious organisation and it is not possible to identify the natural individual or persons who control it or in whose name, for whose benefit, or in whose interest a business relationship is established or an occasional transaction is carried out.
- 9.3.37. Given the large number of associations, foundations, and religious organisations (Table 9.3.1), the BO disclosure trends among these entities were assessed (Table 9.3.6):
- 9.3.37.1. In total, 8881 NGO, or 33% of all 27,004 NGO, had registered information about their BO by the end of 2022.
- 9.3.37.2. By the end of 2022, the highest number of BO disclosures was among foundations with 95.7%; it was lower among religious organisations with 37.9%, and the lowest, in associations, with 28.6%.
- 9.3.37.3. In most of all NGO entities, the status of BO cannot be ascertained.
- 9.3.37.4. In all cases where information about a specific natural individual (BO) was recorded, executive control was exercised by that person directly, i.e. as a member or as a representative of an executive body.
- 9.3.37.5. As regards the countries of residence, the majority (96%) of the registered BO of NGO were residents of Latvia, followed by residents of Russia, Lithuania, Belarus, Ukraine, and other countries.
- 9.3.38. In terms of the nature of BO disclosure, it should be noted that the disclosure of BO is generally different for the NGO sector than for companies, as the NGO sector does not use the traditional approach to shared ownership. In most cases, it is not possible to identify a specific natural

⁵⁸⁶ Latvijas pilsoniskā alianse. Juridisko formu "biedrība" un "nodibinājums" salīdzinājums. Available at: https://nvo.lv/lv/portfelis/jurista_padomi/juridisko_formu_biedriba_nodibinajums_salidzinajums.

⁵⁸⁷ It should also be noted that the position of a supervisor in a trust is also not mandatory.



individual that to be considered a BO in the NGO sector (apartment owner associations, religious organisations, etc.).

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Table 9.3.6 — Breakdown of NGO that disclosed their BO as of 31 December 2022

Registered information about BO (of total active entities)	Specific registered information about BO	Registered with the status that BO cannot be ascertained	BO is registered as a shareholder of a listed joint-stock company	TOTAL	Total number of NGO at 31 December 2022
Associations	2973	3888	1	6862	24,002
Foundations	1409	119	0	1528	1597
Religious organisations (congregation + church + diocese)	31	334	0	365	962
Trade unions	7	36	0	43	230
Trade union federations	0	2	0	2	4
Trade union permanent branches	0	31	0	31	124
Political parties	6	34	0	40	69
Political party associations	0	7	0	7	12
European economic interest group	3	0	0	3	4
TOTAL	4429	4451	1	8881	27,004

NGO TF risk profile

- 9.3.39. As required by FATF Recommendation 8⁵⁸⁸, countries must regularly review the sufficiency of their regulations governing organisations that may be used maliciously for TF purposes. The FATF Recommendations state that countries must pursue measures proportionate to the risk to protect NGO from being used for TF purposes, i.e. to ensure that NGO:
- 9.3.39.1. are not used by terrorist organisations claiming to be legitimate organisations;
 - 9.3.39.2. are not used for TF, including for the purpose of avoiding asset freezing measures;
 - 9.3.39.3. are not used to conceal or disguise the covert diversion of funds intended for legitimate purposes to terrorist organisations.
- 9.3.40. FATF has identified NGO that run a high risk of TF. These include religious organisations, charities, as well as organisations involved in social welfare, housing, healthcare, education, representation or other "good works".⁵⁸⁹ However, it is important to note that the composition of the group of high-risk NGOs can be different from country to country.
- 9.3.41. It should be noted that of all the NGOs with TF risk factors registered in Latvia, some may have a low TF risk and some may have no risk at all. The definition of a high TF risk NGO is essential to facilitate the work and cooperation of state and financial institutions with all NGOs, and to enable a proportionate risk-based approach by entities under the AML/CTPF law.
- 9.3.42. The group of Latvian NGOs with elevated TF risks remained unchanged since the NRA 2020 reporting period. In Latvia, an NGO that has factors increasing TF risks can be considered:

⁵⁸⁸ The FATF Recommendations. International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation. Available at: <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>.

⁵⁸⁹ FATF Best Practices on Combating the Abuse of Non-Profit Organisations, Recommendation 8. Available at: <https://www.fatf-gafi.org/media/fatf/documents/reports/BPP-combating-abuse-non-profit-organisations.pdf>.

No	Group of NGO with TF risks	Explanation
1.	NGO registered in Latvia, whose field of activity is within that of high-risk NGO as defined by FATF and that conduct business with high-risk countries according to Table 14.2. ⁵⁹⁰	The following fields of NGO activities, as listed in Cabinet Regulation 779, are comparable to those defined by FATF: <ul style="list-style-type: none"> • "2. Culture and recreation"; • "4. Research and education"; • "5. Health"; • "6. Social support measures for individuals"; • "9. Justice and protection of interests"; • "13. Sports associations and foundations".
2.	NGO registered in Latvia, established for the purpose of promoting mutual respect and cultural diversity at international level, promoting social and economic development in other countries, providing assistance to disaster-stricken regions at international level, and promoting and monitoring respect for human rights and peacekeeping at international level, which conduct business with high-risk countries according to Table 14.2.	According to Cabinet Regulation 779, the field of activities of such NGO corresponds to "14. International activities". The activities of such NGO are specifically cross-border in nature, which, given the type and particular nature of the support they provide, may often be linked to countries with lower levels of development, and have lower requirements for AML/CTPF compliance, more tolerance of involvement in criminal offences, unusual circumstances due to disasters or unrest and the resulting priorities for addressing them, which can be seen as an advantage for TF.
3.	NGO registered in Latvia that have not indicated a specific field of activity or have indicated 'Association or foundation not otherwise classified' as their field of activity (when starting or maintaining a transaction, they refused to specify the field of activity and provide a detailed explanation for the transaction) and that conduct transactions with high-risk countries according to Table 14.2.	Failure to identify a specific field of activity significantly reduces the overall transparency of the NGO sector, making it vulnerable and attractive to criminal activity, including TF.

9.3.43. According to the amount of NGO transactions registered in Latvia, the group of NGO with factors increasing the risk of TF corresponds to less than 1% of all NGO transactions. During the reporting period, transactions in the credit institution accounts of NGO took place mainly within Latvia. No transactions involving persons from countries where military conflicts take place were identified. However, it should be borne in mind that TF schemes are implemented on a global scale, so any country's financial system could (at least in theory) be used to channel funds for TF.

9.3.44. During the reporting period, the financial flows were generally in line with the specific nature of NGO activities: NGO did not operate for profit, their main income came from membership fees, donations, grants from national and municipal budgets, income from business activities, which also included dividends from investments in companies, as well as funding intended for various projects (grants). It can thus be assumed that funds are collected for a certain period (many incoming small-amount payments) and then used for a specific purpose (one or a few outgoing payments). At the same time, it is important to note that this model of raising funds can also be characteristic of TF: funds are raised (including from persons not associated with TF and merged with funds received from persons associated with TF) and then channelled to TF causes or to persons and organisations related to TF activities.


⁵⁹⁰ NGO that receive state budget funding to implement cooperation projects with high-risk countries should be assessed separately.

- 9.3.45. International practice shows that for TF activities, NGO are mainly used as intermediaries, i.e. to raise funds and then channel them, hiding their true recipient and purpose. NGO can be involved in multiple or any single of the stages of a TF scheme:
- 9.3.45.1. collecting funds from individuals, legal entities, and other NGO, including individuals and organisations associated with TF;
 - 9.3.45.2. pooling of funds with funds obtained for different purposes, by depositing funds in accounts in credit institutions, effecting transfers or other financial transactions;
 - 9.3.45.3. during the distribution phase, funds are channelled to persons or organisations linked to TF, including on the basis of fictitious contracts, invoices, and other documents.
- 9.3.46. TF schemes may involve one or more NGO, including their local and international branches and offices. The NGO mainly at risk are those whose representatives (BO, members of the executive body, etc.) are residents of high TF risk countries or countries with low AML/CTPF compliance requirements, or NGO whose activities are linked to such countries ([Lists of countries used in Chapter 9](#)).
- 9.3.47. In order to make it possible to accurately measure not only the amount of NGO transactions and payments with high-risk countries (Table [14.2](#)), but also to identify the number of high-risk NGO in the TF risk group and to conduct risk-based NGO education and supervision, it is necessary to:
- 9.3.47.1. revise and improve the classification of NGO activities;
 - 9.3.47.2. ensure mandatory registration of the field of activity for all NGO, eliminating the possibility to indicate the field of activity as "Association or foundation not otherwise classified".

NGO ML Risk Profile

- 9.3.48. Even though, according to FATF standards, NGO are mainly subject to TF risks, Latvian NGOs are also subject to the ML risks inherent to legal entities, as they have the status of legal entities. It should also be noted that NGO are not obliged entities under the AML/CTPF law.
- 9.3.49. NGOs that rely on funding from local or national authorities for the most of their annual income may be at increased risk of ML, i.e. their ability to achieve their defined objectives is directly dependent on the local or national authorities concerned. An analysis by the Corruption Prevention and Combatting Bureau (CPCB) has identified situation where the largest share of municipal funds earmarked for financing NGO goes to NGO that are directly or indirectly linked to the political majority of the municipality, and whose board members are often current or former public officials.
- 9.3.50. During the reporting period, CPCB identified cases where NGO, for example sports associations and foundations, concluded advertising contracts with municipal institutions, advertising a service provided by the municipality during sports events. Such actions are not transparent and there is a possibility that fees for services may be deliberately inflated to ensure that the municipality's financial assets are made available to the NGO.
- 9.3.51. The monitoring of NGO in the field of AML/CTPF is fragmented and is to be improved. During the reporting period, the SRS monitored NGO in the context of tax compliance and only indirectly in relation to AML/CTPF. The control of NGO cash flow risk is conducted on a daily basis by the service providers involved in the transactions.⁵⁹¹ However, the FIU's observations suggest that NGO may be involved in schemes and conduct transactions in such a way as to minimise the risk of coming under the scrutiny of payment service providers, the FIU, and the SRS. To make it more difficult to trace, one or more NGO may be involved in ML schemes, including their branches and representative offices, both locally and internationally.
- 9.3.52. In the NGO sector, the risk of ML is significantly increased by the circulation of cash-in-hand. Cabinet Regulation 380 and Cabinet Regulation 439 took effect to mitigate this risk during the reporting period, among other things, providing that the annual reports of associations, foundations, and trade unions, as well as religious organisations and their institutions,

⁵⁹¹ Credit institutions, legal service providers, collection service providers, and other entities that facilitate transactions.



distinguished between cash and non-cash donations and gifts. This promotes transparency in NGO financial flows and reduces the possibility of integrating cash gained through criminal means into the Latvian financial system.

- 9.3.53. The number of NGOs registered with the RoE without indicating a specific type of activity is too high and makes it significantly more difficult to use a risk-based approach to cooperation and monitoring. The obligation for NGO to register a certain field of activity, also eliminating the possibility of registering with the field of activity "Association or foundation not otherwise classified", would significantly facilitate not only the work of financial institutions (for example, entities under the AML/CTPF Law would not have to spend resources to find out the true nature of the NGO), but also the monitoring of NGO, developing typologies and features of certain fields of activity and identified NGO risk groups.
- 9.3.54. NGOs that have the PBO status are at increased risk of being used in tax schemes, as both NGO and individuals making donations are eligible for tax benefits. There is also need to pay more attention to the financial flows of NGO involving persons from low-tax or no-tax countries and territories.
- 9.3.55. Given that NGO, like any legal entity, can be involved in a variety of ML/TF activities, NGO should be subject to requirements that are as equivalent as possible to those set for other legal entities. In particular, the identification and registration of the BO is one of the prerequisites for ensuring the transparency of NGO activities. The identified shortcomings should also result in the actions and measures taken by the responsible authorities to create favourable conditions for NGO to engage in "good works" without fear of being used for either TF or ML. But for this to be possible, the NGO sector must be transparent. Supervisory institutions, financial institutions, donors, and the public at large must be confident NGO services are reaching their true intended audience.

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10. Services with a Higher ML Risk

10.1. ML/TF Risks in Free Zones

Introduction

- 10.1.1. Free zones are demarcated areas within the EU's customs territory that offer special facilitating measures to legal entities in terms of various reduced costs, easier customs procedures and other provisions.⁵⁹² Activities allowed in free zones include warehousing, packaging and manufacturing of goods, with the key focus on exports.⁵⁹³ The purpose of free zones is to encourage a country or a territory to participate in international trade and attract investment.⁵⁹⁴ They function as international trade hubs, production or cargo storage areas, facilitating logistical links with other markets. Free zones are created to meet the overall fiscal, social and regional policy objectives of a country and to ensure economic growth in specific areas.⁵⁹⁵
- 10.1.2. There are 78 free zones in the EU,⁵⁹⁶ five of which are in Latvia - three Special Economic Zones (SEZ) (Liepāja SEZ, Rēzekne SEZ, Latgale SEZ) and two freeports (Freeport of Riga and Freeport of Ventspils).⁵⁹⁷ In Latvia, the legal basis for the establishment and activities of SEZs and free ports is outlined in separate laws for each free zone.⁵⁹⁸ These laws define the objectives, operating principles and governance arrangements of free zones. The objectives of all free zones in Latvia are similar - the Freeport of Riga and the Freeport of Ventspils aim to promote Latvia's participation in international trade, attract investment, develop manufacturing and services, and create new jobs.⁵⁹⁹ The objectives of the Rēzekne, Liepāja and Latgale SEZs are to promote trade, develop industry and traffic, export and import goods through Latvia, as well as to attract investment for the development of production infrastructure and the creation of new jobs.⁶⁰⁰
- 10.1.3. In addition to individual laws, the operation of free zones in Latvia is regulated by the Law on the Application of Taxes in Free Ports and Special Economic Zones.⁶⁰¹ The law provides for a 0% VAT rate on supplies of goods and services in all free zones and exempts the movement of petroleum products through free zones from customs duties and excise duties. Free zones have an 80% discount on property tax. By decision of the local government, it is entitled to receive an additional property tax discount of up to 20% of the calculated tax amount.⁶⁰² Consequently, the property tax in free zones varies between 0% and 0.3%. Dividends from free zone companies are subject to a reduced rate of income tax. For other legal entities registered in Latvia, the CIT rate is 20%, but for companies operating in, for example, the Liepāja SEZ, a reduced rate of 4% is applied, while instead of the national property tax rate of 1.5%, company at the Liepāja SEZ pays only 0.3%.⁶⁰³

⁵⁹² Free zones are the EU term for the more commonly known term "free trade zones", defined in Annex D of the 1999 Revised Kyoto Convention as "[t]he part of the territory of a Contracting Party into which goods are imported shall, in respect of customs duties and taxes, generally be considered as outside the customs territory". The FATF defines free zones more broadly as "designated areas within which incentive measures are offered to support the development of exports, foreign direct investment (FDI) and local employment". These zones can range from a single warehouse to massive complexes of thousands of companies and even entire ports. See FATF, *Money Laundering Vulnerabilities of Free Trade Zones*, (2010), Available at: <https://www.fatf-gafi.org/documents/documents/moneylaunderingvulnerabilitiesoffreetradezones.html>.

⁵⁹³ OECD and EUIPO, *Tracing the Trafficking Route of Counterfeit Goods*, 2017. Available at: https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/Mapping_the_Real_Routes_of_Trade_in_Fake_Goods_en.pdf.

⁵⁹⁴ SRS, *Free zone storage*. Available at: <https://www.vid.gov.lv/uzglabasana-brivaja-zona>.

⁵⁹⁵ According to the research by Aivars Gulbis, in 2017, Latvia's special economic zones together employed around 0.14% of the residents of Latvia and 0.33% of all employees in Latvia, and received around 2.6% of all foreign direct investment. See: Aivars Gulbis, *Analysis of the use of free zone regime in Rēzekne special economic zone*. Available at: <https://nda.rtu.lv/lv/view/23148>.

⁵⁹⁶ EC staff working document accompanying the document *Report from the Commission to the European Parliament and the Council on the assessment of the risks of money laundering and terrorist financing affecting the internal market and related to cross-border activities* (2022).

⁵⁹⁷ During the period between 2000 and 2019, the number of free zones in the world has increased significantly, from 1,000 to 5,400. See *Global Initiative Against Transnational Organized Crime, The Global Illicit Economy* (2021). Available at: <https://globalinitiative.net/wp-content/uploads/2021/03/The-Global-Illicit-Economy-GITOC-Low.pdf>.

⁵⁹⁸ These are the Freeport of Riga Law, the Freeport of Ventspils Law, the Latgale Special Economic Zone Law, the Liepāja Special Economic Zone Law and the Rēzekne Special Economic Zone Law.

⁵⁹⁹ Section 2 of the Freeport of Riga Law and Section 2 of the Freeport of Ventspils Law.

⁶⁰⁰ In addition, the Liepāja SEZ aims to promote shipping and air traffic. See Section 1 of the Latgale Special Economic Zone Law, Section 3(1) of the Rēzekne Special Economic Zone Law and Section 3 (1) of the Liepāja Special Economic Zone Law.

⁶⁰¹ The Law *On the Application of Taxes in Free Ports and Special Economic Zones* unifies indirect tax reliefs and differentiates direct tax reliefs depending on the size of the company. Tax relief in the amount of 50% of the accumulated investment is available for large companies and 65% of the accumulated investment - for small and medium-sized companies.

⁶⁰² Section 6(2) of the Law *On the Application of Taxes in Free Ports and SEZs*. It should be noted that the management of the Latgale SEZ is centralised through the administration of the Latgale Planning Region, which is the decision-making body of the heads and deputies of the 9 Latgale municipalities.

⁶⁰³ Other regulatory laws and regulations include the Law on Control of Aid for Commercial Activity, the Law on Taxes and Duties, the Law on Value Added Tax, the Law on Corporate Income Tax, as well as the laws and regulations on customs matters.

- 10.1.4. Free ports are legal entities governed by public law, established by the state and local governments and supervised by ministries.⁶⁰⁴ The Boards are the supreme supervisory and management decision-making body of freeports, and consist of representatives nominated by different ministries.⁶⁰⁵ The Boards create the development and operational strategy within the framework set by the government, and are also responsible for the efficiency of the Freeport.⁶⁰⁶ After the harmonisation with the supervising Minister, the Freeport Boards appoint the head of the executive body - the administration, which implements the defined strategy and performs the duties of the Freeport administration.⁶⁰⁷
- 10.1.5. The private sector is involved in the SEZ decision-making bodies, which facilitates cooperation between SEZs and businesses. The Liepāja SEZ management functions are performed by the Board, which consists of nine members: three representatives of state interests, delegated from the EC, the MoF, and the MoT, and appointed and dismissed by the CoM, three representatives of the Liepāja City Council and three representatives of Liepāja merchants.⁶⁰⁸ Management of the Rēzekne SEZ is implemented by representatives of the local governments, and the supreme supervisory and management body is the Supervisory Council, which consists of the deputy chairpersons of the local governments or other officials, with a minimum number of three members.⁶⁰⁹ The Latgale Special Economic Zone is managed similarly to the Rēzekne SEZ, but its supervisory and control functions are exercised by the Latgale Planning Region Development Council, which also approves the Latgale SEZ administration.
- 10.1.6. The FATF as well as the EC (SNRA) points out that there is an increased risk of ML/TF in free zones due to systematic ML/TF threat and increased vulnerability.⁶¹⁰ Free zones are the scene of considerable economic activity, including international trade, storage and production of various goods and services, as well as the import and export of these goods. Free zones cover large areas and their status is extended to companies in a dispersed area. For example, the turnover of Liepāja SEZ capital companies in 2021 was EUR 327 million, and the SEZ covers 65% of the territory of Liepāja city.⁶¹¹ The Latgale SEZ, on the other hand, is made up of a scattered territory owned by individual public or private persons. Given the administratively and territorially demarcated but, in terms of location, dispersed nature of the free zones, the preferential supervision of the competent state authorities over processes e.g. commodity inspections, registration and record-keeping of legal entities) makes them more vulnerable than other legal entities in Latvia.⁶¹²

Vulnerability

- 10.1.7. The SNRA and other studies have found that one of the main vulnerabilities of free zones is related to the quality of the monitoring of free zone supervision.⁶¹³ In Latvia's free zones, their authorities select and conclude contracts with free zone companies, issue permits for the use of real estate located in these territories, control the enforcement of regulations in the free zones, and provide services to free zone legal entities.⁶¹⁴ Where necessary, authorities are also

⁶⁰⁴ See laws the reference 7, 8 and 9.

⁶⁰⁵ See the *Law On Ports*.

⁶⁰⁶ See laws the reference 7, 8 and 9.

⁶⁰⁷ Ibid.

⁶⁰⁸ Liepāja Special Economic Zone, *the Board*. Available at: <https://liepaja-sez.lv/lv/parvalde/valde>.

⁶⁰⁹ Rēzekne Special Economic Zone Law, Sections 8, 9 and 10.

⁶¹⁰ FATF Report on Money Laundering Vulnerabilities of Free Trade Zones (2010), p. 4. Available at: <https://www.fatf-gafi.org/media/fatf/documents/reports/ML%20vulnerabilities%20of%20Free%20Trade%20Zones.pdf> and European Parliament Research Service, *Money Laundering and Tax Evasion in Free Ports*. Available at: https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20lauding-FINAL.pdf.

⁶¹¹ Liepāja SEZ Authority, *Report on performance indicators of capital companies in 2021*. Available at: <https://liepaja-sez.lv/lv/documents/6329bccac70d3.pdf>.

⁶¹² FATF Report on Money Laundering Vulnerabilities of Free Trade Zones (2010), p. 4. Available at: <https://www.fatf-gafi.org/media/fatf/documents/reports/ML%20vulnerabilities%20of%20Free%20Trade%20Zones.pdf> and European Parliament Research Service, *Money Laundering and Tax Evasion in Free Ports*. Available at: https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20lauding-FINAL.pdf.

⁶¹³ EC Staff Working Document supplementing the *Report from the Commission to the European Parliament and the Council on the assessment of the risk of money laundering and terrorism financing affecting the internal market and relating to cross-border activities* (2022) and the European Parliament Research Service, *Money Laundering and Tax Evasion in Free Ports*. Pages 14-15. Available at: https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20lauding-FINAL.pdf.

⁶¹⁴ Unlike other SEZs in Latvia, the municipalities of the Latgale SEZ do not specify the maximum location and area of each territory that can be granted the SEZ status - thus, territories to be included in the Latgale SEZ can be located almost anywhere in Latgale. See: Latgale Planning Region, *Latgale special economic zone (Latgale SEZ)*. Available at: <https://lpr.gov.lv/lv/lsez/>.

responsible for revoking these permits and exemptions. Inadequate control and monitoring of these activities may increase vulnerability to various types of ML in the free zones.⁶¹⁵

- 10.1.8. A specific vulnerability exists within the process of granting free zone membership permit. Granting of the relevant permit, such as granting of the status of a free zone capital company or authorisation of a licensed commercial activity, is decided by the Zoning Board. Provisions on the criteria for obtaining a permit to carry out commercial activities in free zones and for obtaining various tax or customs reliefs are open to interpretation, and only the authorities have the power to decide on these permits.⁶¹⁶ This situation creates risks with respect to the possible attempts to affect the decision-maker. Given that foreign legal entities can also obtain a permit and there are no restrictions on their legal structures, there is also an increased risk that permits are issued to legal entities without providing clear information on the UBOs. Nor is there any requirement for the permittee to update the information on the UBO during its activities in the free zone.
- 10.1.9. Port charges and services and the provision of real estate services are the main sources of income for free zone authorities.⁶¹⁷ Accordingly, there is a theoretical conflict of interest between free zone income and supervisory and control measures, creating additional vulnerability.
- 10.1.10. The broad powers of the authority to carry out the functions of free zone administration may increase the risk of corruption in relation to permission issuing processes or other administrative functions. For example, according to the information available in the public media, in May 2022, the CPCB initiated criminal proceedings for payments made by the Freeport to the association "Ventspils Development Agency" lead by Aivars Lembergs over the period of 20 years which may have caused losses to the state amounting to EUR 1.3 million.⁶¹⁸
- 10.1.11. The vulnerability of the administration structures of free zones is also demonstrated by the fact that, in 2019, the Freeport of Ventspils was one of the legal entities included by the US Office of Foreign Assets Control (OFAC) in the US sanctions list.⁶¹⁹ OFAC based the sanctions on the fact that the Freeport of Ventspils was owned or controlled by Aivars Lembergs, a subject of US sanctions.⁶²⁰ The Freeport of Ventspils was removed from the sanctions list after the Parliament of the Republic of Latvia, in response to US sanctions, adopted amendments to the Law On Ports which provide for a change in the model of administration of the ports of Riga and Ventspils. The changes were made to move from a public derivative to a newly established capital company regulated by the Commercial Law.⁶²¹ As a result, in April 2022, JSC (AS) "Ventas Osta", which operates under the supervision of the MoT, took over the administration structures of the Freeport of Ventspils.⁶²² It is envisaged that administration of the Freeport of Riga will be similarly taken over by the JSC (AS) "Rigas Osta".⁶²³

Threats

- 10.1.12. Although import and export activities in Latvian free ports are subject to customs control, supervision over these activities is reduced compared to conventional ports. Free zones (especially free ports) possess increased risk of trade-based money laundering. Goods imported into the freeports are subject to the free zone procedure providing for simplified form

⁶¹⁵ EC Staff Working Document supplementing the *Report from the Commission to the European Parliament and the Council on the assessment of the risk of money laundering and terrorism financing affecting the internal market and relating to cross-border activities* (2022) and the European Parliament Research Service, *Money Laundering and Tax Evasion in Free Ports*. Pages 14-15. Available at: https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20lauding-FINAL.pdf.

⁶¹⁶ Latvia also defines which companies are not eligible for tax reliefs, such as manufacturers of tobacco products, gambling or betting companies.

⁶¹⁷ For example, revenues from port charges and port services, together with real estate lease revenue accounted for 78% of the total Liepāja SEZ Authority revenues in 2022. See: <https://liepaja-sez.lv/lv/parvalde/atskaite-par-darbibu/47-2022-gada-rezultati>.

⁶¹⁸ LSM, CPCB has initiated criminal proceedings regarding the payments made by the Port of Ventspils to Lembergs' association. Available at: <https://www.ism.lv/raksts/zinas/latvija/knab-sacis-kriminalprocesu-par-ventspils-ostas-maksajumiem-lemberga-biedribai.a457945/>.

⁶¹⁹ US Office of Foreign Assets Control, *Treasury sanctions corruption and material support networks*. Available at: <https://home.treasury.gov/news/press-releases/sm849>.

⁶²⁰ US Office of Foreign Assets Control, *Treasury sanctions corruption and material support networks*. Available at: <https://home.treasury.gov/news/press-releases/sm849>.

⁶²¹ For the purposes of this process, Cabinet Order No. 519 on the establishment of the Freeport of Riga Authority Liquidation Commission was prepared. Available at: <https://likumi.lv/ta/id/334048-par-rigas-brivostas-parvaldes-likvidācijas-komisijas-izveidi>.

⁶²² Amendments were made to Section 7(1²) of the Law On Ports, stipulating that the port administration functions, tasks and duties in the Port of Ventspils shall be performed by a state capital company provided by the Cabinet of Ministers, which is under the supervision of the MoT with respect to the implementation of port administration functions, tasks and duties stipulated in this Law and the Freeport of Ventspils Law and whose capital shares (stocks) may not be alienated or pledged.

⁶²³ Paragraph 181 of the Declaration of the Intended Activities of the Cabinet of Ministers Chaired by Arturs Krišjānis Kariņš.

of the information on goods to be submitted to the customs. In the absence of a clearance process, cargo or goods can be stored indefinitely in a free port and transshipped without control, which contributes to the opacity of transactions.⁶²⁴ The threat is also increased by the possibility of staggered clearance in free ports, which allows structuring of transactions and potentially diverts the attention of the responsible authorities.

- 10.1.13. Trade-based ML is increased by the growing international trend to conduct international trade transactions without traditional trade finance documents.⁶²⁵ Without trade finance documents, full information on movements of goods or changes of ownership in the free zones is unavailable not only to the financial institutions involved in the transactions, but also to the free zone authorities.⁶²⁶
- 10.1.14. The threat of trade-based ML threat stems from multiple ways in which incoming and outgoing non-financial assets of free zones can be manipulated.⁶²⁷ The following operations may be conducted with goods imported into the free zones: transshipment, assembly, manufacture, recycling, storage, repacking and relabelling. Goods may be removed from free zones for sale, delivery, transshipment or transit. The different ways in which goods can be used increases the ML threat, as there are several ways in which goods can be used to illegally manipulate funds brought into the free zones. For example, goods may change hands and then be re-exported with reduced customs supervision, thus hiding the true origin of the goods and the identity of the supplier. For example, according to information available in the public media, in 2022, some companies in the Freeport of Ventspils were mixing oil imported from Russia to change its country of origin and ownership.⁶²⁸
- 10.1.15. Regulatory framework of the Latvian free zones does not restrict the right of foreign legal entities to obtain the status of a free zone operating capital company and the related customs and tax reliefs. It may also increase the likelihood that free zones will be used to carry out ML activities at different stages and in different fields.
- 10.1.16. Free zones are also characterised by the ML threat arising from the counterfeiting and resale of goods. OECD research shows that each free zone a country establishes increases the share of counterfeit goods in that country's economy by 5.9%.⁶²⁹
- 10.1.17. Various tax-related offences have been observed in the free zones. Free zones are practically outside Member States' direct tax systems. Directive 2011/16/EU⁶³⁰ does not contain provisions on the automatic exchange of information, including on UBOs, between tax authorities with regard to the assets owned by the free zones.⁶³¹ Although Member States may request information from free zone authorities, including information on the UBOs, they need to know initially that the taxpayer in question uses free zone services. Such information is not publicly available and should not be requested without appropriate substantiation. Information on the zone's capital companies and tax reliefs must be submitted to the state's competent authorities once a year.⁶³² Lack of information can increase the risks of tax offences such as risks related to capital gains tax, property tax and inheritance tax.⁶³³

⁶²⁴ European Parliament Research Service, *Money Laundering and Tax Evasion in Free Ports*. Available at: https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20lauding-FINAL.pdf.

⁶²⁵ Trade finance documents are legal and financial documents used to facilitate and support trade transactions between businesses or countries. These documents contain a variety of financial and transactional information and conditions necessary to make payments, insure and reduce transaction risks, as well as regulate the delivery of goods or services. Such documents may include business contracts, invoices, shipping documents, insurance documents, financial guarantees, credit agreements and other documents.

⁶²⁶ *Wolfsberg Group, International Chamber of Commerce, and Bankers Association for Finance and Trade, Trade Finance Principles*. Page 21. Available at: <http://www.wolfsberg-principles.com/sites/default/files/wb/Trade%20Finance%20Principles%202019.pdf>.

⁶²⁷ These activities include, for example, transshipment, assembly, manufacturing, recycling, storage, repacking and relabelling of goods. See *ibid*.

⁶²⁸ These actions were not illegal, but point to the way in which free ports can be subject to change of ownership or other legal structuring. See: *Shell, Shell announces its intention to withdraw from the Russian oil and gas market*. Available at: <https://www.shell.com/media/news-and-media-releases/2022/shell-announces-intent-to-withdraw-from-russian-oil-and-gas.html> and Javier Blas, *The door that keeps Russian oil flowing into Europe*. Bloomberg. Available at: <https://www.bloomberg.com/opinion/articles/2022-04-08/ukraine-war-this-backdoor-keeps-russian-oil-flowing-into-europe>.

⁶²⁹ OECD and EUIPO, *Tracing the Trafficking Route of Counterfeit Goods*, 2017. Available at: https://euiipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/Mapping_the_Real_Routes_of_Trade_in_Fake_Goods_en.pdf.

⁶³⁰ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC. Available at: <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32011L0016&qid=1689930045147>.

⁶³¹ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, OJ L 64, 11.3.2011, p. 1-12.

⁶³² Section 12 of the Law *On the Application of Taxes in Free Ports and Special Economic Zones*.

⁶³³ The European Parliament's 2021 report on the evaluation of the DAC recommended extending the scope of the DAC to non-financial assets such as money, art, gold or other high-value goods held in freeports, customs warehouses or safe deposit boxes, including yachts and private jets. See European Parliament, *Report on tax information exchange obligations: progress, lessons learned and challenges* (2021). Available at: https://www.europarl.europa.eu/doceo/document/A-9-2021-0193_EN.html.

- 10.1.18. There is no time limit for storage of goods in the free zones. Consequently, customs duties and taxes may be disapplied at all as the real market price of goods and their owners change over a longer period of time.⁶³⁴
- 10.1.19. The SNRA points to the significant ML threat posed by the storage of high-value luxury goods and works of art. These types of services help to conceal, maintain and carry out high-value transactions involving potential ML. Transactions in high-value luxury goods can be used as substitutes for value in other transactions, for example, as a guarantee or payment in another shipment of goods.
- 10.1.20. Amendments to Directive 2018/843⁶³⁵ and Directive 2015/849 determined persons who act in free zones as intermediaries in the sale of works of art in the freeports as reporting entities, where value of a transaction is EUR 10,000 or more.⁶³⁶ In Latvia, these provisions have been introduced by expanding their scope by making persons involved in the movement of art and antiques not only in free ports, but also in ports the reporting entities.⁶³⁷ The SCI of these persons is the NCHB (National Cultural Heritage Board).⁶³⁸
- 10.1.21. Given that no persons involved in the movement of art or antiques have been found to be operating in Latvia's free zones and no reports of suspicious transactions have been received during the reporting period in relation to the activities of such persons in relation to Latvia's free zones, nor have any related activities been identified in criminal or judicial proceedings during the reporting period, the resulting ML risk is low.⁶³⁹
- 10.1.22. The low threat level can also be justified by the decrease in the number of subjects from 90 entities in 2019 to 79 legal entities in February 2023. According to the supervisor's observations, the cultural goods movement sector consists of persons mainly buying and selling cultural and art objects with a value of less than EUR 1000.⁶⁴⁰
- 10.1.23. The ML threat related to the movement of high-value goods is increased not only by the direct transactions in them, but also by their storage, which is a specialised service area of certain free zones.⁶⁴¹ Although, according to public information, there are no service providers offering specific storage of high-value goods in Latvian free zones, it should be mentioned that, according to public information, there are commercial companies offering various warehousing or storage services in Latvian free zones.
- 10.1.24. Also, reporting entities servicing free zone companies are fully subject to the provisions of the AML/CTPF Law, thus reducing the risk that a legal entity could conduct suspicious transactions in Latvian free zones out of the radar of reporting entities.⁶⁴²
- 10.1.25. International practice and standards do not require free zones and their authorities to be granted status of subject of the AML/CTPF Law, but indicate that an increased threat from free zones arises if the free zones provide an increased secrecy regime for existing reporting entities

⁶³⁴ European Parliament Research Service, *Money Laundering and Tax Evasion in Free Ports*. Available at: https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20laundering-FINAL.pdf.

⁶³⁵ Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU. Available at: <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32018L0843>.

⁶³⁶ Full version of the amendment should read "persons who are involved in storage, acting or conducting as intermediaries in the sale of works of art, in the case of free ports, where the value of the transaction or series of related transactions is EUR 10,000 or more." See: Article 1 of Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.

⁶³⁷ Section 3, Paragraph One, Clause 12 of the AML/CTPF Law.

⁶³⁸ Section 45, Paragraph One, Clause 1¹ of the AML/CTPF Law.

⁶³⁹ EC staff working document accompanying the documents *Report from the Commission to the European Parliament and the Council on the assessment of the risks of money laundering and terrorism financing affecting the internal market and related to cross-border activities* (2022) and Helgadóttir, O. *The new luxury free ports* (2020). Available at: https://research-api.cbs.dk/ws/portalfiles/portal/66544666/oddn_helgadottir_revision_luxury_freeports_acceptedmanuscript.pdf.

⁶⁴⁰ See NRA 2023 section on activities related to the supervision of art and cultural objects.

⁶⁴¹ The European Parliament's 2021 report on the evaluation of the DAC recommended extending the scope of the DAC to non-financial assets such as money, art, gold or other high-value goods held in freeports, customs warehouses or safe deposit boxes, including yachts and private jets. See European Parliament, *Report on tax information exchange obligations: progress, lessons learned and challenges* (2021). Available at: https://www.europarl.europa.eu/doceo/document/A-9-2021-0193_EN.html.

⁶⁴² European Parliament Research Service, *Money Laundering and Tax Evasion in Free Ports*. Available at:

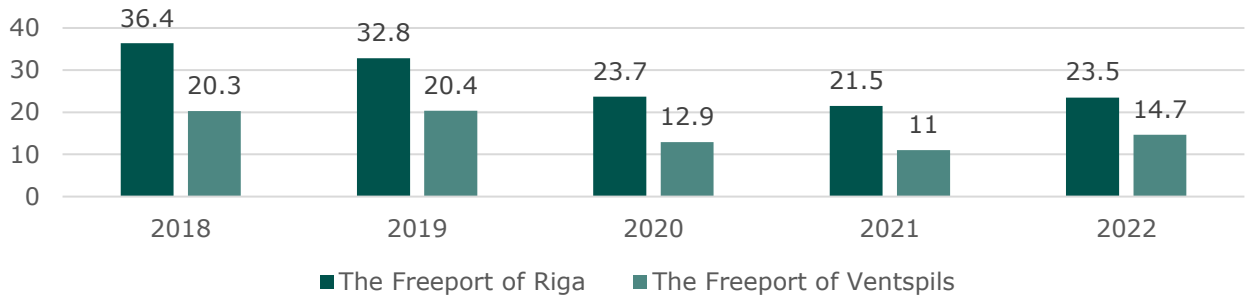
https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20laundering-FINAL.pdf.

⁶⁴² OECD and EUIPO, *Trade in Counterfeit Goods and Free Trade Areas*. Available at: <https://www.oecd.org/gov/trade-in-counterfeit-goods-and-free-trade-zones-9789264289550-en.htm>.

located or operating in free zones.⁶⁴³ Operating in Latvian free zones does not confer any special secrecy preferences or reliefs from other regulatory frameworks, in particular from the requirements of the AML/CTPF Law.

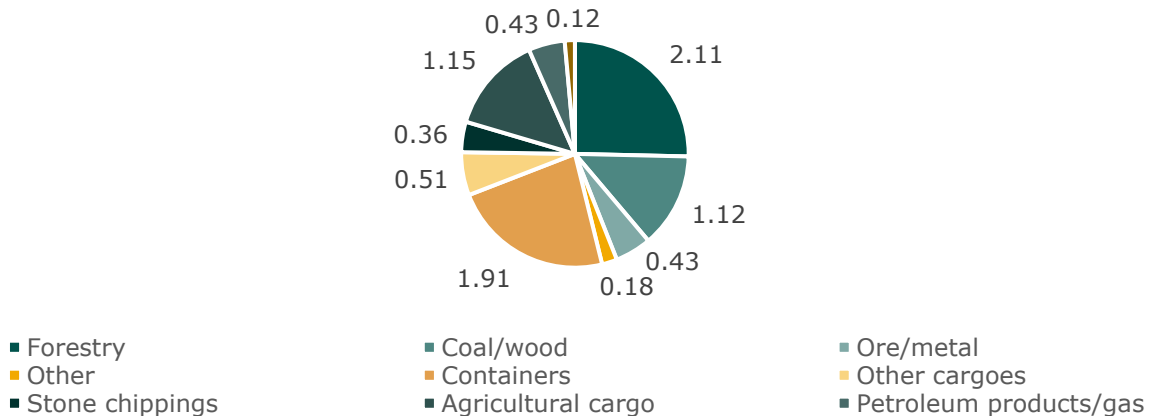
10.1.26. The SNRA and other studies indicate that the larger amount of cargo is imported and exported, the higher the resulting ML/TF risk is. Similarly, the number of companies in a free zone increases the ML/TF risk - the higher is the number of commercial companies, the higher is the ML/TF risk. In the last five years, the freeports of both Riga and Ventspils have seen a significant decrease in cargo volumes. Decline is also reflected in the decrease in shipping traffic between 2018-2022.⁶⁴⁴

Chart 10.1.1 - Freeport of Riga and Ventspils cargo volumes (million tonnes), 2018-2022



10.1.27. The structure of cargo in free ports is also important. Various substitutable raw materials (e.g. timber) are less likely to be tampered with, as opposed to uncategorised cargo or non-substitutable cargo such as containers, whose composition is more difficult to trace. Both account for almost half of the Freeport of Riga's cargo structure in 2023.

Chart 10.1.2 - Cargo structure of the Freeport of Riga in 2023. 5 months (million tonnes)



10.1.28. Despite the fact that the annual cargo volumes at the free ports are decreasing, the total turnover of commercial companies of Latvian SEZs is slowly increasing. Liepāja SEZ has 44 capital companies, most of which are engaged in logistics services or cargo storage.⁶⁴⁵ Rezekne SEZ has 21 capital companies engaged in various types of metalworking, woodworking,

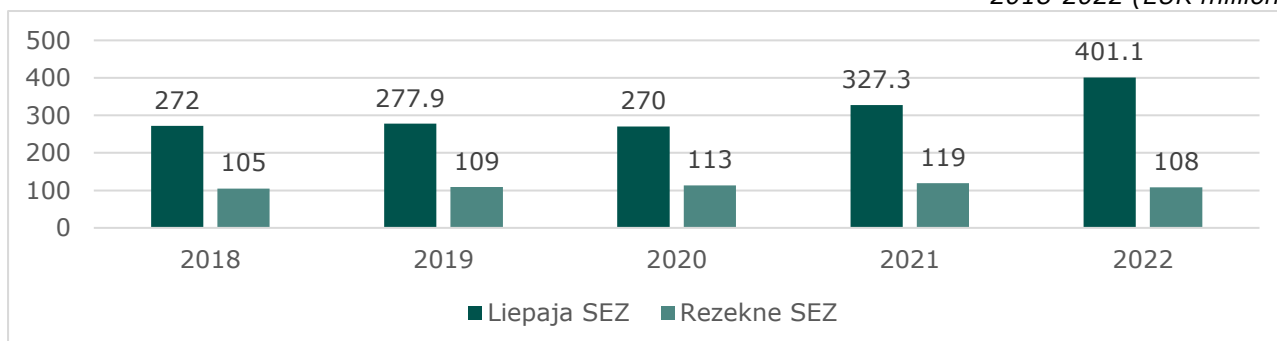
⁶⁴³ FATF Report on Money Laundering Vulnerabilities of Free Trade Zones (2010), p. 4. Available at: <https://www.fatf-gafi.org/media/fatf/documents/reports/ML%20vulnerabilities%20of%20Free%20Trade%20Zones.pdf> and European Parliament Research Service, *Money Laundering and Tax Evasion in Free Ports*. Available at: https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20laundering-FINAL.pdf.

⁶⁴⁴ For example, in 2018, shipping traffic in the Freeport of Riga consisted of 3,698 vessels in total, in 2022 - 2,938 vessels. See: The Freeport of Riga, *Port statistics*. Available at: <https://rop.lv/lv/ostas-statistika>.

⁶⁴⁵ Liepāja SEZ. *LSEZ capital companies*. Available at: <https://liepaja-sez.lv/lv/lsez/lsez-kapitalsabiedribas>

storage and manufacturing.⁶⁴⁶ Both the Liepaja and Rezekne SEZs have different types of manufacturing companies.

Chart 10.1.3 - Total turnover of the commercial companies of the Liepaja SEZ and Rezekne SEZ 2018-2022 (EUR million)



10.1.29. It should be concluded that the Latvia's free zones have seen a decrease in activity in recent years, which also reduces the potential ML risks. On the other hand, SEZs have experienced slow but steady growth, which increases these risks. Freeports have taken risk-mitigating measures in relation to reforms of the board, which significantly improve the quality of supervision of freeports. Latvian free zones also do not grant special reliefs to the reporting entities or otherwise promote the privacy of UBOs. Besides, free zones of Latvia have also not been found to have any activities of persons dealing in art or cultural objects or storage services of special luxury goods, which reduce the level of ML/TF risk inherent to Latvian free zones.

10.2. Virtual Currencies, NFTs and Decentralised Finance

10.2.1. In recent years, several new technologies have developed particularly rapidly, all of them sharing a common factor: they are based on cryptographic and distributed ledger technologies. These technologies have created a fast-growing and dynamic international market. Capitalisation of the VC market in 2020 was less than EUR 200 million and amounted to almost EUR 3 trillion at the end of 2021 before its market value fell by more than half in 2022.⁶⁴⁷ This market growth can also be explained by the rapid development of cryptographic and separated ledger technologies such as VC, non-fungible digital tokens (NFTs), decentralised finances (DeFi) or other solutions during the reporting period, which continued also after the end of the reporting period.⁶⁴⁸

10.2.2. The FATF provides for the supervision of the VC service providers in the field of AML/CTPF.⁶⁴⁹ VCs are defined in the AML/CTPF Law⁶⁵⁰ - they mean a digital reflection of value that can function as a medium of exchange but is not recognised as legal means of payment.⁶⁵¹ VC service providers represent a broad circle of VC-related services including the VC exchange service providers (for example, VC exchanges, offers to buy and redeem VC with recognised legal means of payment, also initial coin offering) and other services.⁶⁵²

10.2.3. According to the requirements of the AML/CTPF Law, VC service providers are subject to the AML/CTPF Law,⁶⁵³ and they are obliged to carry out due diligence on their customers, including

⁶⁴⁶ Rēzekne SEZ. *About us*. Available at: <http://www.rsez.lv/index.php/par-mums>

⁶⁴⁷ Coinmarketcap. *Capitalisation of virtual currency market*. Available at "<https://coinmarketcap.com/charts/>"

⁶⁴⁸ For a more in-depth discussion of new technologies, see the FIU 2022 Virtual Currencies Risk Assessment.

See: https://www.fid.gov.lv/uploads/files/2022/VVRN/VVRN%202022_FINAL%20%28002%29.pdf

⁶⁴⁹ FATF Recommendation 15 and Updated guidance for a Risk-Based Approach: Virtual Assets and Virtual Asset Service Providers. Available at:

<https://www.fatf-gafi.org/media/fatf/documents/recommendations/Updated-Guidance-VA-VASP.pdf>.

⁶⁵⁰ VCs are defined as "a digital reflection of the value which can be transferred, stored or traded digitally and function as a medium of exchange, but has not been recognised as a legal means of payment, cannot be recognised as a banknote and coin, non-cash money and electronic money, and is not a monetary value accrued in the payment instrument which is used in the cases referred to in Section 3, Clauses 10 and 11 of the Law on Payment Services and Electronic Money" See Section 1, Paragraph One, Clause 2² of the AML/CTPF Law. Available at: <https://likumi.lv/doc.php?id=178987>.

⁶⁵¹ Ibid.

⁶⁵² VC service provider is defined as a "person providing VC services, including the provider of exchange services of VC issued by other persons, which provides the users with the possibility to exchange the VC for another VC in return for commission, or offering to purchase and redeem the virtual currency through recognised legal means of payment." See Section 1, Paragraph One, Clause 2³ of the AML/CTPF Law. Available at: <https://likumi.lv/doc.php?id=178987>.

⁶⁵³ Section 3, Paragraph One, Clause 11 of the AML/CTPF Law.

identification of the customer and clarification of its UBO, to monitor the customer's transactions, and to provide staff training in the field of ML. Other reporting entities are also obliged to carry out customer due diligence when a transaction involves the use of VC regardless of the amount of the transaction.⁶⁵⁴ The SRS monitors the VC service providers for compliance with the requirements of the AML/CTPF Law, and the number of VC providers has increased compared to the NRA 2020 reporting period, but is still low. As of 31 December 2019, there were 4 VC service providers under the supervision of the SRS, while as at 31 December 2022, there were 7 VC service providers under the supervision of the SRS. Volumes of these VC service providers have a negligible impact on the financial sector, and the resulting risks are low.⁶⁵⁵

- 10.2.4. The ML risk of VC services provided to Latvian natural persons and legal entities by VC service providers registered abroad significantly exceeds the risk arising from services provided by domestic VC service providers. According to the FIU data, the number of local persons using VC services abroad is at least 7% of the total population of Latvia, but probably more than 10% of the population or even significantly higher.⁶⁵⁶ The significantly increased risk caused by foreign-based VC service providers is reflected in the number of suspicious transaction reports received by the FIU, which stood at 124 from the ten largest foreign VC service providers in 2022 alone, compared to none from domestic VC service providers during the entire reporting period. The risk of foreign-registered VC services compared to domestic VC services is also strongly increased by the uneven ML/TF requirements in jurisdictions of foreign VC service providers where the ML/TF requirements are lower compared to Latvia. Domestically, VC services are provided mainly on a face-to-face basis in accordance with the EUR 7200 cash-in-transaction threshold set in Latvia.⁶⁵⁷
- 10.2.5. At the same time, DeFi, *stable coins* and other services based on cryptographic and distributed ledger technologies, which developed rapidly during the reporting period and which include a number of relatively new services, are not regulated yet. The legal framework is expected to be implemented by a Regulation of the European Parliament and of the Council on markets of crypto-assets, which will amend Directive (EU) 2019/1937 (hereinafter referred to as - MiCA), ensuring a single set of provisions for crypto-assets in Europe.⁶⁵⁸
- 10.2.6. Regulatory enactments of Latvia do not provide for obtaining a license as a precondition for the provision of VC services. This is viewed negatively by Latvian-registered VC service providers, as the lack of a license serves as an obstacle to the provision of services, including outside Latvia.⁶⁵⁹ In 2024, Latvia plans to start licensing VC service providers in accordance with the expected requirements of the MiCA Regulation, the application of which the MoF is actively working on.
- 10.2.7. Latvian laws and regulations do not regulate the activities of foreign-registered VC service providers in Latvia. Globally, many countries have not implemented the FATF recommendations regarding the obligations of virtual currency service providers to comply with the AML/CTPF requirements.⁶⁶⁰ This creates increased ML/TF risks, even in countries that have a strong regulatory framework in place for the supervision of AML/CTPF. Accordingly, proceeds generated through domestic criminal offences may be laundered through the use of services provided by an unregulated or poorly regulated VC service provider established abroad. A new licensing regulation is being developed by the MoF in Latvia and expected as early as in 2023.
- 10.2.8. On 11 June 2020, the Parliament of the Republic of Latvia adopted amendments to the Criminal Procedure Law, which determine the procedure to be followed in the event of seizure of VC. According to Section 365(2¹) of the Criminal Procedure Law⁶⁶¹, if the seizure is imposed upon VC, it shall be transferred for sale on the basis of a decision of the person directing the

⁶⁵⁴ Section 11, Paragraph One, Clause 7 of the AML/CTPF Law.

⁶⁵⁵ See more in the section on the VC service providers in Chapter 8 of the NRA 2023 Sectoral Risk Assessment.

⁶⁵⁶ Data summarised by the FIU based on cross-border information, interviews with VC providers.

⁶⁵⁷ Section 30(1) of the Law on Taxes and Duties

⁶⁵⁸ Regulation of the European Parliament and of the Council on Markets in Crypto-assets, and amending Directive (EU) 2019/1937. Available at: https://eur-lex.europa.eu/resource.html?uri=cellar:f69f89bb-fe54-11ea-b44f-01aa75ed71a1.0016.02/DOC_1&format=PDF

⁶⁵⁹ For example, foreign competent authorities require a license to provide virtual currency services, the opening of current accounts is refused on the grounds that the virtual currency service provider is not licensed, etc.

⁶⁶⁰ VC-related ML/TF risk assessment, 2022. Available at: https://www.fid.gov.lv/uploads/files/2022/VVRN/VVRN%202022_FINAL%20%28002%29.pdf

⁶⁶¹ Amendment to Section 365(2¹) of the Criminal Procedure Law entered into effect on 01.01.2021 in accordance with Paragraph 72 of the Transitional Provisions.

proceedings. Whereas, Chapter 1 "Sale of VC" of the Regulation of the Cabinet of Ministers No. 1025 of 27 December 2011 "Regulations Regarding Actions with Material Evidence and Seized Property" stipulates the procedure for disposal of property. The regulation was developed to improve the legal framework and provide for the actions with VC, which can be seized within the framework of criminal proceedings, thus ensuring timely sale of VC and its conversion into money before the final ruling enters into effect.

Threats

- 10.2.9. VCs are characterised by a high level of anonymity. Transactions involving VCs take place using different types of VCs and wallets. Custodial wallets, or so-called *hot wallets*, surveyed only by the providers themselves are available from various providers, including VC exchanges. Access to information on transactions with this wallet depends on the obligation of the VC service provider itself to provide such information and on the regulatory framework in the country of operation. There are also *non-custodial wallets*, which are not hosted by VC providers and which offer additional anonymity and secrecy enhancing features, such as integrated IP address hiding or layer 2 and layer 3 features to transact outside the original blockchain.⁶⁶² Research indicates that, in 2020, more than 13% of all the criminal funds in Bitcoin were laundered in VCs using private wallets, and the trend of these services being used for ML will continue to grow.⁶⁶³ Similar to wallets, there are also special "private VCs", whose functionality provides for additional measures to hide information about the VC holders and transactions.⁶⁶⁴
- 10.2.10. Special services also have been created that provide "*mixer*" services, where the service provider accepts VC funds from several sources, combines them and then provides the sources with a return of the same value, minus "commission" on the transactions. As a result of such mixing, it is difficult to trace the transaction history and identify the initial source of funds.⁶⁶⁵
- 10.2.11. One of the main ML threats with regard to VCs and other separated ledger technologies stems from their rapid development and the resulting diverse applicability for ML purposes. VCs and VC service providers can be used at all stages of ML (placement, stratification and integration) and in various predicate crimes.⁶⁶⁶
- 10.2.12. VC and VC service providers can be used to launder the proceeds of any criminal offence, including those identified as posing the most significant national ML threat: tax evasion and corruption, illegal movement of excise goods and narcotics, including smuggling, as well as criminal offences against property, in particular fraud committed on a large scale.⁶⁶⁷
- 10.2.13. During the reporting period, trends in the use of VCs in public revenue offences remain similar to that of the NRA 2020 reporting period.⁶⁶⁸ Current accounts are opened remotely on various foreign payment system platforms and, in order to conceal further cash flows, the criminally obtained funds are fully or partially converted into VC to make tracing of the funds as difficult as possible. The trend to use the VCs as a full or partial substitute for *fiat* currency in legitimate transactions to hide the true value of the transaction and avoid tax continues.⁶⁶⁹

⁶⁶² See, for example, Mercury Wallet services using the new *statechain* technology. CryptoSlate, "Mercury Wallet Review". Available at: <https://cryptoslate.com/mercury-wallet-review-bitcoin-wallet-with-layer-2-scaling-and-improved-privacy/>

⁶⁶³ Elliptic, "More than 13% of all criminal proceeds are now laundered through private wallets". Available at: <https://www.elliptic.co/blog/13-bitcoin-crime-laundered-through-privacy-wallet>

⁶⁶⁴ FATF, Updated guidelines on risk-based approaches to virtual currencies and virtual currency service providers. Available at: <https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Updated-Guidance-VA-VASP.pdf.coredownload.pdf>

⁶⁶⁵ The FIU. Risk assessment of money laundering and terrorism and proliferation financing for virtual currencies. 2022 Available at: <https://www.fid.gov.lv/lv/aktualitates/publicets-virtualo-valutu-noziedzigi-iegutu-lidzeklu-legalizācijas-terorisma-un-proliferācijas-finansēšanas-risku-novertējums>

⁶⁶⁶ ML as a set of specific activities is a single process that can be divided into three basic stages: (1) deployment, (2) layering, and (3) integration. In the layering stage or structuring stage, the proceeds of crime, by simulating various transactions, are: a) moved and structured with the aim of distancing them from the source of the funds; and (b) gives the impression that civil transactions are taking place. See more in the methodological material "Money Laundering Typologies and Features". Available at: https://www.fid.gov.lv/uploads/files/2021/FID_Tipologiju%20materials_II_red.pdf.

⁶⁶⁷ Law Enforcement Authorities' Criminal Intelligence Analytical Report for 2022, page 62.

⁶⁶⁸ Ibid.

⁶⁶⁹ The FIU. Risk assessment of money laundering and terrorism and proliferation financing for virtual currencies. 2022. p.13 Available at: <https://www.fid.gov.lv/lv/aktualitates/publicets-virtualo-valutu-noziedzigi-iegutu-lidzeklu-legalizācijas-terorisma-un-proliferācijas-finansēšanas-risku-novertējums>

- 10.2.14. According to the criminal proceedings contained in the records of the SRS TCPD during the reporting period, almost all the narcotics or psychotropic substances ordered by mail order⁶⁷⁰ were ordered via the so-called *Darknet* and payment was made using VCs.⁶⁷¹
- 10.2.15. VCs are topical in "money mule" cases. Criminal proceedings contained in the records of the Cyber-Crime Enforcement Department (CCED) reveal that, over a prolonged period of time, members of organised criminal groups have transferred *fiat* currencies to almost 100 banks, consequently withdrawing them in cash and converting into VCs.⁶⁷² These schemes involve a number of unmonitored *fiat* and VC exchange service providers.⁶⁷³
- 10.2.16. Among the various criminal offences committed during the reporting period, VCs were mainly found in fraudulent actions of various scale. During the reporting period, at least 360 criminal proceedings initiated in the regional structural units of the SP were related to fraudulent illegal activities, in which fraudulent brokers involve persons in high-risk VC transactions.⁶⁷⁴ In March 2022, a major international operation (including with the FIU support), within an investigation launched in Latvia disrupted investment fraud call centres - two of them operated in Latvia and one - in Lithuania. In total, at least 80 related parties were investigated and identified in Latvia.⁶⁷⁵ During the reporting period, VCs appeared in Automated Data Processing System (ADPS) data encryption and redemption requests.⁶⁷⁶ In some cases, VCs have also been used in certain autonomous ML cases, extortion, fraud and other predicate offences.

Case Analysis No. 10.2.1:

One of the largest cases in 2020 where ML by the use of VCs was identified involved the proceeds generated from organised fraud abroad.⁶⁷⁷ Approximately EUR 1 million was laundered in Latvia through more than 100 "money mules". Payments were mainly made in the amount of EUR 5,000-10,000 and, upon receipt, immediately disbursed in cash at the ATM. The cash was transferred to an unregistered VC service provider (virtual currency "banker"), whose controlled VC wallets had a sufficient balance to transfer approximately 65% of the amount in the form of VC to fraud organisers abroad in exchange for cash. The remaining 35% were used as a payment to the scheme's implementers, including the "money mule" network and the unregistered VC service provider.

Vulnerability

- 10.2.17. VC-related vulnerability is negatively affected by the lack of knowledge and practical reference materials for working with VCs. LEAs point to the lack of technical support and IT specialists for operational measures and special investigative actions in the fight against financial and economic crime and for the fixation of evidence in criminal proceedings involving VCs.⁶⁷⁸ During the reporting period, intensive training was organised for staff of both the FIU, LEAs and public prosecutor's office to reduce this vulnerability factor and, given the rapid development of the field, the practice should be continued also the next reporting period.
- 10.2.18. Vulnerability is fueled by uncertainty related to the provision of VC services, resulting from the lack of the EU-level or other international regulatory framework or inconsistencies. There is a different understanding among VC service providers about cooperation with the LEAs, as often VC service providers do not have a registered office and thus no link to the jurisdiction of a particular country, making it impossible to implement the requirements for international

⁶⁷⁰ Ibid.

⁶⁷¹ FIU. *Risk assessment of money laundering and terrorism and proliferation financing for virtual currencies*. 2022. Page 13. Available at: <https://www.fid.gov.lv/lv/aktualitates/publicets-virtuvalo-valutu-noziedzigi-iegutu-lidzeklu-legalizācijas-terorisma-un-proliferācijas-finansēšanas-risku-novertējums>

⁶⁷² Ibid. Page 12.

⁶⁷³ Ibid.

⁶⁷⁴ Ibid.

⁶⁷⁵ Preliminary estimates show that fraudsters made illegal profits on monthly basis, occasionally amounting to €3 million euro, mostly in virtual currency. See *ibid*, page 12.

⁶⁷⁶ Ibid.

⁶⁷⁷ Read more about the case in the FIU. *Risk assessment of money laundering and terrorism and proliferation financing for virtual currencies*. 2021. Page 15. Available at: <https://www.fid.gov.lv/lv/aktualitates/publicets-virtuvalo-valutu-noziedzigi-iegutu-lidzeklu-legalizācijas-terorisma-un-proliferācijas-finansēšanas-risku-novertējums>.

⁶⁷⁸ Law Enforcement Authorities' Criminal Intelligence Analytical Report for 2022. 2023. Page 74.

cooperation in the criminal justice area stipulated in the Criminal Procedure Law, Part C.⁶⁷⁹ Part of the VC service providers do not respond to calls for cooperation with the LEAs, ignoring the requests.⁶⁸⁰

- 10.2.19. Vulnerability is further exacerbated by the lack of transparency of the VC users and activities at both national and international levels. During the reporting period, the FIU did not receive any suspicious transaction reports from VC service providers registered in Latvia, which can be explained by the small number and size of VC service providers in Latvia. Half of all four VC service providers registered in Latvia indicated in the survey organised by the SRS that their annual turnover is between EUR 10,000 and EUR 20,000, while the other half's turnover was between EUR 80,000 and EUR 160,000.⁶⁸¹ Thus, it can be concluded that the turnover of VC service providers in general has an insignificant impact on the financial sector, which is in line with the number and size of the Latvian VC service providers.⁶⁸²
- 10.2.20. The FIU has received fewer than 100 reports from foreign VC service providers during the reporting period, which can be considered a critically low indicator. Furthermore, the FIU only receives suspicious transaction reports from countries where VC service providers are supervised. Some Latvian persons involved in VC transactions or the provision of services are not reported to the FIU, which increases the risks associated with the VCs. For example, one of the industry leaders only reports suspicious transactions on citizens of countries where it has a registered representation.⁶⁸³
- 10.2.21. During the reporting period, credit institutions were the main group of reporting entities which had reported in relation to VCs. Credit institutions whose customers buy and sell virtual currencies through bank accounts have access to fragmented information on virtual currency transactions — at what time, in what amount and with which VC service provider the customer bought or sold the VC, but information on the addresses of the VCs, origin or further use of the funds is available only upon request of the customer for further information.
- 10.2.22. During the reporting period, similar to NRA 2020, the number of suspicious transaction reports received, where at least one transaction was conducted using VC, was still low compared to reports on traditional financial services and did not exceed 5% in any of these years. The average amount of transactions in the reported suspicious VC transactions is also insignificant EUR - 199 thousand in 2021, and EUR 168 thousand in 2022.
- 10.2.23. Among the incoming reports, the most common typologies related to VCs are unclear origin of funds or economic substantiation of transactions.⁶⁸⁴ There is a growing trend among reports to point to cases of fraud where the credit institution's customer has believed the fraudster's promises and purchased the VC.⁶⁸⁵ The other growing trend is related to suspicions of fictitious transactions by the customer, untraceable transactions with the signs of VCs, transit account, etc.⁶⁸⁶

⁶⁷⁹ The FIU. *Risk assessment of money laundering and terrorism and proliferation financing for virtual currencies*. 2022 Available at: <https://www.fid.gov.lv/lv/aktualitates/publicets-virtualo-valutu-noziedzigi-iegutu-lidzeklu-legalizacijas-terorisma-un-proliferacijas-finansesanas-risku-novertejums> 13.lpp.

⁶⁸⁰ Ibid.

⁶⁸¹ For more in-depth information on VC service providers, see the Virtual Currency Service Providers sector section of the NRA 2023.

⁶⁸² The low number of reports can be partly explained by the fact that the Latvian market of virtual currency service providers is limited and that foreign currency service providers registered abroad do not report suspicious transactions to the FIU (including transactions involving Latvian residents). See FIU. *Risk assessment of money laundering and terrorism and proliferation financing for virtual currencies*. 2021. Page 4. Available at: <https://www.fid.gov.lv/lv/aktualitates/publicets-virtualo-valutu-noziedzigi-iegutu-lidzeklu-legalizacijas-terorisma-un-proliferacijas-finansesanas-risku-novertejums>.

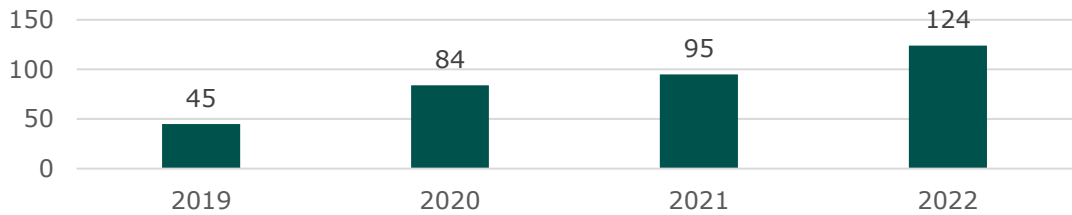
⁶⁸³ The FIU data, information gathered by the FIU through interviews with individual VCSPs.

⁶⁸⁴ The FIU. *Risk assessment of money laundering and terrorism and proliferation financing for virtual currencies*. 2022. Page 11. Available at: <https://www.fid.gov.lv/lv/aktualitates/publicets-virtualo-valutu-noziedzigi-iegutu-lidzeklu-legalizacijas-terorisma-un-proliferacijas-finansesanas-risku-novertejums>

⁶⁸⁵ Ibid.

⁶⁸⁶ Ibid.

Chart 10.2.1 - Reports received by the FIU from reporting entities on suspicious transactions involving virtual currencies, 2019-2022.



- 10.2.24. Lack of transparency in transactions with VCs poses significant challenges for the supervision of VCs. The policy restricting the activities of VC service providers may result in the development of unregistered VC service providers, whose ML/TF risks will be higher, as such traders will try to evade the ML/TF requirements. The following unregistered VC service providers (or "VC bankers") have been identified in the criminal proceedings initiated by the SP.⁶⁸⁷ Moreover, VCs can be used in highly sophisticated criminal schemes, together with transnational legal arrangements and other technologies that ensure the anonymity of activities.⁶⁸⁸
- 10.2.25. For example, in 2021, the US Treasury pointed to a Latvian shell company under which criminals provided support of VC exchange to ransomware attacks for laundering of ransom from gained in the US.⁶⁸⁹ In this case, the VC service provider was not registered in Latvia, nor was it established that the VC service provider had provided VC services in Latvia. The only connection of the VC service provider with Latvia was the company registration.
- 10.2.26. During the reporting period, the FIU, in cooperation with the SP, SRS TCPD, MoF, Bank of Latvia, private sector and other institutions, have annually developed a risk assessment on new technologies and their related risk. Every year of the reporting period threats and trends tied to VCs have been analysed. Within the framework of the VC risk assessments, proposals for risk mitigation measures, including the need to set a threshold for VC transactions above which the subject of the AML/CTPF Law would be required to make a threshold declaration to the FIU to increase transparency over the VC transactions.⁶⁹⁰
- 10.2.27. The vulnerability is mitigated by changes in the laws and regulations on actions to be taken with VCs in criminal proceedings resulting from the successful cooperation between the SP and the PSA, which has developed and provides wallet for storage of currency and sale of VCs on various VC service delivery platforms.⁶⁹¹ As a risk mitigation measure, the FIU published a VC-related ML/TF risk assessment in 2021 and 2022, which highlighted the key risk indicators, typologies, and trends.⁶⁹²

NFTs

- 10.2.28. NFTs are unique digital certificates recorded in dedicated ledgers, linked to a specific digital object.⁶⁹³ Most often, this digital link presents ownership of digital or physical assets, such as images, videos, audio files or other property. Such NFT functions are managed through smart

⁶⁸⁷ The FIU. *Risk assessment of money laundering and terrorism and proliferation financing for virtual currencies*. 2021. Page 4. Available at: <https://www.fid.gov.lv/lv/aktualitates/publicets-virtualo-valutu-noziedzigi-iegutu-lidzeklu-legalizācijas-terorisma-un-proliferācijas-finansēšanas-risku-novērtējums>

⁶⁸⁸ For example, applications Whatsapp or Darknet. *Law Enforcement Authorities' Criminal Intelligence Analytical Report for 2022*. 2023. Page 40.

⁶⁸⁹ The US Treasury. *The Treasury continues to fight ransomware as a part of a whole-of-government effort; Sanctions on ransomware operators and virtual currency exchange*. 2021. Available at: <https://home.treasury.gov/news/press-releases/jy0471>

⁶⁹⁰ The FIU. *Risk assessment of money laundering and terrorism and proliferation financing for virtual currencies*. 2022. Page 10. Available at: <https://www.fid.gov.lv/lv/aktualitates/publicets-virtualo-valutu-noziedzigi-iegutu-lidzeklu-legalizācijas-terorisma-un-proliferācijas-finansēšanas-risku-novērtējums>

⁶⁹¹ In accordance with Subparagraph 76.2 of the Regulation of the Cabinet of Ministers No. 1025 of 27 December 2011 "Regulations Regarding Actions with Material Evidence and Seized Property", in order to ensure the sale of virtual currency, the PSA shall maintain a virtual currency wallet established for this purpose on a platform of a virtual currency service provider registered in Latvia or in a Member State of the EU, European Economic Area or North Atlantic Treaty Organisation.

⁶⁹² The FIU. *Risk assessment of money laundering and terrorism and proliferation financing for virtual currencies*. 2022 Available at: <https://www.fid.gov.lv/lv/aktualitates/publicets-virtualo-valutu-noziedzigi-iegutu-lidzeklu-legalizācijas-terorisma-un-proliferācijas-finansēšanas-risku-novērtējums>

⁶⁹³ NFTs are mainly characterised by three features: (1) they represent a unique object that can be clearly linked to the digital wallet; (2) they are not reproducible or interchangeable; (3) they cannot be divided into parts. See. "What You Need to Know About Non-Fungible Tokens (NFTs)". Available at: <https://www.forbes.com/uk/advisor/investing/nftnon-fungible-token/>

contracts and digital wallets. As these activities are recorded in distributed ledgers, they are publicly verifiable and auditable.

- 10.2.29. In Latvia, NFTs are not regulated at the level of laws and regulations. Digital assets are included in the definition of "VC" as a "digital reflection of value" that can serve as a medium of exchange.⁶⁹⁴ Interpreted generally, as long as the NFT is not used to make payments, it is not subject to VC definition.
- 10.2.30. The NFT market has developed and continues to develop at a rapid pace in recent years. As of 2019, nearly USD 41 billion worth of virtual currency has been traced in NFT transactions on just one blockchain protocol.⁶⁹⁵ Although the NFT is based on the same distributed ledger technology as the VC, the NFT differs in the irreplaceability of value.
- 10.2.31. A large part of the ML risks related to the VC service providers⁶⁹⁶ are typical to the fast-growing NFT segment, which is practically exempt from customer identification and due diligence and transaction monitoring requirements. NFTs are also characterised by the risks of ML inherent in high-value goods such as works of art. The absence of customer identification and due diligence requirements creates increased ML/TF risks both for the users of the aforementioned platforms and for the integrity of the financial system as a whole. As a risk mitigation measure, the FIU published an NFT ML/TF risk assessment in 2022, which highlighted the key risk indicators for NFTs that are comparable to works of art.⁶⁹⁷ The main vulnerabilities of NFTs are similar to those of VCs: a high level of anonymity in the ownership of the NFT and the wallet containing it, a high level of anonymity in the transaction and - especially for NFTs - an opaque and unregulated market similar to that of art objects.⁶⁹⁸

DeFi

- 10.2.32. Use of the DeFi smart contracts in the virtual environment of ML has increased rapidly in 2021. Estimates included in the VC studies show that, since 2018, most of the criminal VC assets have been further transferred to centralised VC exchanges. However, in 2021, this share has fallen significantly to 47%, largely due to the takeover of this role by DeFi smart contracts. These amounts account for 17% of all funds sent from criminal virtual asset wallets. A year earlier, only 2% of all criminal transactions were transferred to DeFi smart contracts, reflecting the rapid growth of the sector not only overall but also in relation to the ML threat.⁶⁹⁹
- 10.2.33. DeFi is an automated and decentralised digital infrastructure comprising virtual assets, trade financing instruments, loans and other financial services. Unlike traditional finances, DeFi is a marketplace where services are based on programmed smart contracts that automate transactions based on predefined, pre-programmed conditions. These conditions are public and replace a centralised service provider or managing authority. Operators can connect to service providers to lend VC, borrow or receive other services. The value included in the DeFi market has increased from EUR 2.2 billion in 2019 to EUR 12.7 billion in 2022.⁷⁰⁰ Most of this growth is considered to be arising from the VCs that are placed there after the digital hacking and filching of VC wallets.⁷⁰¹
- 10.2.34. The DeFi market comprises a number of ML vulnerabilities. The risks are related to the fact that DeFi markets possess VC characteristics, which include the possibility to automate the operation of the smart contract. Criminals can set up DeFi services (long and complex transaction schemes, making it very difficult to trace the funds) that automate the transfer of VCs to other linked wallets, with the aim of hiding the origin of the money. Unregulated financial services can be used as fictitious money storage instruments, and criminals can be assured of the safety of their funds because the decentralisation principle introduced by DeFi

⁶⁹⁴ Section 1, Paragraph One, Clause 2.2 of the Law on Prevention

⁶⁹⁵ The FIU. *Strategic analysis study. ML/TF risk assessment in relation to non-fungible tokens (NFTs)*. 2022 Available at: https://www.fid.gov.lv/uploads/files/2022/AMLIH/FID_Ar%20NFT%20saist%20C4%ABto%20NILLTPF%20risku%20nov%20C4%93rt%20C4%93jums.pdf

⁶⁹⁶ The FIU. VC-related ML/TF risk assessment. 2021. Available at: <https://www.fid.gov.lv/aktualitates/publicets-virtualo-valutu-noziedzigi-iegotu-lidzeklu-legalizacijas-terorisma-un-proliferacijas-finansanas-risku-novertejums>

⁶⁹⁷ The FIU. *Risk assessment of money laundering and terrorism and proliferation financing for non-fungible tokens (NFT)*. 2022

⁶⁹⁸ The FIU. *Risk assessment of money laundering and terrorism and proliferation financing for non-fungible tokens (NFT)*. 2022. Page 9.

⁶⁹⁹ Chainalysis. *2022 Crypto Crime Report*. 2022 Available at: <https://go.chainalysis.com/2022-Crypto-Crime-Report.html>. Page 11.

⁷⁰⁰ Global Financial Stability Report, Chapter 3 - The Rapid Growth of Fintech: Vulnerabilities and Challenges for Financial Stability. Available at: <https://www.imf.org/-/media/Files/Publications/GFSR/2022/April/English/ch3.ashx>

⁷⁰¹ Chainalysis. *2023 Crypto Crime Report*. 2023 Available at: <https://go.chainalysis.com/2023-crypto-crime-report.html> page 44

uses smart contracts so that services cannot be controlled or stopped even by their creators.⁷⁰² The absence of a legal framework for DeFi makes its supervision difficult.

10.3. Real Estate Sector

- 10.3.1. RE transactions have historically been one of the most convenient and accessible ways of ML both in Latvia and globally.⁷⁰³ Given the insufficient supervision of the RE sector, this opens up a wide range of opportunities for the placement, stratification and integration of proceeds of crime into the legitimate financial system and facilitates the movement of proceeds of crime between multiple individuals or groups involved in a crime. ML through RE also affects the overall RE market in the country, distorting competition and increasing prices for all members of society. Such trends can be observed in many parts of Western Europe and North America, with the UK⁷⁰⁴ and Canada being the most prominent examples.⁷⁰⁵ There are several reporting entities that are related to the RE sector, including RE agents, sworn notaries, sworn advocates, other independent legal service providers, as well as financial institutions that facilitate payments between the parties involved in a RE purchase/sale transaction.
- 10.3.2. In 2022, the RE sector accounted for 10% of value added in the Latvian economy.⁷⁰⁶ Although this share has fallen since 2020, when it reached 13%, its importance for the national economy remains high. In addition, given the limited supervision of the sector, its association with economic sectors operating in the shadow economy such as construction sector, and the high level of private and public investment, mitigating ML risks in the RE sector remains an important course of action for policy makers.
- 10.3.3. An assessment of the real estate for which the FIU has issued freezing orders during the reporting period shows that proceeds of crime are mainly invested in the acquisition of RE in Riga and the Greater Riga area. 96% of all the REs the funds used for the purchase of which are suspected as having been acquired by criminal means are located in Riga, Jurmala or the municipalities that make up the Greater Riga statistical region. The most frequent type of real estate in which proceeds of crime are invested are new apartment projects in Riga and Jurmala, apartments in the centre of Riga, and single-family houses in the Greater Riga area.
- 10.3.4. More than 60% of the REs frozen by the FIU during the reporting period are related to citizens of third countries who have invested in the Latvian RE market, including to obtain TRPs in Latvia. It should be underlined that almost all the frozen REs are associated with Latvia's historical first risk profile, with most of the REs being purchased several years before the reporting period.
- 10.3.5. Purchase of a quality RE located in the most economically dynamic region of Latvia is also an investment. According to the Central Statistical Bureau, the average value of second-hand RE has increased by 49.2% between the third quarter of 2018 and the third quarter of 2022.⁷⁰⁷ Furthermore, the purchased RE is often rented out, allowing to generate profit in the form of the received rent.

Vulnerability and Threat

- 10.3.6. The regulatory framework applicable in Latvia does not stipulate that a subject of the AML/CTPF Law must be involved in the process of the RE transaction as a supervisor. The only provision of the Law that provides for the involvement of the reporting entities in the monitoring of RE transactions is the prohibition for natural persons and legal entities to conduct RE alienation

⁷⁰² Ibid.

⁷⁰³ The FATF survey shows that the RE sector is still being associated with an increased risk of AML in most countries. Furthermore, most countries have also found that the understanding of traders involved in the RE sector of the ML risks in the RE sector is insufficient. Source: FATF. Guidance for a risk based approach: Real estate sector. Page 12. Available at: <https://www.fatf-gafi.org/content/dam/fatf/documents/recommendations/RBA-Real-Estate-Sector.pdf.coredownload.pdf>

⁷⁰⁴ Transparency International UK. *Faulty Towers: Understanding the impact of overseas corruption on the London property market*. Page 33-34. Available at: https://tfl.ams3.cdn.digitaloceanspaces.com/media/documents/TIUK_Faulty_Towers_Web.pdf; The Economist. Why is it so easy to hide dirty money in Britain? Available at: <https://www.economist.com/films/2022/05/12/why-is-it-so-easy-to-hide-dirty-money-in-britain>

⁷⁰⁵ Expert Panel on Money Laundering in BC Real Estate. *Combating Money Laundering in BC Real Estate*. Page 14. Available at: <https://www2.gov.bc.ca/assets/gov/housing-and-tenancy/real-estate-in-bc/combating-money-laundering-report.pdf>

⁷⁰⁶ Official statistics portal. GDP and gross value added. Available at: <https://stat.gov.lv/lv/statistikas-temas/valsts-ekonomika/ikp-gada/2411-iekszemes-kopprodukts-un-bruto-pievienota-vertiba?themeCode=IK>

⁷⁰⁷ It should be noted that this is the average increase across Latvia. RE values in Riga and the Greater Riga are growing faster than in other regions of Latvia.

- transactions in cash.⁷⁰⁸ This implicitly stipulates that RE transactions can only take place with the involvement of financial institutions. At the same time, the laws and regulations do not require the financial institutions involved to be registered in Latvia or the EU, which increases the risks that persons with the highest ML risk will use third-country credit institutions to pay for RE purchased in Latvia. Moreover, it should be noted that, according to the estimates of the Latvian Association of Real Estate Transactions, only about 20% of RE transactions are conducted through RE agents.⁷⁰⁹
- 10.3.7. Vulnerability of the RE sector is also negatively affected by the fact that RE developers who are themselves engaged in RE sales are not to be classified as the reporting entities and are not subject to the obligations of the reporting entities such as the establishment of ICS, customer due diligence, staff training and the development of risk assessments. As RE developers' sites (new apartment projects, renovated apartment buildings in the centre of Riga, private houses in the Greater Riga) have historically been among the main destinations of ML, their ML vulnerability is assessed as high.
- 10.3.8. Vulnerability of the RE sector is also increased by the right of foreigners to apply for a TRP for a period not exceeding five years under Section 23(1)(29) of the Immigration Law if they have acquired real estate worth EUR 250,000 or more in the territory of Latvia.⁷¹⁰ Although this provision of the Immigration Law has been supplemented with conditions mitigating the ML vulnerability⁷¹¹, it is possible to purchase REs in Latvia beyond the radar of the reporting entities, including through third country credit institutions.
- 10.3.9. At the same time, the ML threat to the RE sector is mitigated by amendments to the Immigration Law, which provides for that, as of 24 September 2022, citizens of the Russian Federation and the Republic of Belarus will be prohibited from obtaining TRPs in Latvia through investment in RE. Citizens of the Russian Federation and the Republic of Belarus have most often purchased real estate in Latvia through the use of criminally acquired funds. Although the regulatory framework of Latvia does not prohibit citizens of the Russian Federation and the Republic of Belarus from investing in RE in Latvia, it is expected that restrictions on obtaining TRPs will reduce the interest of citizens of these countries in investing in the Latvian real estate market.
- 10.3.10. However, it should be noted that, although the threat of money laundering from foreign criminal offences to the RE sector diminished during the reporting period, RE still remains one of the main targets of ML in national predicate offence ML schemes. Furthermore, the possibility to conduct RE transactions without the supervision of the reporting entities not only facilitates ML, but also creates the possibility to acquire the RE itself as criminal property (e.g. as a result of fraud).
- 10.3.11. Despite the ban on cash-based RE transactions, this form of payment is still common in the RE sector. This can be explained by the interest of both parties involved in the transaction to make a partial payment for the RE in cash - the seller is interested in receiving part of the payment in cash, thus avoiding capital gains tax. For the buyer, this type of transaction can be cheaper and allow the use of potentially criminally generated funds. The FIU has also identified cases where criminally generated cash through crime is used to cover everyday expenses, at the same time using legally obtained funds to purchase RE.
- 10.3.12. Threat to the RE sector is also increased by the possibility of hiding the true owner of the RE. Research by the Financial Intelligence Unit shows that the RE is often purchased not by the person involved in the crime, but their friends or relatives. It is also possible to complicate the traceability of change in ownership of a RE by buying a controlling stake in the legal entity that owns the RE, rather than acquiring the RE directly. In such cases, the change in ownership is not registered in the Land Register.

⁷⁰⁸ Section 30(1)⁽⁶⁾ of the Laws On Taxes and Duties. Available at: <https://likumi.lv/ta/id/33946#p30>

⁷⁰⁹ *Measures and activities restricting the activities of unregistered real estate agents*. LV portāls, 28.07.2022

Available at: <https://lvportals.lv/dienaskartiba/343323-neregistreto-makleru-darbibas-ierobezojosie-pasakumi-un-aktivitates-2022>

⁷¹⁰ Section 23(1)(29) of the Immigration Law. Available at: <https://likumi.lv/ta/id/68522#p23>

⁷¹¹ Payment for the RE shall be made in by a bank transfer, and the RE must be purchased from a legal entity registered in the Republic of Latvia or an EU Member State, an EEA State or the Swiss Confederation, which is a taxpayer in the Republic of Latvia within the meaning of the laws and regulations governing taxation in the Republic of Latvia, or from a natural person who is a citizen of Latvia, non-citizen of Latvia, citizen of the EU or a foreigner residing in the Republic of Latvia with a valid residence permit issued by the Republic of Latvia.

- 10.3.13. Given the limited supervision of the RE sector by the subject of the AML/CTPF Law, the interest of the parties involved in the transactions to use at least partly cash, and the constantly increasing value of RE, the RE sector is an attractive target for laundering of money generated through crime both in the EU and in third countries.

10.4. Construction Sector

- 10.4.1. In the annual Shadow Economy Index published by the Riga School of Economics, the construction sector consistently ranks as the economic sector with the highest share of the shadow economy (34.5% in 2022 (+3.2% compared to the previous year)).⁷¹² While the share of the shadow economy in the construction sector has fallen from 40% in 2015, increase over the last two years reflects a number of external factors that make it more difficult to tackle the shadow economy in the sector.
- 10.4.2. Since 2020, construction costs have risen significantly,⁷¹³ and demand for RE has increased, especially in the Greater Riga area.⁷¹⁴ Despite a number of measures aimed at reducing the share of the shadow economy in the sector in recent years, these market trends (increasing demand, rising construction and labour costs, falling economic activity in the sector) and the gradually declining purchasing power of the population⁷¹⁵ create conditions in which the high share of the shadow economy in the construction sector persists. This is most often the case when those involved in construction choose to cut costs by avoiding the payment of binding labour and value added taxes.

Vulnerability and Threat

- 10.4.3. Traders involved in the construction sector are not reporting entities. They are therefore not obliged to perform due diligence of their customers and their funds. Furthermore, regulatory framework of Latvia does not require persons to disclose the origin of funds used to finance construction at any stage of the construction process. Only persons who carry out construction using a mortgage loan issued by a credit institution secure a lien in the Land Register, which clarifies the origin of the funds used for construction.⁷¹⁶
- 10.4.4. Historically, shadow economy basically has three dimensions in the construction sector: 1) paying workers in the sector in cash without paying the obligatory labour taxes (envelope wages), 2) omission of corporate income and 3) omission of the number of employees.⁷¹⁷ In addition, the tendency to avoid value added tax in the construction process when purchasing construction/improvement materials is highlighted. All of these factors have a direct negative impact on national tax revenues. Furthermore, along with the normalisation of the use of cash in the construction sector in relation to tax evasion also increases the associated ML risks. According to the Latvian Construction Association, 75,000 natural persons were employed in the construction sector in 2022. The approximate number of companies operating in the sector is 10,000. Of the companies operating in the construction sector, 80% employ no more than 10 people and pay 30% of the sector's total taxes.⁷¹⁸
- 10.4.5. The estimated amount of unpaid mandatory state social security contributions and personal income tax in 2021 for both small contractors (up to 10 employees) and medium-sized

⁷¹² Shadow Economy Index in the Baltic States 2009-2022. Page 37. Available at: https://www.sseriga.edu/sites/default/files/2023-05/Enu_ekonomikas_indeks_2009_2022_0.pdf

⁷¹³ InnoMatrix. *Report on the study on annual cost dynamics forecasts and overheating risks in the Latvian construction sector.* Page 30-32. Available at: <https://www.em.gov.lv/lv/media/15509/download?attachment>

⁷¹⁴ Second-hand housing prices in Latvia have increased by almost 30% between the beginning of 2020 and the end of 2022, reflecting rising demand and the value of existing RE under circumstances where construction costs and prices of newly erected buildings are rising rapidly. Taking into account the demographic trends in Latvia, a disproportionate increase in the value of RE is observed in Riga and the Greater Riga, while the value of RE in the regions increases at a slower pace, remains stable or decreases according to the specifics of each region. Source for changes in RE prices: https://data.stat.gov.lv/pxweb/lv/OSP_PUB/START_VEK_PC_PCI/PCI050c/table/tableViewLayout1/

⁷¹⁵ Inese Helmane. *Rutkaste: Part of inflation cannot be explained by standard factors.* Available at: <https://lvportals.lv/viedokli/348311-rutkaste-dalu-inflacijas-nespejam-izskaidrot-ar-standarta-faktoriem-2023>

⁷¹⁶ Section 18 of the Land Register Law. Available at: <https://likumi.lv/ta/id/60460#p18>

⁷¹⁷ Arnis Sauka. *Shadow economy and reputation in the Latvian construction sector. The impact of COVID-19 and possible solutions for its mitigation.* Page 6. Available at: https://www.latvijasbuvnieki.lv/wp-content/uploads/2020/04/15042020-zinojums-buvnieciba-2020_publ.pdf

⁷¹⁸ Latvian Construction Association. *Measures to reduce the shadow economy in the construction sector.* Page 11. Available at: <https://www.em.gov.lv/lv/media/14681/download>

contractors (between 10 and 50 employees) is around EUR 102,000,000, or 39% of the amounts paid in wages are undeclared. Among large contractors, this share is 12%.⁷¹⁹

- 10.4.6. Looking at the structure of the construction sector, it can be concluded that residential and non-residential construction, as well as related specialised construction and building assembly activities are the most vulnerable segments of the construction sector from the ML viewpoint. If construction in these parts of the sector is not carried out based on order placed by the public sector or large traders, the construction service providers involved are likely to be small or medium-sized enterprises, which entail the highest risk of working partly or entirely in the shadow economy, thereby both allowing the customer to commit the ML and the construction service provider to criminally obtain funds by avoiding the payment of the binding taxes. Small and medium-sized construction companies can also work as subcontractors on construction projects ordered by large companies or public authorities. In such cases, the risks of tax avoidance associated with the sector also remain.
- 10.4.7. Given the high share of the shadow economy in the construction sector, as well as the large cash flows, the construction and potential sale of buildings continues to be a convenient way of ML. Furthermore, given the weak supervision of the sector, ML through construction has a higher latency rate than ML in the RE sector.
- 10.4.8. Contrary to the acquisition of existing RE, which is a more common form of ML in relation to laundering of funds generated by crime committed in third countries, construction is a particularly convenient way to launder the proceeds of crime committed in Latvia or the EU, in particular large amounts of cash.
- 10.4.9. Unlike ML in the RE sector, the construction sector also provides an opportunity for money laundering on a smaller scale, potentially contributing to local crime. Construction or improvement works can be carried out in stages, without requiring a large amount of proceeds of crime for a one-off purchase, as would be the case when purchasing RE. Furthermore, given the interest of some traders in the construction sector in cash transactions, these works may be carried out by immediately using the proceeds of crime, instead of the funds being integrated into the financial system before use.
- 10.4.10. Use of large amounts of cash will also primarily continue to generate new criminal proceeds by tax evasion by the parties involved in the construction. Furthermore, given the steadily increasing value of RE, the development of RE allows not only for the commission of ML, but also for increase in value of the proceeds of crime in the long-term either by selling or renting out the constructed property (thereby profiting from criminal property).

10.5. Investment TRP

- 10.5.1. On 28 March 2022, the EC Recommendation highlighted the risks of security, ML, tax crime and corruption associated with the residence and citizenship mechanisms for citizens of third-countries investing in the EU Member States. Although the recommendation was prompted by Russia's full-scale invasion of Ukraine on 24 February the same year, the ML vulnerability related to the sale of "golden visas" and "golden passports" in the EU was already on the radar of international institutions⁷²⁰ and NGOs⁷²¹ as a service of high ML risk.
- 10.5.2. The Law on Immigration defines 4 types of investment that can serve as grounds to apply for a TRP in Latvia for a period not exceeding five years:
 - 10.5.2.1. Investment in an existing capital company or investment in the formation of a new capital company;
 - 10.5.2.2. Investment in RE;
 - 10.5.2.3. Investment in credit institutions' subordinated liabilities;

⁷¹⁹ Latvian Construction Association. *Measures to reduce the shadow economy in the construction sector*. Page 10. Available at: <https://www.em.gov.lv/lv/media/14681/download>

⁷²⁰ FATF. *Guidance for a Risk-Based Approach Guidance for Legal Professionals*. Page 35. Available at: <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Rba-legal-professionals.html>; OECD. *Corruption Risks Associated with Citizen- and Resident-by-Investment Schemes*. Available at: <https://www.oecd.org/corruption/integrity-forum/oecd-corruption-risks-of-citizen-and-resident-by-investment-schemes-scoping-note-2019.pdf>

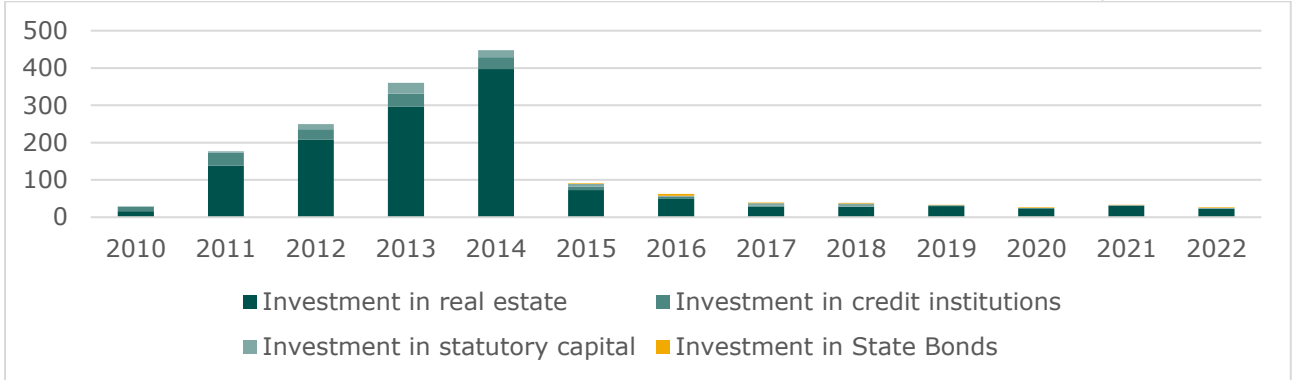
⁷²¹ Transparency International. *European Getaway: Inside the Murky World of Golden Visas*. Available at: <https://www.transparency.org/en/publications/golden-visas>

10.5.2.4. Investment in government securities.

Vulnerability and Threat

10.5.3. Since 2014, the amount of TRP-related investment has decreased by 94% in Latvia. Although the sharpest decline was observed between 2014 and 2015, a decrease is also visible when comparing the reporting period with the NRA 2020 reporting period (-22%).

Chart No 10.5.1 - Amount of TRP-related investment, EUR million⁷²²

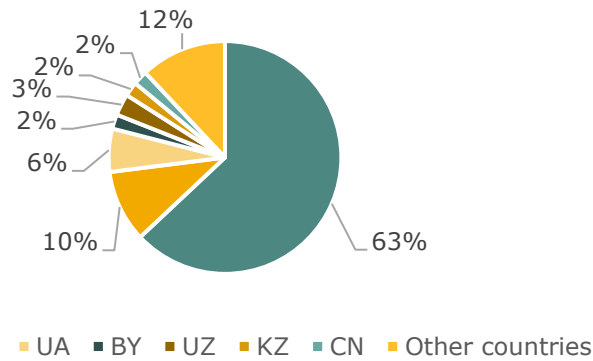


10.5.4. Purchasing RE in Latvia has consistently been the most common way for individuals to obtain TRPs in Latvia. During the reporting period, more than 90% of the investment that flowed into Latvia in relation to TRPs was related to the acquisition of RE. The ML risks tied to this sector are addressed separately (see Section 10.3. Real estate sector). The second most common type of investment during the reporting period was an investment in a capital company. This represented less than 5% of the total amount of TRP-related investment.

10.5.5. Both investment in RE and investment in a capital company are the ways of obtaining TRPs with the highest ML risk, given that both investments can be made outside the radar of the reporting entities. During the reporting period, EUR 77.9 million were invested in the Latvian RE sector and EUR 4.14 million were invested in capital companies with the purpose to obtain TRP in Latvia.


10.5.6. Looking at the nationality of the investment TRP applicants during the reporting period, the majority of applications (more than 65%) were received from nationals of the Russian Federation and the Republic of Belarus.

Chart 10.5.2 - State of passport of the TRP applicants in the reporting period⁷²³



10.5.7. During the reporting period, amendments were made to the Immigration Law providing for that, as of 24 September 2022, citizens of the Russian Federation and the Republic of Belarus are prohibited from obtaining investment TRPs in Latvia. When assessing the REs for which

⁷²² Data from the OCMA.
⁷²³ Data from the OCMA.



the FIU has issued freezing orders during the reporting period and which were acquired with the aim of obtaining TRPs in Latvia, more than 90% of them are related to citizens of the Russian Federation and the Republic of Belarus. Considering that investment in real estate accounted for 92% of the total volume of TRP investment and that citizens of the Russian Federation and the Republic of Belarus accounted for the majority of TRP applicants, it is expected that the aforementioned amendments to the Immigration Law will significantly reduce the ML threat caused by TRP.

- 10.5.8. At the same time, it should be noted that it is still possible for other third-country nationals to obtain investment TRPs. Taking into consideration the fact that out of the ten countries whose citizens obtained investment TRPs during the reporting period, only one is of these countries was classified as "free" according to the *Freedom House* methodology⁷²⁴ and only two countries have corruption rates better than the global average according to the *Transparency International* methodology.⁷²⁵
- 10.5.9. As an additional factor contributing to the ML vulnerability is the low number of suspicious transaction reports received from legal service providers during the reporting period. The FIU's research shows that investments to obtain a TRP in Latvia are often made through intermediaries familiar with the regulatory framework of Latvia⁷²⁶, and there are risks that these reporting entities fail to identify the ML risks associated with customers or deliberately help customers to avoid the radar of other reporting entities.
- 10.5.10. Despite the mitigation of the ML risks stemming from the prohibition of obtaining TRPs via investment to citizens of the Russian Federation and the Republic of Belarus, who have historically been most frequently related to ML within the TRP context, investment TRPs remain as potential driver for high-risk third-country nationals to invest criminal proceeds in Latvia. Being aware of the current insufficiencies in the supervision of sectors related to TRPs (in particular, the RE sector), there are risks that obtaining a TRP on the basis of investments entail ML risks.

⁷²⁴ Freedom House. *Global Freedom Scores*. Available at: <https://freedomhouse.org/countries/freedom-world/scores>

⁷²⁵ Transparency International. *Corruption Perceptions Index*. 2022 Available at: <https://www.transparency.org/en/cpi/2022>

⁷²⁶ Many independent legal service providers registered in Latvia either specialise in providing advice/support to third-country nationals seeking a temporary residence permit in Latvia or offer it as one of their services.

11. ML Risk Scenarios

- 11.1.1. Chapter 2 of the AML/CTPF Law provides for that the subject of the AML/CTPF Law shall take into consideration the risks identified in the NRA when carrying out the risk assessment and developing the ICS.⁷²⁷ In order to enhance the understanding of reporting entities of the risks identified in the NRA 2023 and to facilitate their transfer to the individual risk assessments of institutions, this chapter summarises the ML risk scenarios most frequently identified in the Latvian ML/TF/PF prevention system during the reporting period.
- 11.1.2. In 2020, the FIU developed and published a material on typologies and characteristics of ML,⁷²⁸ summarising 19 risk scenarios that were at that time typical of ML schemes implemented in Latvia (or through the Latvian financial system). The NRA 2023 ML risk scenarios will form the basis for the updated ML typology and characteristics material. The summarised ML risk scenarios are typical of the ML schemes implemented in Latvia (or through the Latvian financial system) during the reporting period. In addition to the ML risk scenarios, the updated ML typology and characteristics material will also contain an updated list of characteristics.
- 11.1.3. The summary is based on analysis of the following information:
- 11.1.3.1. Criminal proceedings regarding ML initiated by the LEAs during the reporting period (in which the ML activities were partly or wholly carried out during the reporting period);⁷²⁹
 - 11.1.3.2. Opinion of the LEAs' experts on current ML methods during the reporting period;
 - 11.1.3.3. Information held by the FIU from suspicious transaction reports, foreign intelligence reports, etc.;
 - 11.1.3.4. SCIs identification of current ML methods during the reporting period;
 - 11.1.3.5. Materials on indicators, characteristics and typologies in the areas of ML and predicate offences developed in Latvia during the reporting period.
- 11.1.4. The table below shows the most frequently identified and representative areas for the ML risk scenario in the columns sectors, services and the corresponding threat section, while the list is not exhaustive and does not imply that the ML risk scenario cannot also be related to a sector, service or predicate offence that is not identified.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.5.	Credit institutions, PI/EMI, IBC/IMC, PPS, RE agents and intermediaries, VC service providers, AIFM, traders	Payment services, investment services, PPS services, RE services, trade services, VC services	Funds are moved and structured to move them away from the crime scene, simulating seemingly legal transactions, and some or all of the funds are then invested, for example, in financial instruments, VC, precious metals, real estate and other property, or used for private needs, including by using payment card.	Cross-border cashless flows, national predicate offence

- 11.1.6. For the mentioned risk scenario, significance of the threat of various national predicate offences in relation to the threat of foreign predicate offences increases during the reporting period. The risk scenario is characterised by a broad range of financial and non-financial services, and even in cases where the offence is committed in Latvia, frequently not all the activities in the ML chain are carried out domestically. Part of the services are provided abroad, e.g. accounts with foreign PI, registration of companies abroad, acquisition of assets abroad, etc.

⁷²⁷ Section 6(1)(2) of the AML/CTPF Law. *Latvijas Vēstnesis*, 116, 30.07.2008; *Latvijas Republikas Saeimas un MK Ziņotājs*, 16, 28.08.2008 Available at: <https://likumi.lv/ta/id/178987-noziedzigi-iegutu-lidzeklu-legalizācijas-un-terorisma-un-proliferācijas-finansēšanas-novēršanas-likums>

⁷²⁸ The FIU, ML typologies and characteristics. Available at: https://fid.gov.lv/uploads/files/Dokumenti/Vadl%C4%ABnijas%2C%20rekomend%C4%81cijas/FID_Tipologiju_materials_2020.pdf. The FIU, ML typologies and characteristics, 2nd update. Available at: https://fid.gov.lv/uploads/files/2021/FID_Tipologiju%20materials_II_red.pdf.

⁷²⁹ A large part of the criminal proceedings initiated during the reporting period are related to possible criminal transactions in credit institutions under liquidation conducted prior to 2019 and are accordingly not included in this document as they are not relevant to the current ML risk profile.

Accordingly, the unavailability of complete information or the time and resources required to obtain is a major vulnerability factor in both identification and investigation.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.7.	Credit institutions, PI/EMI, PPS	Payment services, PPS services	Legal entities involved in economic activity transfer funds via legal arrangements registered in Latvia, including newly established entities, to legal entities registered both abroad and in Latvia acting also as intermediaries (and are fictitious). Transfers are substantiated as payments for an article or a service. After a series of fictitious transactions, funds are debited in cash or an exclusive product or service is purchased.	Tax evasion, trafficking in human beings

11.1.8. Depending on the context of the transactions, the cash generated by the risk scenario may be used both to finance criminal offences (e.g. payment of "envelope wages") or for spending in the ML integration phase. During the reporting period, a working group was organised within the framework of the FIU CCG platform involving participation of the FIU and other institutions of the ML/TF/PF prevention system, including the private sector. The working group identified typologies and risk indicators relevant to Latvia's tax risk profile and developed a common methodological material.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.9.	Credit institutions, PI/EMI, PPS	Payment services, PPS services	Funds are moved giving appearance of economic activity; payments are based on purposes that are difficult to verify - loan or repayment, payment for advice, other.	Tax evasion, corruption, cross-border cashless flows

11.1.10. For the mentioned risk scenario, significance of the threat posed by various national predicate offences in relation to the threat posed by foreign predicate offences increases during the reporting period. At the same time, suspicious transaction reports show that the reporting entities are able to identify this risk, while the progress of cases in the courts shows that the FIU, the LEAs and the public prosecutor office are able to analyse, investigate and prove these types of cases.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.11.	Credit institutions, PIs/EMIs, VC service providers	Payment services, VC services	Transit payments are made, funds are debited soon after they are received in the account — transferred on, debited in cash or used to purchase VC.	Crimes against property, cross-border non-cash flows

11.1.12. During the reporting period, rise in digital crime has been accompanied by a significant increase in both domestic and foreign fraud cases (most of them involving amounts up to 10 minimum monthly wages per episode), where funds are laundered through transit payments using both money mule networks and so-called "blind money mules"⁷³⁰. Transit payments are most typical

⁷³⁰ Victims of fraud who have been defrauded of access to online banking or other payment tools.

of digital frauds, but also used in other predicate offences of ML schemes, including as remittances of financial instruments.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.13.	Credit institutions, PI/EMI, PPS	Payment services, PPS services	Accounts of shell arrangements or fictitious legal entities that do not formally meet the characteristics of a shell arrangement are used to move funds from the crime scene under the cover of fictitious transactions to conceal the criminal origin of the funds.	Cross-border cashless flows, national predicate offence

11.1.14. The most relevant ML risk scenario of the NRA 2020 reporting period has remained valid also during the NRA 2023 reporting period, although not to the same extent as until 2019. Along with the restriction on dealing with shell arrangements that meet certain characteristics⁷³¹ and the reforms made in the financial sector at the end of the NRA 2020 reporting period, vulnerability to this ML risk scenario both in the financial sector and nationwide in general has reduced significantly. Historical progress of the 1st ML risk profile⁷³² cases in LEAs, the public prosecutor's office and in the court also demonstrates the ability of the ML/TF prevention and enforcement system to investigate cases of this scenario and prove the criminal origin of funds.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.15.	Credit institutions, PI/EMI, PPS, RE agents, traders, credit service providers	Payment services, PPS services, RE services, trade services, credit services	Goods, property or capital shares are sold at an inappropriate price (significantly above or below market value). Services are provided at inappropriate prices, such as rent on machinery, cars or space.	All threat sections

11.1.16. This risk scenario remains relevant in the current reporting period and is identified as one of the dominant risk scenarios in several threat groups - criminal offences committed in state authority service, tax evasion, threats posed by foreign predicate offences. Both the reporting entities and the FIU and LEAs use different databases and information resources on a daily basis to identify and substantiate non-compliance, as well as different authorities perform monitoring measures of this risk scenario.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.17.	Credit institutions, PI/EMI, Credit service providers	Payment services, credit services	Legally earned income is debited in cash and merged with criminally obtained cash to disguise the criminal origin of the cash. The cash proceeds of crime are declared as cash savings, generated from cash disbursements of legitimate income.	Criminal offences committed in state authority service, national predicate offence

⁷³¹ Characteristics of shell arrangements are defined in Section 1(15¹) of the AML/CTPF Law. Credit institutions, PIs, EMIs, investment firms and, with respect to the management of individual customer portfolios and the distribution of open-end funds, investment management firms are also prohibited from entering into and maintaining business relationship or carrying out a casual transaction with a shell arrangement if it simultaneously meets the characteristics set out in the definition of a shell arrangement in Section 1(15.1)(a) and (b) of the Law. FCMC, Recommendations for the establishment of an ICS for management of ML/TF prevention and sanctions risk and customer due diligence, p. 39, Paragraph 130.

Available at: https://www.bank.lv/images/pielikumi/tiesibu-akti/Ieteikumi_AML_Ieksejas_kontroles_sistemas_izveidei_Rokasgramata_2021.pdf.

⁷³² ML risk arising from the historic status of a regional financial centre.

11.1.18. The risk scenario is particularly characteristic of criminal offences in state authority service, where cash bribes in cases of systematic corruption are often relatively small, but are regularly received. The cash provisions can be used as a down payment on a mortgage or lease, while subsequent monthly payments are made from the legal income, with the cash being used for daily spending.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.19.	All sectors	All services	The funds are made available to the perpetrator's associates and used to purchase vehicles, exclusive goods, buy or build real estate, or pay off debts.	National predicate offence

11.1.20. The risk scenario is typical of the third, integration phase of ML. In practice, the related persons of the perpetrator and the scheme implementer can be easily identifiable (relatives, employees of the same company) or difficult or even impossible to identify - relationships not officially registered, friends, other members of the OCG. During the reporting period, capacity building continued with regard to parallel financial investigations in the LEAs, as well as to cooperation with the FIU within the framework of the Operations Centre.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.21.	All sectors	All services	Unexplained wealth or income of a person.	All threat sections

11.1.22. The risk scenario is typical of the third, integration phase of ML. During the reporting period, capacity building continued in relation to parallel financial investigations in the LEAs, as well as cooperation with the FIU in the operational centre. For a proactive identification of risk scenario, it is essential to continue to work on the availability, compatibility and processing capabilities of the databases available to the FIU and LEA analysts, as well as to further develop directions of the strategic and tactical analysis.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.23.	Credit institutions; PI/EMI, lottery and gambling operators, FCTs, collection service providers, traders of goods and services ⁷³³	Cash deposit, cash purchase, currency exchange	Criminal funds in cash are used to purchase goods, services and are placed in the Latvian financial system	Cross-border cash flows, illicit trafficking in narcotic drugs, illicit trafficking in excise goods, criminal offences in state authority service

11.1.24. During the reporting period, restrictions on the use of cash remained in place. Neither natural nor legal entities are allowed to carry out cash transactions exceeding EUR 7,200 outside the services of credit institutions and payment service providers,⁷³⁴ which reduces the vulnerability to this risk scenario. In order to perform larger-scale transactions, criminals need to make a cash deposit or agree with the counterparty to breach the limit. During the reporting period, capacity to control cross-border cash flows was significantly strengthened. Covid-19 restrictive measures had a significant, mitigating effect on vulnerability with regard to cross-border flows of criminal cash.

⁷³³ Dealers in precious metals, precious stones and articles thereof, dealers in cultural monuments, dealers in art and antiques, dealers in vehicles, other goods and services.

⁷³⁴ Section 30 of the Law On Taxes and Duties. *Latvijas Vēstnesis*, 26, 18.02.1995; *Latvijas Republikas Saeimas un MK Ziņotājs*, 7, 13.04.1995 Available at: <https://likumi.lv/ta/id/33946-par-nodokliem-un-nodevam>

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.25.	Credit institutions, PI/EMI, IF/IMC	Payment services, investment services, safe deposit box	Accounts and/or safe deposit boxes of individuals in Latvia are used to hide funds and move them away from the crime scene.	Foreign predicate offence

11.1.26. The VC risk assessment developed by the FIU in 2021 identified the expected increase in the use of VCs for the storage of proceeds of crime. At the same time, traditional financial services remained important in the conduct of ML during the reporting period. This risk has significantly decreased compared to the NRA 2020 reporting period, while remaining relevant also in the current reporting period.

	Sectors	Services	Risk scenario	Corresponding threat section
11.1.27.	Credit institutions, PI/EMI, VC service providers, lottery and gambling operators, traders in goods and services, collection service providers	Payment services, cash deposit, cash purchase, VC services	Proceeds of crime are converted into VC and moved away from their place of origin through unregistered VC service providers.	Foreign predicate offence

11.1.28. A new phenomenon identified during the reporting period is the use of unregistered VC service providers in ML schemes. Within the framework of the risk scenario, a professional ML service provider with sufficient amount of VCs accepts the funds in cash and transfers the corresponding amount in virtual currencies to the criminals. Although the exchange will not be detected by the subject of the AML/CTPF Law, the unregistered VC service provider must carry out further cash laundering after the transaction.

12. Financial Access Products

12.1. General Description

- 12.1.1. The WB methodology provides for that a financial access product means a product which is aimed at creation of access to the financial sector for disadvantaged groups of society. Such products aim to provide sustainable access to a range of essential services that meet the needs of legal entities or natural persons in the economy, including access and the right to conduct transactions, make payments, open and maintain savings accounts and obtain credit or insurance.⁷³⁵ The Covid-19 pandemic in particular reinforced the need for increased digital financial inclusion so that individuals have access to the financial sector during the restrictions on movement introduced during the reporting period.⁷³⁶ When assessing financial access products, the WB methodology specifically points to the need to consider the following factors:
- 12.1.1.1. whether the product has a low ML/TF/PF risk level;
 - 12.1.1.2. whether exceptions with regard to the ML/TF/PF controls are provided for or planned in relation to the product.
- 12.1.2. The FATF connects the problem of financial access to groups of society excluded from or underserved by formal financial services, including (natural) persons such as low-income people, people living in rural areas, people without identification documents,⁷³⁷ refugees and asylum seekers,⁷³⁸ as well as other groups excluded from or underserved by formal financial services. Taken into consideration the risk mitigating measures implemented in the financial sector during the reporting period, in addition to the range of offer of financial access products, this chapter addresses the impact of risk mitigating measures on financial accessibility for both natural persons and legal entities.
- 12.1.3. Lack of access to formal financial services does not undermine the need of different groups of society to pay for purchases, transfer funds and carry out other transactions. In order to avoid creating a situation where these groups of society are forced to use unlicensed, unregulated or even illegal financial services, it is necessary to promote the supply of financial access products by adapting ML/TF/PF controls that are proportionate to the ML/TF/PF risks of the products offered.
- 12.1.4. A number of factors affect financial access. Some of the most important are structural - socio-economic inequality, territorial access to financial products and services, or even the level of infrastructure development. According to the study "Financial literacy of the Latvian population" conducted by the Bank of Latvia, in 2022 only 90% of respondents had access to the internet.⁷³⁹ This figure is in line with WB statistics showing that only 91% of the population uses the internet.⁷⁴⁰ It should be noted that this is a significant increase from the 86% of the population using the internet at the end of the NRA 2020 reporting period.⁷⁴¹ The WB's digital payments statistics show similar growth - 93% of the Latvian population made a digital payment in 2021 compared to 83% in 2017, which indicates on significant growth and security in the use of digital payment tools.⁷⁴²
- 12.1.5. The Bank of Latvia's research also shows that more educated and better-informed people are more likely to use financial products.⁷⁴³ According to WB statistics, 75% of the population with secondary education and 91% of the population with higher education made digital payments

⁷³⁵ WB, *Financial Inclusion*. Available at: <https://www.worldbank.org/en/topic/financialinclusion/overview#:~:text=Financial%20inclusion%20means%20that%20individuals,a%20responsible%20and%20sustainable%20way.>

⁷³⁶ Ibid.

⁷³⁷ *Financial Action Task Force Guidelines*, "Anti-Money Laundering and Countering the Financing of Terrorism and Financial Access", p.5, published in 2013. Available at: http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf

⁷³⁸ *Financial Action Task Force Guidelines*, "Anti-Money Laundering and Countering the Financing of Terrorism and Financial Access", p.3, updated in 2017. <http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf>

⁷³⁹ The surveys are only indicative. A variety of reasons may influence the significant change between the 2023 and 2019 survey results, including changes in terminology in the survey (in the 2022 survey, "bank account" was changed to "current/payment account"), reluctance to provide truthful answers, or other circumstances. Bank of Latvia, *Financial Literacy Survey of the Latvian Population 2022*, p. 5. Available at: <https://www.finansupratiba.lv/wp-content/uploads/2023/05/Finansu-pratibas-aptauja-2022-10052023.pdf>

⁷⁴⁰ WB data. Available at: <https://data.worldbank.org/country/LV>

⁷⁴¹ Ibid.

⁷⁴² WB data. Available at: <https://databank.worldbank.org/reports.aspx?source=1228>

⁷⁴³ Bank of Latvia, *Financial Literacy Survey of the Latvian Population 2022*, p. 40. Available at: <https://www.finansupratiba.lv/wp-content/uploads/2023/05/Finansu-pratibas-aptauja-2022-10052023.pdf>

in 2021.⁷⁴⁴ Financial accessibility is influenced also by the existence of the financial access products themselves.

- 12.1.6. In the aforementioned study of 2022, 42% of the 18–79-year-old respondents surveyed indicated they did not use a current or payment account, a significant increase compared to 2019, when 10% of those surveyed did not have an account with a credit institution.⁷⁴⁵ It should be noted that changes in the results are mainly related to the rewording of the questions from "account with a credit institution" to "current account", which may lead to confusion about the nature of the question. However, it is important to mention that, in the 2022 survey, 34% of respondents are actively saving in cash, indicating on a willingness to use an alternative to a payment account.⁷⁴⁶ This choice is partly based on a lack of confidence in the safety of money invested in credit institutions - 55% of respondents do not believe that "money will be safe even if the bank goes bankrupt".⁷⁴⁷ These results indicate a lack of understanding of the Deposit Guarantee Fund, which provides all natural and legal entities with reimbursement for deposits of up to EUR 100,000 per bank.⁷⁴⁸ It should be noted that, in the 2019 survey referred to in the NRA 2020 reporting period, 10% of respondents justified the need for cash by inability to use a bank account - they had no bank account, it was blocked for recovery and similar reasons were mentioned.
- 12.1.7. In the question on payment products included in the aforementioned study, in 2022, 41% of respondents said they did not have a payment product.⁷⁴⁹ In 2019, 24% of respondents participating in the same survey said they did not have a bank card, which indicates on a growing proportion of such population. It is possible that the significant changes in the respondents' answers are also related to the reformulation of the questions from "bank payment card" to "payment product", which may lead to confusion about the subject matter of the question. Increased use of payment products and number of persons served by banks in Latvia is indicated also by WB statistics - in 2021, 97% of the population had a payment account, which is a significant increase since 2017, when only 93% of the population had accounts. Increase is shown by the bank card statistics of the Bank of Latvia. The number of cards with a payment function in Latvia increased from 1,975,723 to 2,114,215 between 2018 and 2021.⁷⁵⁰ The total number of payment accounts decreased from 3.324 million to 3.057 million over the same period, supporting the likelihood that individuals are opening more payment accounts with foreign credit institutions.⁷⁵¹ Access to a bank or payment account is one of the most important indicators of people's financial inclusion.
- 12.1.8. Although people have indicated in surveys that they might not use banking services, changes in the value and number of cash transactions served by credit institutions over the reporting period indicate that cash use in Latvia is decreasing, especially in credit institutions, and that online banking services or cards are being used more instead.⁷⁵²

⁷⁴⁴ WB data. Available at: <https://databank.worldbank.org/reports.aspx?source=1228>

⁷⁴⁵ Bank of Latvia. *Financial Literacy Survey of the Latvian population 2022*. Page 33. Available at: <https://www.finansupratiba.lv/wp-content/uploads/2023/05/Finansu-pratibas-aptauja-2022-10052023.pdf>

⁷⁴⁶ Ibid, page 22.

⁷⁴⁷ Ibid, page 44.

⁷⁴⁸ The *Deposit Guarantee Fund has been established and operates on the basis of the Deposit Guarantee Law*. Available at: <https://likumi.lv/ta/id/274737-noguldijumu-garantiju-likums>

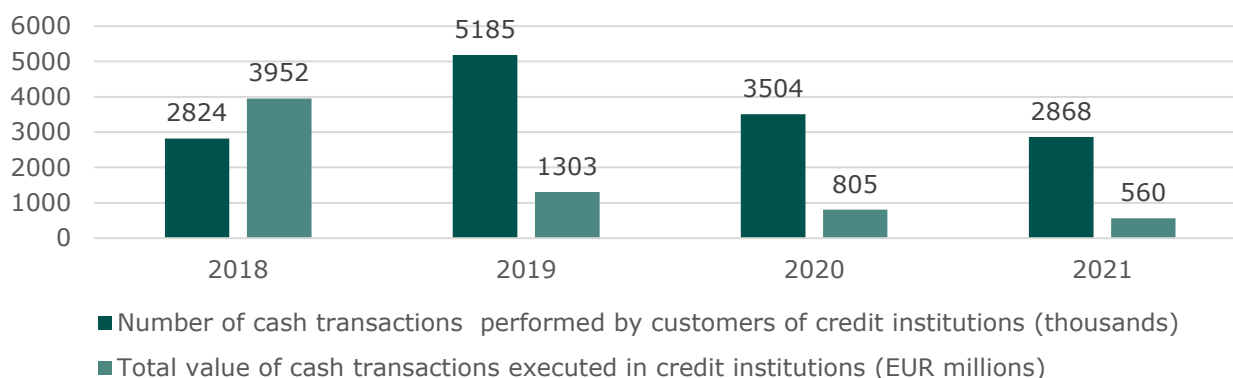
⁷⁴⁹ Bank of Latvia. *Financial Literacy Survey of the Latvian population 2022*. Page 20. Available at: <https://www.finansupratiba.lv/wp-content/uploads/2023/05/Finansu-pratibas-aptauja-2022-10052023.pdf>.

⁷⁵⁰ Bank of Latvia statistics.

⁷⁵¹ Bank of Latvia statistics.

⁷⁵² Bank of Latvia statistics. It should be noted that, in 2020 and 2021, there was the spread of the Covid-19 pandemic, which encouraged people to pay electronically (the number of online platforms and purchases made thereon increased).

Chart 12.1.1 - Changes in value and number of credit institutions' cash transactions, 2018-2021⁷⁵³



- 12.1.9. In order to further develop financial accessibility and compliance with the EU Accessibility Directive⁷⁵⁴, the Finance Latvia Association published Guidelines on Accessibility of Financial Services in 2023, following consultation with public authorities, NGOs and outsourced banking service providers.⁷⁵⁵ The guidelines contain information on how to develop accessibility to ATMs, internet banking, authentication devices, face-to-face services, service contracts and other necessary services, including for people with disabilities or functional limitations. From 948 since the previous reporting period in 2019 to 901 in 2021, an appropriate decrease given the increase in online payments.
- 12.1.10. Municipal social services, long-term social care and social rehabilitation institutions and other cooperation partners of the Ministry of Welfare have indicated that part of the persons in their care choose not to open current accounts with credit institutions by taking the opportunity to receive pension, benefit and other payments in cash by "Latvijas Pasts" home delivery or in PNS account instead⁷⁵⁶. Possible considerations influencing the choice not to use the services of credit institutions include the functional impairment of customers, as well as account service charge, which is considered unprofitable at low account turnover. According to the Ministry of Welfare, certain groups of society may be limited in their access to financial products due to their low income and lack of practical knowledge and skills in using certain products, including credit cards and internet banking, which may lead to a situation where cash payments are preferred for transactions.
- 12.1.11. The State Probation Service worked with 16,352 persons in 2021 compared to 13,600 in 2019.⁷⁵⁷ This includes an increase in the number of persons with a criminal sanction within the framework of compulsory labour - from 8,605 persons in 2021 to 7,021 in 2019, and a decrease from 6,579 within the framework of supervision to 5,709 in 2021. Although frequent refuse of the credit institutions to open accounts to persons convicted of the aforementioned and other financial crimes is expected, the State Probation Service has not identified any groups of people denied financial services during its work with probation customers.⁷⁵⁸ At the same time, certain groups of people have been identified as having difficulties accessing financial services for personal reasons, including:
- 12.1.11.1. people without regular employment;
 - 12.1.11.2. low-income earners;
 - 12.1.11.3. people with outstanding credit obligations;
 - 12.1.11.4. people who are addicted to drugs and/or gambling and have financial problems related to their addiction;
 - 12.1.11.5. people who do not want to receive formal financial services because they are being pursued by bailiffs.

⁷⁵³ Bank of Latvia statistics.

⁷⁵⁴ Directive (EU) 2019/882 of the European Parliament and of the Council of 17 April 2019 on the accessibility requirements for products and services. Available at: <https://eur-lex.europa.eu/legal-content/LV/ALL/?uri=CELEX:32019L0882>

⁷⁵⁵ Finance Latvia Association. *Accessibility to financial services* (2023) Available at: <https://www.financelatvia.eu/wp-content/uploads/2023/04/Vadlinijas-Finansu-pakalpojumu-pieklustamiba.pdf>

⁷⁵⁶ Postal Settlement System payment account. This is a payment account at the post office. Available at:

https://www.pasts.lv/uznemumiem/finansu_pakalpojumi/maksajumu_konts1/1781-pns-maksajumu-konts/

⁷⁵⁷ State Probation Service. *Public Report 2022*. Available at: <https://www.vpd.gov.lv/lv/media/1587/download?attachment>

⁷⁵⁸ Ibid.

12.2. Financial Access Products in Latvia

Basic Account

- 12.2.1. In 2017, the Law on Payment Services and Electronic Money introduced a regulation on the consumer's basic account.⁷⁵⁹ The regulation has been introduced by transposing the requirements of the EU directive.⁷⁶⁰ A basic account is any current account with basic features that can be used for deposits and withdrawals within the EU, as well as for card and online transactions.
- 12.2.2. A consumer who is an EU resident, including a person who does not have a residence permit but whose expulsion from Latvia is not possible under the laws and regulations, has the right to open and use a basic account with credit institutions that conduct business in Latvia and offer it. Credit institutions are obliged to refuse to open a basic account if the opening or maintenance of such an account would result in a breach of the requirements of laws and regulations or if the consumer has provided false information for the opening of a basic account. Credit institutions are entitled to refuse the opening of a basic account in any of the following cases:
 - 12.2.2.1. the consumer already has a payment account with that or another credit institution;
 - 12.2.2.2. the consumer is no longer resident in the EU;
 - 12.2.2.3. opening or maintenance of a payment account may expose the credit institution to reputational risks.
- 12.2.3. The Ombudsman, assessing the application of the regulatory framework in practice in the context of the information available to the Ombudsman's Office, has indicated that in cases when credit institutions refuse to open a basic account on the basis of restrictions imposed by sanctions or on the basis of the fact that a person has violated the requirements of the laws and regulations on the ML/TF/PF prevention, their actions comply with the requirements of the laws and regulations, including the requirements of Directive 2014/92⁷⁶¹. At the same time, if a credit institution refuses to open a basic account for a person whom the credit institution considers to be a high-risk customer but who has not violated the requirements of the laws and regulations concerning ML/TF/PF prevention, such action of the credit institution does not comply with the requirements of the laws and regulations with regard to the provision of a basic account with basic features. In 2020, the Ombudsman's Office initiated a discussion with human rights institutions of other EU Member States on the application of Directive 2014/92 in those Member States, including the application of the prohibition to open a basic account for persons who have violated the requirements of the laws and regulations on the ML/TF/PF prevention.
- 12.2.4. In 2020, the EC, in its reply to the Ombudsman's questions, stated that there was no conflict between the requirements of the ML/TF/PF AML/CTPF Law and regulations and the consumer basic account rules.⁷⁶² The EC confirmed that the consumer's basic account right cannot permit any violations of the ML/TF/PF prevention requirements, which require a connected person to refrain from entering into a business relationship with a customer if it is unable to meet the customer verification requirements. The basic account rules cannot affect the quality-of-service providers' compliance with ML/TF/PF prevention requirements.
- 12.2.5. The basic account is not distinguished as a separate type of account in the Credit Institutions Information System. Transactions in the account are subject to transaction monitoring

⁷⁵⁹ Amendments to the Law on Payment Services and Electronic Money - Chapter 13¹. *Latvijas Vēstnesis*, 43, 17.03.2010 Available at: <https://m.likumi.lv/doc.php?id=206634>

⁷⁶⁰ Directive 2014/92/EU of the European Parliament and of the Council on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. Available at: <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32014L0092&qid=1688728259185>

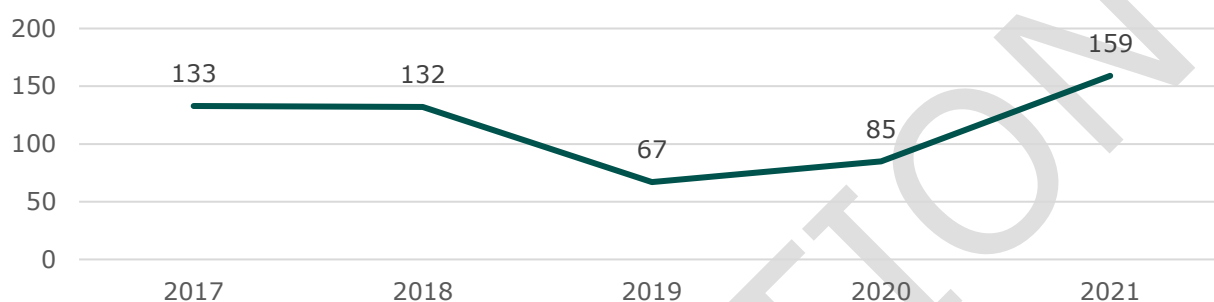
⁷⁶¹ Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. Available at: <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32014L0092&qid=1689932449094>

⁷⁶² EC. Report of the European Ombudsman closing query Q4/2020/MHZ from the Ombudsman's Office of the Republic of Latvia with regard to the right to access basic banking services such as a basic bank account and payment facilities, in particular, if the individual is unable to comply with the EU Anti-Money Laundering Directive. Available at: <https://www.ombudsman.europa.eu/en/decision/en/130750>

measures to mitigate the ML/TF/PF risks in accordance with the risk assessment carried out. At the same time, credit institutions point out that applications for basic accounts are rare.⁷⁶³

- 12.2.6. The FCMC developed explanatory material together with the CRPC and the Finance Latvia Association on the provision of a consumer basic account service. The material developed is intended for credit institutions and supervisory authorities to promote a common understanding of the application of laws and regulations related to the provision of this service, as well as the availability of the basic account service to consumers.⁷⁶⁴
- 12.2.7. Only natural persons who are EU residents or natural persons whose expulsion from Latvia is not possible according to the laws and regulations may be customers of the basic account.

Chart 12.2.1 - Number of basic accounts in Latvia 2017-2021.



- 12.2.8. Taken into consideration the fact that potential customers include asylum seekers, including from countries with a high TF and/or PF risk, this financial access product has a medium-low ML/TF/PF risk.

SJSC "Latvijas Pasts" Financial Services

- 12.2.9. According to the information available on the websites of credit institutions, at the end of the reporting period 5 credit institutions had branches outside Riga, which is a decrease from the previous year when such branches were operated by 6 credit institutions. The total number of branches outside Riga has also decreased. However, most of them are in the cities of the republic, so the total number of cities outside Riga with one or more credit institutions' customer service centres is lower than at the end of the previous reporting period. Access to financial services outside the cities of the republic and regional centres is provided by offices of "Latvijas Pasts." Post offices outside Riga, where you can use financial services provided by "Latvijas Pasts," are located in 601 places in Latvia, which represents 30 more than in 2019.⁷⁶⁵
- 12.2.10. "Latvijas Pasts" provides such financial services as:⁷⁶⁶
- 12.2.10.1. current account (with cash deposit and withdrawal facilities);
 - 12.2.10.2. giro payments (for utility bills);
 - 12.2.10.3. cash deposit into an account opened with a Latvian credit institution;
 - 12.2.10.4. domestic cash remittances;
 - 12.2.10.5. cross-border cash remittances;
 - 12.2.10.6. Provision of "Western Union" services (cash remittances).

⁷⁶³ The FIU data.

⁷⁶⁴ Consumer Rights Protection Centre. *Provision of consumer's basic account service.* Available at: https://registri.ptac.gov.lv/sites/default/files/fktk_skaidrojums_pamatkonts_07092020.pdf

⁷⁶⁵ Latvijas Pasts. *Locations of provision of postal services.* Available at: https://www.pasts.lv/lv/kategorija/pasta_nodalas/

⁷⁶⁶ Historically, transactions of Latvijas Pasts could not be carried out remotely, since it was not possible to link a payment card to a current account and internet banking was not available on the PNS. After the end of the reporting period, in April 2023, Latvijas Pasts provides PNS customers with VISA debit cards as well as the mobile application *Latvijas Pasts Pay*. The mobile app will provide the opportunity to manage your money using your Latvijas Pasts account and VISA payment card: make secure payments at POS and online, request a balance sheet, apply for virtual and physical cards, freeze a lost card and other account management services. These services are being introduced in response to changing customer habits and the growing use of digital payments. See Latvijas Pasts, "VISA payment cards now available for Latvijas Pasts customers", Available at: <https://www.pasts.lv/lv/zinas/7336-latvijas-pasta-klientiem-tagad-pieejamas-visa-maksajumu-kartes-norekiniem>

- 12.2.11. "Latvijas Pasts" has a license to provide payment institution services.⁷⁶⁷ Financial access products targeting residents with a higher ML/TF/PF risk, such as asylum seekers or people with a criminal record, require enhanced ML/TF/PF prevention controls. The financial services provided by "Latvijas Pasts" facilitate access to financial products for people living in rural areas who are not considered high-risk customers.
- 12.2.12. A significant vulnerability of "Latvijas Pasts" is related to the significant number of post offices. "Latvijas Pasts" needs a large number of customer service specialists, including in sparsely populated regions, who, in addition to other duties of a post office employee, must acquire specific knowledge in the field of ML/TF/PF prevention, be able to identify suspicious transactions and take appropriate action when suspicious transactions are detected. The number of post offices also provides offenders with the opportunity to structure different types of transactions to avoid identifying suspicious transactions and reaching the thresholds set in the threshold declarations. These vulnerabilities are mitigated through internal staff training in the field of ML/TF/PF prevention and a shared IT system for single transaction recording.
- 12.2.13. "Latvijas Pasts" has historically been characterised by a high number and amount of cash transactions, and cash transactions can be carried out both as domestic and cross-border cash remittances, as well as through cash transactions in PNS.⁷⁶⁸
- 12.2.14. This volume of cash transactions is significant, especially given that around 60% of cross-border remittances sent are received outside the EU. For cross-border cash transactions, a transaction threshold has been set according to the risk caused by the counterparty's country. Ongoing supervision of customer transactions is ensured to mitigate the risks of non-compliance with the ML/TF/PF and international and national sanctions requirements.
- 12.2.15. The proportion of non-resident recipients of "Latvijas Pasts" PNS service is small; the PNS account is offered only to foreign customers who have a valid reason for opening a payment account in Latvia, such as issued residence permits, assigned personal identity number or tax code, and who have a relation with Latvia - residence, family or personal or economic activity is related to the territory of Latvia.⁷⁶⁹

Other Credit Institution Services

- 12.2.16. Financial access products include also other services provided by several Latvian credit institutions. Increased access to finance for citizens is created by the possibility to open an account remotely. At the end of 2019, this service was offered by 2 credit institutions, but, in 2022, already by at least 6 credit institutions.⁷⁷⁰
- 12.2.17. During the NRA 2020 reporting period, opening of remote account was available to customers who are natural persons and residents of Latvia. Whereas, during the current reporting period, remote account opening is also available to legal entities with relation to Latvia. Although there is no transaction threshold set for customers opening an account in this way, once certain thresholds are reached, the transactions come to the attention of the responsible ML/TF/PF prevention officers. Extending the range of customers who can open an account remotely to customers who are not residents of Latvia would require an assessment of the need for additional control mechanisms.
- 12.2.18. Several largest banks of Latvia have launched a service that allows users to access, view and make payments from their bank accounts in other Latvian banks using one bank user's online account.⁷⁷¹
- 12.2.19. One of the credit institutions has indicated that it provides a service whereby customers at the retirement age are offered the possibility to add their accounts to those of another customer, thus entrusting the management of their account to a relative or other person. Taken into

⁷⁶⁷ FCMC. *FCMC issues a license to the SJSC (VAS) "Latvijas Pasts" to operate as a payment institution*. Available at: <https://www.bank.lv/statistikas-aktualitates/728-aktualitates/fktk-zinu-arhivs/15682-fktk-izsniedz-vas-latvijas-pasts-licenci-maksajumu-iestades-darbibai>

⁷⁶⁸ See NRA 2017-2022.

⁷⁶⁹ The FIU data.

⁷⁷⁰ The offer of remote services, including the possibility to open an account remotely, is expected to increase during the next reporting period in light of the experience gained during the 2020 emergency. The FIU data.

⁷⁷¹ SEB Bank. *Business accounts opened with other banks can be added to Seb internet bank*. Available at: <https://www.seb.lv/info/bizness/seb-internetbanka-var-pievienot-citas-bankas-atvertos-uznemuma-kontus>

consideration the fact that access to a senior citizen's account in this way does not provide significant opportunities for the commission of an ML/TF/PF, it should be concluded that the service does not possess an increased level of ML/TF/PF risk.

12.3. Impact of Risk Mitigation Measures

- 12.3.1. In February 2020, at the FATF plenary meeting in Paris, it was announced that Latvia is the first Moneyval member to have successfully implemented all of the FATF's 40 recommendations. During the reporting period, a number of measures were taken to improve the laws and regulations, as well as to align the field of AML/CTPF in general,⁷⁷² which has been dubbed the "financial sector overhaul". One of the most important risk mitigation measures was the transformation of the business focus in the Latvian banking sector, which was basically implemented as a self-cleansing from customers entailing disproportionately high or incomprehensible risk.
- 12.3.2. According to the Finance Latvia Association's data on number of customers⁷⁷³, during the period between 2020 and 2022, the total number of customers of credit institutions has decreased by more than 17,500. Between June 2020 and December 2021, the number of customers-legal entities in credit institutions decreased by more than 7,000. During the same period, the number of customers-natural persons decreased by more than 23,000. These changes partly form a continuation of the termination of business relations implemented by various banks from the previous reporting period and the decrease after 2022 is related to the termination of various customer relations with some Russian and Belarusian credit institutions.
- 12.3.3. In 2021, the FATF published a study on the unexpected consequences of implementing the FATF Standards.⁷⁷⁴ The FATF pointed out that *derisking* is an ongoing implicit risk within the framework of implementation of the AML/CTPF. Often, customers and deposits that were removed from the Latvian financial sector as a part of the *derisking* process move their current accounts and deposits to financial sectors of other countries.
- 12.3.4. As a result of risk mitigation measures, existing customers of the Latvian financial sector have moved their accounts not only to foreign credit institutions, but also to foreign PIs and EMIs. Accounts to foreign EMIs were transferred by both high-risk customers and customers which have chosen to move to less regulated foreign EMIs because of the risk mitigation measures introduced in the Latvian financial sector.
- 12.3.5. One of the observations of current reporting period is the intensified opening of bank accounts by Latvian natural persons and legal entities with foreign banks and payment service institutions, especially in internationally accessible financial institutions, where account can be opened remotely without physical presence. According to data compiled by the FIU, the number of Latvian legal entities in the Lithuanian electronic money institutions sector alone is no less than 20% of all the Latvian legal entities, while the number of Latvian natural persons is conservatively estimated to be no less than 15%, but possibly even twice as high.⁷⁷⁵ According to the data available to the FIU, the number of customers - Latvian legal entities and natural persons at such foreign banks and payment service providers has been on an upward trend during the reporting period, and this trend is expected to continue.⁷⁷⁶
- 12.3.6. The increasing competition in the field of modern financial services, the need to settle efficiently with certain service providers, and other factors have also contributed to the opening of accounts abroad. At the same time, part of the increase could be explained by Latvian natural persons and legal entities which have transferred their activities to other financial institutions after terminating their business relations with Latvian financial institutions, including with a view to use the services of financial institutions whose customer due diligence and transaction monitoring measures are significantly lower than those of Latvian financial institutions.


⁷⁷² For more details, see the chapters "Changes in the regulatory framework of the ML/TF prevention and enforcement system" and "International assessment of the Latvian ML/TF prevention and enforcement system".

⁷⁷³ Finance Latvia Association. *Interactive data*. Available at: <https://www.financelatvia.eu/interaktivie-dati/#banku-klientu-skaitis>

⁷⁷⁴ FATF. *High Level Summary on the Unexpected Consequences of Implementing the FATF Standards Circular (2021)* Available at: <https://www.fatf-gafi.org/en/publications/FinancialInclusionandPoissues/Unintended-consequences-project.html>

⁷⁷⁵ Data on the largest operators, compiled by the FIU.

⁷⁷⁶ The FIU data.

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- 12.3.7. Majority of natural persons and legal entities have not informed the SRS about their accounts abroad.⁷⁷⁷ Given that legal entities are obliged to notify the SRS of accounts opened abroad, this discrepancy in data and the significant number of suspicious transaction reports received by the FIU suggest that part of the Latvian legal entities that have moved their accounts to foreign PIs/EMIs may be using these foreign accounts for the purposes of tax related crimes, ML and other criminal offences.
- 12.3.8. Given that one of the prerequisites for effective management of ML/TF/PF risks is that transactions are monitored and take place within the framework of the financial system, migration of Latvian financial sector customers, including Latvian natural persons and legal entities, away from the Latvian financial sector is seen as a significant factor increasing ML/TF/PF risks, especially in cases where the foreign account is the sole or basis current account of the person. Given that a significant number of Latvian residents have a current account in Lithuania, there is also a risk that the growing ML risks in the Lithuanian financial sector could have negative side-effect risks also in Latvia.⁷⁷⁸
- 12.3.9. The next reporting period needs to assess how the institutions of the ML/TF/PF prevention system can more effectively review and assess trends *in derisking*. Following the study of the *derisking* trends, it is necessary to decide on a *derisking* strategy.

⁷⁷⁷ SRS data.

⁷⁷⁸ IMF, IMF Nordic Baltic Technical Assistance Project. ML risks are also reflected in the critically low number of suspicious transaction reports, which, according to the data on Latvian customers available to the FIU are provided by certain Lithuanian financial institutions with a significant number of Latvian customers.

13. Proposals for Risk Mitigation Measures

- 13.1.1. Proposals for risk mitigation measures are defined in accordance with the FATF guidelines,⁷⁷⁹ dividing risk management into three categories:
 - 13.1.1.1. Risk prevention or evasion;
 - 13.1.1.2. Risk reduction or mitigation;
 - 13.1.1.3. Risk acceptance, emergency action plan (for lower-level ML/TF/PF risks).
- 13.1.2. ML/TF/PF risk identification, assessment and understanding are essential for the creation and development of an effective ML/TF/PF prevention system. At national level, this can be achieved through adoption of sound political decisions and implementation thereof in the fields in question, while in the private sector it is ensured through the introduction and implementation of adequate internal control procedures.
- 13.1.3. The risks are defined from two perspectives - in line with the risks identified by the NRA and the weaknesses of the ML/TF/PF prevention system, and by assessing the risks that would arise if the current ML/TF/PF prevention measures and developments in the field of ML/TF/PF prevention during the reporting period were discontinued or undermined. Accordingly, part of the risks defined currently are only theoretical in nature with regard to their possible implementation during the next reporting period.
- 13.1.4. In order to facilitate an efficient and clear process, the proposals for risk mitigation measures have been structured in line with the 11 performance indicators of the ML/TF/PF prevention system, enshrined in the FATF standards, which are also in line with the current practice in planning of Latvia's ML/TF/PF prevention policy. Compared to previous periods, performance indicators 3 and 4 have been changed from supervisory and preventive measures to the financial sector as indicator 3 and the non-financial sector as indicator 4, respectively. Accordingly, both performance indicators 3 and 4 look at supervisory issues and preventive measures together, separating them by financial and non-financial sectors. In order to avoid duplication of risks shared by the financial and non-financial sectors and the necessary risk mitigating actions, in case of overlap, the risk is described in the action line assessing the level of risk as being higher.
- 13.1.5. The risk level has been assessed according to two criteria - the probability of the risk occurring and the threat level. The probability of the risk occurring and the threat level are determined according to the analytical tools and analysis principles of the WB methodology. According to the risk level assessment, the risks in each subsection are ranked in descending order, starting with the higher-level risks and ending with the lower-level risks. At the same time, each of the subsections are also substantially considered in the context of the relevant section in NRA 2023, for individual strands (as is the case, for example, for national TF risk) the overall level of risk has been assessed as low.

Action Line 1 - Risks, Policy and Coordination

Risk	Proposals for risk mitigation measures
1.1 The process of summarisation of statistical data in the ML/TF/PF prevention system is not efficient, and the quality and availability of statistical data is negatively affected. <i>Medium-high - probability is medium-high, threat level - medium</i>	1.1.1 Implement a nationwide digital solution for the collection and summarisation of ML/TF/PF statistics in line with the FATF standards. Streamline existing statistics collection processes and initiatives.
1.2 Priorities and activities of the authorities in the ML/TF/PF prevention system are not mutually coordinated and resources are not used efficiently.	1.2.1 Following the publication of NRA 2023, develop a National ML/TF/PF Prevention Strategy - a high-level sector policy document. 1.2.2 Develop a National Plan of Measures for the ML/TF/PF prevention 2024-2026. Ensure mutual sequence for the

⁷⁷⁹ FATF. FATF guidance, National Money Laundering and Terrorist Financing Risk Assessment, pages 22, 27 Available at: https://www.fatf-gafi.org/media/fatf/content/images/National_ML_TF_Risk_Assessment.pdf

Risk	Proposals for risk mitigation measures
<p><i>Medium - probability is medium-low, threat level - medium-high</i></p>	<p>development of NRA, risk mitigation measures and the subsequent national plan of measures for the ML/TF/PF prevention for the next period.</p>
<p>1.3 Authorities of the ML/TF/PF prevention system are not aware of, or interpret differently, the conclusions and risks identified in the NRA 2023.</p> <p><i>Medium - probability is medium-low, threat level - medium-high</i></p>	<p>1.3.1 In line with the conclusions of the NRA 2023, organise educational activities for the institutions of the ML/TF/PF prevention system on their specific ML/TF/PF risks.</p>
<p>1.4 The level of public awareness of ML/TF/PF and other financial crimes is insufficient, with high levels of vulnerability and tolerance to crime on some issues.</p> <p><i>Medium - probability is medium, threat level - medium.</i></p>	<p>1.4.1 Raise public awareness of the need and importance of the ML/TF/PF prevention and the society's ability to recognise ML/TF/PF and other financial crimes.</p>
<p>1.5 Authorities of the ML/TF/PF prevention system are not informed on new ML/TF/PF risks resulting from the introduction of innovative new technologies, as well as from the impact of external national or international factors on the ML/TF/PF area. Preventive actions are delayed.</p> <p><i>Medium - probability is medium-low, threat level - medium.</i></p>	<p>1.5.1 Continue development of regular assessments of new technologies (including potential threats) and the ML/TF/PF risks related thereto.</p> <p>1.5.2 Develop a study of strategic analysis on the impact of a national or international event on the field of ML/TF/PF prevention, as appropriate.</p>
<p>1.6 No risk-based ML risk assessment with regard to the obtaining of investment TRPs according to Section 23(1) (28-31) of the Immigration Law is not conducted.</p> <p><i>Medium - probability is high, threat level - medium-low.</i></p>	<p>1.6.1 Assess the possibility of strengthening controls on persons applying for a TRPs in Latvia on the basis of an investment in a capital company, real estate, credit institution or government securities.</p>

Action Line 2 - International Cooperation

Risk	Proposals for risk mitigation measures
<p>2.1 Some of the LEA investigators do not use the available channels for international cooperation or use them inefficiently.</p> <p><i>Medium-high - probability is medium-high, threat level - medium-high</i></p>	<p>2.1.1 Assess the need to develop comprehensive guidelines (or complement existing guideline documents) on the available channels for international cooperation and the specific character of their use.</p> <p>2.1.2 Evaluate the possibilities of obtaining and further use of information from international criminal legal cooperation in a different way, in line with the conditions of the FATF Recommendation 40.</p>
<p>2.2 International cooperation with countries whose financial and non-financial sector services are widely used by Latvian natural persons and legal entities is not sufficiently active.</p> <p><i>Medium-high - probability is medium, threat level - medium-high</i></p>	<p>2.2.1 Continue and promote the SCI's international cooperation at both Baltic and EU level (including exchange of experience, opinions and proposals in working groups and other formats).</p> <p>2.2.2 Continue to develop international cooperation of the FIU and LEAs with ML/TF/PF prevention authorities abroad, including through strategic and tactical projects, with the aim to identify, understand and assess possible joint measures against transnational ML/TF/PF risks.</p>
<p>2.3 The legal framework for international cooperation, as well as</p>	<p>2.3.1 Assess the effectiveness of international cooperation in the field of ML/TF/PF prevention according to the FATF IO2</p>

Risk	Proposals for risk mitigation measures
<p>the effectiveness of international cooperation are not fully in line with international standards.</p> <p><i>Medium-low - probability is low, threat level - medium</i></p>	<p>standards and FATF Recommendations 37, 38 and 40, including the sufficiency of legal framework.</p> <p>2.3.2 Ensure compliance of international criminal legal cooperation request information system with the FATF Recommendations 37 and 38.</p>

Action Line 3 - Financial Sector

Risk	Proposals for risk mitigation measures
<p>3.1 Customers of financial sector move their funds to financial institutions in other countries, the ML/TF/PF prevention system loses a significant amount of information.</p> <p><i>High - probability is high, threat level - medium-high.</i></p>	<p>3.1.1 Assess trends in financial sector de-risking at the level of the overall ML/TF/PF prevention system. Assess the need for a de-risking strategy.</p> <p>3.1.2 Assess the need to extend the scope of the basic account in the regulatory framework and the possibility to extend it not only to natural persons but also to legal entities.</p>
<p>3.2 Delayed development of the VC service provider sector, proliferation of unregistered service provision and delay in obtaining information for the ML/TF/PF prevention authorities.</p> <p><i>Medium-high - probability is medium-high, threat level - medium-high</i></p>	<p>3.2.1 Continue work on the implementation of a licensing mechanism in the sector of the VC service providers.</p> <p>3.2.2 Assess the introduction of a registration mechanism for the operation of foreign-registered virtual currency service providers in Latvia.</p>
<p>3.3 Criminals exploit identification systems and victims' vulnerabilities to impersonate others, commit fraud and ML.</p> <p><i>Medium - probability is medium-high, threat level medium-high.</i></p>	<p>3.3.1 Assess the possibility of providing, through the Register of Invalid Documents, a solution to the reporting entities that allows identification of a person by means of a photograph.</p> <p>3.3.2 Where necessary - SCIs to collect and analyse data on the most commonly used customer identification methods in the supervised sectors and on criminals' techniques to compromise these methods, thereby adapting the recommendations and guidance to be provided in the supervisory process.</p> <p>3.3.3 The Latvian State Radio and Television Centre to collect, analyse and communicate the main typologies of how the tools it maintains can be compromised, including through the actions of individuals themselves.</p> <p>3.3.4 For the reporting entities - to encourage the development of identification system, to use a set of various identification methods in cases of higher risk, including the use of multi-factor identification that includes both other communication channels and other additional regulated identification methods. Reduce the use of fake identities by continuing measures after the start of the business relations.</p> <p>3.3.5 reporting entities who use the comparison of a self-portrait and a photo of an identity document for identification to promote the effectiveness of the technological solutions used, taking into consideration current trends in the commission of illegal activities.</p>
<p>3.4 The AML/CTPF subject, when performing the duties specified in the AML/CTPF law, unknowingly warns the criminal about the initiated inspection.</p> <p><i>Medium - probability is medium-low, threat level - medium-high</i></p>	<p>3.4.1 Continue to promote the use of the CCG mechanism in priority cases, including prior to the submission of suspicious transaction reports and related AML/CTPF activities.</p> <p>3.4.2 MoF and SCIs to assess the need for changes in the regulatory framework to facilitate the ability the reporting entities to apply a risk-based approach.</p>

Action Line 4 - Non-financial Sector

Risk	Proposals for risk mitigation measures
<p>4.1 The ML/TF/PF prevention system does not have sufficient transparency with regard to suspicious transactions in the field of RE.</p> <p><i>Medium-high - probability is medium-high, threat level - medium-high</i></p>	<p>4.1.1 Assess the feasibility of ensuring the involvement of the reporting entities in all domestic RE transactions.</p> <p>4.1.2 Assess the possibility of developing cooperation between the AML/CTPF and enforcement system and the Land Register.</p> <p>4.1.3 Conduct targeted, educational activities on the current risks of RE for the relevant sectors of the reporting entities, as well as, possibly, for judges and court staff who deal with land registry cases.</p>
<p>4.2 In some sectors, SCIs do not have sufficiently effective mechanisms in place to monitor the start-up and continued operation of the sector.</p> <p><i>Medium-high - probability is medium-high, threat level - medium</i></p>	<p>4.2.1 Develop a study on the impact of the licensing mechanism introduced in the NRA 2023 reporting period on the results in the field of ML/TF/PF prevention of the corresponding non-financial sectors.</p> <p>4.2.2 Assess the introduction of a licensing mechanism in sectors where it does not exist and would be applicable (e.g. TCSPs, tax advisors, independent legal service providers, the cultural goods circulation sector).</p>
<p>4.3 Obtaining the information you need for customer due diligence is complex and time-consuming. ML/TF/PF prevention in relation to the reporting entities is not effective.</p> <p><i>Medium-high - probability is medium-high, threat level - medium</i></p>	<p>4.3.1 Continue measures with regard to creation of a common national information system or improvement of such system connector so that the required information was available in at the same place by using common solutions. Availability of information from national information systems, as defined in the AML/CTPF Law to be provided on a priority basis together in one place.</p> <p>4.3.2 Promote the development of open common customer due diligence tools, thereby supporting solutions for availability of information from national information systems, as defined in the AML/CTPF Law, together in one place also in cases where data interconnection is an excessive burden for the activity of the subject of the AML/CTPF Law.</p> <p>4.3.3 Continue measures to harmonise the fee conditions of Section 5¹(2) and Section 41(2) of the AML/CTPF Law for the provision of information availability to the reporting entities from the information systems of the Republic of Latvia to fulfil the requirements of the AML/CTPF Law, including by assessing the possibility to provide information free of charge.</p> <p>4.3.4 Promote the practice that the use of publicly available, reliable and independent sources is specified in the policies and procedures of the reporting entities, specifying which sources the authority considers reliable.</p> <p>4.3.5 Make information available together in one place to all reporting entities concerning the possibilities of obtaining information and the content of information from the state information systems stipulated by the AML/CTPF Law. Raise awareness of the reporting entities of the usability of available information in the prevention of ML/TF/PF.</p>
<p>4.4 In some sectors, reporting entities are unable to identify and report suspicious transactions, reporting on certain priority fields of the ML risk profile is inadequate for the risk.</p>	<p>4.4.1 Strengthen the consistency of sanctioning policies in the non-financial sector by ensuring deterrent and proportionate sanctions for violations of the AML/CTPF Law.</p> <p>4.4.2 Continue implementing educational activities aimed at increasing the competence and knowledge of the subject of</p>

Risk	Proposals for risk mitigation measures
<p>Medium - probability is medium, threat level - medium</p>	<p>the AML/CTPF Law on ML/TF/PF and risks of sanctions violation and management thereof.</p> <p>4.4.3 Promote the development of ICSs and institution-level risk assessments, including the ability to identify and report suspicious transactions.</p> <p>4.4.4 Implement measures with the purpose to raise awareness of the reporting entities of reporting suspicious transactions through the goAML reporting system, including reporting to the State Revenue Service as required by the Law on Taxes and Duties. Assess the need to clarify the regulation included in the Law on Taxes and Duties with regard to the reporting of suspicious tax transactions.</p>
<p>4.5 Reporting entities are not informed of the ML/TF/PF risks at national level, as well as those specific to their sector.</p> <p><i>Medium - probability is medium-low, threat level - medium.</i></p>	<p>4.5.1 According to the risks and high-risk sectors and services identified in the NRA 2023, ensure systemic notification of the reporting entities of the current ML/TF/PF risks.</p>
<p>4.6 There are different understandings of current ML/TF/PF risks among SCIs, and there is no common approach to the supervision of reporting entities.</p> <p><i>Medium - probability is medium-high, threat level - medium-low</i></p>	<p>4.6.1 Assess the consolidation of supervision and/or supervisory practices in the non-financial sector.⁷⁸⁰</p> <p>4.6.2 Continue ensuring information exchange, mutual coordination and cooperation between the SCIs.</p> <p>4.6.3 Continue cooperation with the FIU and strengthen knowledge on prevention of ML/TF/PF prevention through the CCG platform, the FIU learning platform and the studies developed.</p> <p>4.6.4 Increase SCI's awareness, as well as technological capacity to appropriately deal with the ML/TF/PF risks, including in relation to new technologies and their service providers.</p>
<p>4.7 The ML/TF/PF prevention requirements to the reporting entities are not adjusted to the specific character of the services they provide.</p> <p><i>Medium - probability is medium, threat level - medium-low</i></p>	<p>4.7.1 Assess amendments to the laws and regulations (AML/CTPF Law) that would provide for different requirements for the non-financial sector in the field of AML/CTPF, taking into consideration the differences between the financial and non-financial sectors.</p> <p>4.7.2 SCIs to assess the need to develop guidelines for a risk-based approach to customer due diligence.</p>

Action Line 5 - Legal Entities and Arrangements

Risk	Proposals for risk mitigation measures
<p>5.1 The process of reporting non-compliance of the UBOs consumes significant administrative resources and is not always efficient.</p> <p><i>Medium - probability is medium-high, threat level - medium-low</i></p>	<p>5.1.1 Assess the possibility of changing the reporting flow by involving the FIU in the assessment of UBO non-compliance reports before the information is shared with the SP.</p> <p>5.1.2 In view of the possibly false information on the relation of the UBOs with the ML/TF/PF risks, possibility of criminalisation thereof should be assessed only in cases where a link or intent to commit ML/TF/PF has been established; administrative liability should be determined in other cases.</p> <p>5.1.3 Assess the possibility of granting additional competences to the RoE in the reporting process - upon</p>

⁷⁸⁰ With regard to the consolidation of supervision, supervisory and control authorities have different opinions. Latvian Council of Sworn Advocates (LCSA) points out that it is against the change of the supervisory and control authority in the sector of sworn advocates, taking into consideration the specific character of the sector and the right of every person to an advocate enshrined in Article 92 of the Satversme of the Republic of Latvia.

Risk	Proposals for risk mitigation measures
	<p>receipt of a report, to carry out a preliminary investigation, communicate with the report person and, if necessary, with the legal entity itself, thus preventing the submission of reports to the SP that have arisen from different interpretation or delays in the submission of information.</p> <p>5.1.4 Ensure that notifications and registered alerts are processed as quickly as possible in the RoE. In cases where the reason for registration of an alert has been lost, delete it in a timely manner.</p> <p>5.1.5. Consider the possibility to involve TCSP more actively in provision of relevant and up-to-date UBO information.</p>
<p>5.2 Reporting entities face difficulties in management of the ML/TF/PF risks related to NGOs.</p> <p><i>Medium - probability is medium, threat level - medium-low</i></p>	<p>5.2.1 Continue revising and improving the classification of the NGO's field of activity.</p> <p>5.2.2 Ensure mandatory registration of the field of activity for all NGOs, eliminating the possibility to indicate the field of activity as "Association or foundation not elsewhere classified".</p>

Action Line 6 - Financial Intelligence

Risk	Proposals for risk mitigation measures
<p>6.1 The FIU and LEAs do not have access to data needed for financial intelligence of the maximum quality and level of completeness.</p> <p><i>Medium-high - probability is medium-high, threat level - medium</i></p>	<p>6.1.1 Continue to provide feedback to the reporting entities on the quality of reports.</p> <p>6.1.2 To promote an increase in the number and quality of reports of suspected national offences for ML.</p> <p>6.1.3 Promote increase in the quality of reports from non-financial sector subjects.</p> <p>6.1.4 Revise the Regulation of the Cabinet of Ministers with regard of criteria set for the submission of threshold declarations.</p>
<p>6.2 The FIU and the LEAs have limited capacity to carry out proactive financial analysis to solve ML and other financial crimes. The actions of the FIU and the LEAs in the fight against ML/TF/PF depend directly on the information provided by the reporting entities and other whistleblowers.</p> <p><i>Medium-high - probability is medium-high, threat level - medium</i></p>	<p>6.2.1 Strengthen the capacity and expertise of the FIU and the LEAs in tactical analysis.</p> <p>6.2.2 Assess the possibility of extending authority of the FIU and the LEAs to obtain data from the Accounts Register before criminal proceedings and an investigatory records matter are initiated. Perform evaluation in accordance with the proposal for Directive 2019/1153 regarding access by competent authorities to centralised registers of bank accounts via the Single Point of Access.</p> <p>6.2.3 Assess the possibility of developing the functionality of the Accounts Register, extending the possibilities for the LEAs, the FIU and the tax administration to use the register for tactical analysis (bulk data processing). Assess the funding needed to extend the functionality.</p> <p>6.2.4 Assess the feasibility of the LEAs and the FIU to make large volumes of data available from national information registers for tactical analysis. Assessment should be carried out within the context of the existing joint initiatives between the LEAs, the FIU and national administrations on data fusion matters.</p>

Action Line 7 - Investigation of Money Laundering and Prosecution

Risk	Proposals for risk mitigation measures
<p>7.1 The LEA has insufficient resources to effectively combat ML, including in</p>	<p>7.1.1 Assess priority areas for strengthening the human resources capacity of the SRS TCPD. The assessment to be</p>

<p>relation to the predicate offence for AML that poses the most significant threat. <i>High - probability is high, threat level - high.</i></p>	<p>made in light of the findings of the SAO audit reports,⁷⁸¹ as well as the impact of the increase in the number of criminal proceedings regarding sanctions violations on ML investigations. Strengthen the capacity of the SRS TCPD.</p> <p>7.1.2 Strengthen the analytical capacity of the SP and develop financial investigation skills. Assess the measures to be taken to increase staff, including in relation to investigators working on ML cases and parallel financial investigations.</p> <p>7.1.3 Assess the need for the LEAs to specialise highly trained, better paid investigators for investigations of particularly complex ML and other financial crimes.</p> <p>7.1.4 Improve the technological capacity and skills of investigative authorities.</p> <p>7.1.5 Strengthen the canine service for more efficient border control and continue modernising customs posts, including at the maritime border, by providing container scanning devices.</p> <p>7.1.6 Continue using the FIU Operations Centre as a support function for priority ML criminal proceedings.</p>
<p>7.2 Following the financial sector <i>overhaul</i>, domestic criminals are increasingly conducting their ML activities abroad. It is difficult for the LEAs to access information on jurisdictions and accounts used for ML. <i>Medium-high - probability is medium-high, threat level - medium-high</i></p>	<p>7.2.1 Conduct a strategic analysis study, gathering information held by the FIU and the LEAs, as well as public information, with the aim to identify high-risk jurisdictions where local criminals could be involved in ML and storage of assets.</p> <p>7.2.2 In line with the study's conclusions, cooperation to be improved with the aforementioned countries and develop measures of financial intelligence and analysis.</p>
<p>7.3 After the financial sector <i>overhaul</i>, professional ML service providers continue their operations, frequently providing their services through foreign-registered legal entities and foreign financial services. <i>Medium-high - probability is medium, threat level - medium-high</i></p>	<p>7.3.1 Prioritise the investigation of ML cases involving professional ML service providers, including legal entities.</p> <p>7.3.2 Facilitate cooperation of the FIU and the LEAs with the SCIs in cases where the potential provider of professional ML service is a subject of the AML/CTPF Law.</p>
<p>7.4 Residents of Latvia are vulnerable to digital fraud carried out by OCGs, including frequent loss of access to the means of payment and abuse for ML purposes. <i>Medium-high - probability is medium-high, threat level - medium</i></p>	<p>7.4.1 Continue public campaigns to prevent fraud and educate the groups of society which most frequently fall victims to fraudsters.</p> <p>7.4.2 Promote broader use of the "DNS Firewall" solution developed by Cert.lv among the residents of Latvia.</p> <p>7.4.3 Assess the possible measures to involve internet service providers and telephone operators to reduce the risk of fraud in the digital environment.</p> <p>7.4.4 Further develop cooperation between the different authorities of the ML/TF/PF prevention system and social networks to reduce the availability of fraudulent content.</p>
<p>7.5 SRS customs officials do not have access to the Passengers Name Records, which prevents them from carrying out full customs controls. <i>Medium - vulnerability is medium, threat level - medium</i></p>	<p>7.5.1 Continue assessing the possibility of providing access to the Passenger Name Records for both current and historical passenger data for customs control purposes.</p>

⁷⁸¹ SAO, Is there a possibility to reduce the number of investigative bodies and review the division of competences among them? Available at: <https://www.lrvk.gov.lv/lv/revizijas/revizijas/noslegtas-revizijas/vai-pastav-iespeja-samazinat-izmekšanas-iestazu-skaitu-un-parskatit-kompetencu-sadalijumu-starp-tam>.
SAO, Effectiveness of investigations and trials of the criminal offences in the economic and financial area. Available at: <https://www.lrvk.gov.lv/lv/revizijas/revizijas/noslegtas-revizijas/noziedzigu-nodarjumu-ekonomikas-un-finansu-joma-izmekšanas-un-iztiesasanas-efektivitate>.

<p>7.6 Criminal proceedings for the smuggling and sending across borders of small quantities (<1 g) of narcotic drugs consume a significant part of the SRS TCPD resources.</p> <p><i>Medium - probability is medium-high, threat level - medium-low</i></p>	<p>7.6.1 Consider ways to simplify investigations in cases of small quantities of narcotic drugs being smuggled or sent across borders.</p>
<p>7.7 The regulatory framework with regard to goods and substances that are banned or specifically regulated is inadequate for product groups that have recently entered the market.</p> <p><i>Medium - probability is medium, threat level - medium-low</i></p>	<p>7.7.1 Introduce liability for the illegal movement of e-cigarette liquids in the regulatory framework.</p> <p>7.7.2 It is necessary to supplement the scope of the regulatory framework with regard to products such as nicotine pads, nicotine liquids, etc., by defining the specific affiliation of these tobacco products or substitute products.</p> <p>7.7.3 It is necessary to identify the newest narcotic drugs and psychotropic substances, precursors and to update Annex 2 to the "Law on the Legal Trade of Narcotic and Psychotropic Substances and Medicinal Products, and also Precursors".</p>
<p>7.8 The legal framework does not impose a uniform obligation on all financial institutions to provide the non-disclosable information which is at their disposal to the LEAs.</p> <p><i>Medium-low - probability is medium-low, threat level - medium-low</i></p>	<p>7.8.1 Assess the necessary changes to the regulatory framework to provide for a common procedure for all financial sector institutions to provide the non-disclosable information which is at their disposal to the LEAs.</p>

Action Line 8 - Confiscation

Risk	Proposals for risk mitigation measures
<p>8.1. The LEAs, the public prosecutor's office and the court do not provide systematic implementation of measures for the confiscation of assets. Most frequently, confiscation of the proceeds of crime is carried out in accordance with the procedures of Chapter 59 of the Criminal Procedure Law; confiscation by a judgement of conviction is rare.</p> <p><i>Medium-high - probability is medium-high, threat level - medium-high</i></p>	<p>8.1.1 Inclusion of confiscation of proceeds of crime as a priority in the ML/TF/PF prevention policy planning documents (National ML/TF/PF Prevention Strategy and Plan of Measures).</p> <p>8.1.2 Further strengthen the capacity of the LEAs with regard to parallel financial investigation.</p>
<p>8.2 The process of control and confiscation of cash obtained through crime at the internal and external border of Latvia is not always effective.</p> <p><i>Medium-high - probability is medium-high, threat level - medium-high</i></p>	<p>8.2.1 Continue strengthening and streamlining cash movement controls and the capacity of the SRS Customs Department and the SRS TCPD at Latvia's internal and external borders (in coordination with sanctions control).</p>

Action Line 9 - Investigation of Terrorism Financing and Prosecution

Risk	Proposals for risk mitigation measures
<p>9.1 Investigators have little or no practical experience in the field of investigation of TF-related crimes.</p> <p><i>Medium - probability is medium-high, threat level - low</i></p>	<p>9.1.1 Continue upgrading qualifications of investigators in investigation of TF-related crimes.</p> <p>9.1.2 Continue promoting and strengthening international cooperation in the field of TF investigation and prosecution.</p>

Risk	Proposals for risk mitigation measures
	9.1.3 Further promote and strengthen inter-institutional cooperation and information exchange in the field of TF investigation and criminal prosecution.
9.2 Regulatory framework applicable in Latvia and its application in preventing and combating TF is not fully in line with international good practice. <i>Medium-low - probability is medium, threat level - low</i>	9.2.1 Evaluate and implement the recommendations of the UN Security Council Counter-Terrorism Committee Executive Directorate assessment.
9.3 The NGO sector can be used for TF, there is no single body that would monitor TF risks in the NGO sector on a daily basis. <i>Medium-low - probability is low, threat level - medium</i>	9.3.1 Assess the need to designate an authority to oversee the NGO sector's compliance with the requirements of the FATF Recommendation 8, including through a risk-based approach.

Action Line 10 - Preventive Measures and Financial Sanctions Against Terrorism Financing

Risk	Proposals for risk mitigation measures
10.1 Reporting entities and NGOs are not aware of the TF risks relevant to their sectors. <i>Medium-low - probability is medium-low, threat level - medium</i>	10.1.1 Update TF/PF prevention guidelines. 10.1.2 Raising awareness and competences of the reporting entities and NGOs on TF prevention.
10.2 The reporting entities are not sufficiently informed on the TF risk of certain financial products and services. <i>Medium-low - probability is low, threat level - medium-low</i>	10.2.1 Targeted training for the reporting entities on TF risks of products and services collected within the framework of the NRA 2023.

Action Line 11 - Financial sanctions against proliferation financing

Risk	Proposals for risk mitigation measures
11.1 Investigators have little or no practical experience in investigation of PF-related crimes. <i>Medium - probability is medium-high, threat level - low</i>	11.1.1 Continue upgrading the skills of staff of the investigators in investigating PF-related crimes.
11.2 The authorities of the AML/CTPF and enforcement system are not fully informed about the current risks of breach of financial sanctions by the PF.	11.2.1 Update TF/PF prevention guidelines. 11.2.2 Implement educational measures to raise awareness and competence of the reporting entities of the prevention of violation of PF financial sanctions.

Line 12 - International and national sanctions

Risk	Proposals for risk mitigation measures
12.1 Sanctions are fragmented at national and supranational level and the compliance system of sanctions is ineffective. <i>High - probability is high, threat level - high.</i>	12.1.1 Create a national, centralised authority for sanctions enforcement. 12.1.2 Call for a move at the EU level towards harmonisation and centralisation of the sanctions compliance system, with a view to promoting a common approach at the Member State level, to increase the effectiveness of sanctions.

<p>12.2 The number of criminal proceedings for sectoral sanctions is significant, requiring significant resources from the SRS Customs Department and the SRS TCPD.</p> <p><i>Medium-high - probability is medium-high, threat level - medium-high</i></p>	<p>12.2.1 Assess the possibility to increase the capacity of the SRS Customs Department and the SRS TCPD to control and investigate sectoral sanctions.</p>
<p>12.3 Awareness of the measures to be taken to manage the risk among persons who are not special subjects of the Sanctions Law, but who possess increased risks of sanctions violation and circumvention is insufficient.</p> <p><i>Medium - probability is medium-high, threat level medium-high.</i></p>	<p>12.3.1 Assess ways to improve awareness and understanding of the risks of sanctions violation and circumvention among the institutions and legal entities involved.</p> <p>12.3.2 To inform entrepreneurs possessing a higher risk of sanctions violation and circumvention, other than special subjects of the Sanctions Law, on the measures to be taken to ensure compliance with sanctions.</p>
<p>12.4 There is no clear distinction between the obligations of the reporting entities with regard to reporting of sanctions circumvention and violation to the FIU and the SSS.</p> <p><i>Medium - probability is medium, threat level - medium-low.</i></p>	<p>12.4.1 Amend the Sanctions Law by clarifying the reporting requirements with regard to circumvention and breach of international and national sanctions.</p>


TRANSLATION

14. Appendix No. 1 “Abbreviations and Terms”

Accessibility Directive	Directive (EU) 2019/882 of the European Parliament and of the Council of 17 April 2019 on the accessibility requirements for products and services.
AML/CTPF Law	Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
ARO	Asset Recovery Office, part of the SP
AS	Joint Stock Company
BO	Beneficial owner
Cabinet	Cabinet of Ministers
CARIN	Camden Asset Recovery Inter-Agency Network
Cash-in-transit service providers	Providers of credit services, including financial leasing, where the provision of the services is not subject to licensing
CCG	Cooperation Coordination Group in accordance with Section 55 of the AML/CTPF Law
CCU	Corporate loan and saving companies
CDPC	Centre for Disease Prevention and Control
CIS	Commonwealth of Independent Countries
CPCB	Corruption Prevention and Combating Bureau
CRPC	Consumer Rights Protection Centre
Directive 2011/16/EU	Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC
Directive 2014/92	Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features
Directive 2015/849	Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Regulation (EU) No. 684/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC
Directive 2018/843	Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.
Directive 2019/1153	Directive (EU) 2019/1153 of the European Parliament and of the Council of 20 June 2019 laying down rules facilitating the use of financial and other information for the prevention, detection, investigation or prosecution of certain criminal offences, and repealing Council Decision 2000/642/JHA
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EMI	Electronic money institutions
EU	European Union
Eurojust	European Union Agency for Criminal Justice Cooperation
FATF	Financial Action Task Force
FCMC	Financial and Capital Market Commission
FCT	Capital companies licensed by the Bank of Latvia to buy and sell foreign currency cash
FIU	Financial Intelligence Unit Latvia
FSDB	Financial Sector Development Board
GDP	Gross Domestic Product
goAML	Anti-Money-Laundering System
GSS	Goods of strategic significance
ICS	Internal Control System
IF	Investment firm
IFIT	International Financial Intelligence Taskforce
IMC	Investment Management Company
IMF	International Monetary Fund

ISB	Internal Security Bureau
IT	Information technology
JSC	Joint Stock Company
Land Register	State Unified Computerized Land Register
LCSA	Latvian Council of Sworn Advocates
LCSN	Latvian Council of Sworn Notaries
LEA	Law enforcement authorities
LGSI	Lotteries and Gambling Supervisory Inspection
LISP	Life insurance service providers
LLC	Limited Liability Company
LPA	Latvian Prison Administration
MAIF	Managers of alternative investment funds
MCPP	Economic Crime Enforcement Department of the Main Criminal Police Department
MER	Mutual Evaluation Report
MFA	Ministry of Foreign Affairs
MiCA	The Markets in Crypto-Assets Regulation
Ministry of the Interior Information Centre DWH	Ministry of the Interior Information Centre Data Warehouse System
MKD	Insolvency Control Service
ML	Money laundering
ML/TF	Money laundering and terrorism financing
ML/TF/PF	Money laundering and terrorism financing and proliferation financing
MoE	Ministry of Economics
MoF	Ministry of Finance
MoI	Ministry of the Interior
MoJ	Ministry of Justice
Moneyval	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MoT	Ministry of Transport
MSSIC	Mandatory state social insurance contributions
NATO	North Atlantic Treaty Organisation
NCHB	National Cultural Heritage Board
NCIM	National Criminal Intelligence Model
NFT	Non-fungible tokens
NGO	Non-governmental organisation
North Korea	Democratic People's Republic of Korea
NRA	National Risk Assessment
NRA 2020	National Risk Assessment for the reporting period 2017-2019
NRA 2020 reporting period	2017-2019
NRA 2023	National Risk Assessment for the reference period 2020-2022
OCG	Organised criminal group
OCMA	Office for Citizenship and Migration Affairs
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Capital Control, US Department of the Treasury
OpCen	Operational Centre
PBO	Public benefit organisation
PEP	Politically exposed person
PF	Proliferation financing
PGO	Prosecutor General's Office
PI	Payment institutions
PIT	Personal Income Tax
Plan of Measures (2017-2019)	Plan of Measures for Prevention of Money Laundering and Terrorism and Proliferation Financing for 2017-2019.

Plan of Measures (2020-2022)	Action Plan for Prevention of Money Laundering and Terrorism and Proliferation Financing for 2020–2022.
Plan of Measures (2023-2025)	Plan of Measures for Prevention of Money Laundering and Terrorism and Proliferation Financing for 2023–2025.
PNS	Postal Settlement System
PPF	Private pension funds
PPSs (providers of professional services)	Trust and Company Service Providers (legal arrangement or legal entity incorporation and operation service providers), legal service providers, sworn advocates, outsourced accountants, tax advisors, financial advisory service providers, sworn notaries, certified auditors.
Precious metal traders	Providers of services for trade in precious metals, precious stones, articles thereof or for intermediation in transactions therein
PSA	Provision State Agency
RE	Real estate
Regulation 2016/399	Regulation (EU) 2016/399 of the European Parliament and of the Council of 9 March 2016 on a Union Code on the rules governing the movement of persons across borders (Schengen Borders Code)
Regulation 2018/1672	Regulation (EC) 1672/2018 of the European Parliament and of the Council of 23 October 2018 on controls on cash entering or leaving the Union and repealing Regulation (EC) No. 1889/2005
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 756/2006	Council Regulation (EC) No. 765/2006 of 18 May 2006 concerning restrictive measures against Belarus
Regulation 833/2014	Council Regulation (EU) No. 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's activities destabilising the situation in Ukraine
Reporting period	2020-2022
RoE	Register of Enterprises of the Republic of Latvia
Sanctions Law	Law on International Sanctions and National Sanctions of the Republic of Latvia
SAO	State Audit Office
SBG	State Border Guard
SCI	Supervisory and control authorities according to Section 45 of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
SEZ	Special Economic Zone
SJSC	State Joint-Stock Company
SNRA	Supra National Risk Assessment from the European Commission to the European Parliament and the Council on the assessment of the risks of money laundering and terrorism affecting the internal market and relation to cross-border activities
SP	State Police
SRS	State Revenue Service
SRS ISO	Internal Security Office of the State Revenue Service
SRS TCPD	Tax and Customs Police Department of the State Revenue Service
SSE Study 2009-2020	A. Sauka, T. Putnins. Shadow economy index in the Baltic States 2009-2020.
SSE Study 2009-2022	A. Sauka, T. Putnins. Shadow Economy Index in the Baltic States 2009-2022.
SSS	State Security Service
STR	Suspicious transaction report
TAXUD	Taxation and Customs Union
TCSP	Trust and Company Service Providers (legal arrangement or legal entity incorporation and operation service providers)
TF	Terrorism Financing
TRP	Temporary residence permit
UBO	Ultimate beneficial owner
UCITS	Undertakings for Collective Investment in Transferable Securities Directive
UN	United Nations



UNODC	United Nations Office on Drugs and Crime
USA	United States of America
VAT	Value-added tax
VC	Virtual Currency
WB	World Bank

TRANSLATION

15. Annex 2 "Tables and Figures"

Table 14.1 – Detailed NGO financial flow breakdown

Field of activity	Amount of incoming payments EUR	Amount of outgoing payments EUR	Amount of cash deposits EUR	Amount of cash withdrawals EUR
Culture and recreation	82,141,073.93	82,841,335.46	1,104,161.95	1,079,254.29
Research and education	125,618,742.54	121,919,111.74	1,309,686.42	837,642.74
Social support measures for individuals	54,472,399.09	51,296,900.74	699,620.14	722,945.50
Sports associations and foundations	228,966,684.61	225,556,020.45	3,721,536.67	4,584,208.91
Justice and protection of interests	59,037,595.68	56,270,493.05	358,402.07	532,875.49
Health	51,093,631.18	50,989,062.28	2,121,711.38	920,321.93
Development and housing management	327,084,595.57	328,436,750.52	6,974,025.67	1,687,314.20
Volunteer firefighter organisations	1,784,630.20	1,387,160.17	39,245.00	273,988.88
Association or foundation not otherwise classified	407,508,152.38	388,404,582.88	7,903,176.73	5,339,711.27
Employer organisations, trade unions, professional associations and foundations	592,561,344.35	602,668,923.76	21,590,123.01	2,768,265.08
Philanthropic intermediation and promotion of volunteering	29,029,527.02	24,054,257.56	32,170.64	23,020.00
Youth association or foundation	21,909,389.24	18,531,288.89	231,376.10	111,110.00
Real estate management	139,696,833.42	137,263,943.63	1,238,827.43	342,160.13
NGO with unregistered field of activity	841,639.65	1,225,642.78	60.00	6,240.00
Media and communication	6,335,119.10	7,001,783.30	55,240.96	84,846.81
Political parties	17,062,683.48	17,167,346.93	19,312.48	10,095.00
Religious organisations and their institutions	86,928,091.47	95,211,836.04	16,434,387.11	717,458.36
International activities	17,738,908.86	16,869,616.12	3,450.00	38,754.42
Environmental and animal protection	11,950,379.91	12,338,550.51	163,579.81	127,544.10

Table 14.2. - Incoming and outgoing transactions of NGOs registered in Latvia with high-risk countries and their neighbours⁷⁸²

High-risk countries	(1) High-risk countries according to the Regulation of the Cabinet of Ministers No. 554	(2) EC list of third countries that are not doing enough to combat ML/TF	(3) Neighbouring countries of Iraq, Iran, Syria and North Korea	2020-2022			
				Incoming transactions		Outgoing transactions	
				Number of transactions	Total amount (EUR)	Number of transactions	Total amount (EUR)
Armenia			X	38	130,920.23	113	202,996.22
Azerbaijan			X	43	49,074.86	74	40,754.85
Bahamas		X		1	6,000.00	0	0.00
Belarus	X			539	1,265,032.78	420	567,540.39
China			X	39	286,433.50	100	187,117.99
Egypt	X			7	14,305.67	40	27,547.48
Ethiopia		X		1	20.00	0	0
Georgia	X			47	127,424.20	286	405,483.59
Ghana		X		5	12,419.00	0	0.00
Indonesia	X			0	0.00	31	8,038.00
Israel			X	192	1,775,844.62	388	1,190,836.11
Jordan			X	3	4,569.23	7	3,677.86
Kenya	X			0	0.00	3	870.63
South Korea			X	32	103,307.08	22	16,240.57
Kuwait	X		X	8	26,462.90	0	0
Lebanon	X		X	10	21,671.27	8	13,481.00
Sri Lanka		X		2	80.00	3	2,325.97
Libya	X	X	X	1	245.00	0	0.00
Morocco	X			2	905.55	35	5,437.51
Nigeria	X	X		3	569.75	5	133,040.00
Oman	X			1	4,690.95	10	11,955.63
Panama		X		2	155.17	6	1,929.77
Pakistan	X	X	X	0	0	13	5,840.46
Puerto Rico		X		2	5,130.00	3	8,923.25
Palestine	X			5	5,319.00	1	1,438.00
Qatar	X			3	1,544.22	21	101,259.53
Russia	X		X	2,125	9,042,897.86	1,155	2,133,938.82
Saudi Arabia	X	X	X	4	1,939.96	10	6,715.15
Tunisia	X	X		0	0	2	8,680.65
Turkey			X	87	279,876.47	302	510,002.09
Ukraine	X			160	141,806.34	370	839,463.75

⁷⁸² This reflects only jurisdictions with which there have been transactions. Full list of high-risk countries is available in the Annex "Lists of the countries used in Chapter 9".

Table 14.3 - Imports, exports and transit of GSS in Latvia in 2020, 2021 and 2022

Year	Country	Military import (EUR million)	Military export (EUR million)	Military transit (EUR million)	Import of dual-use goods (EUR million)	Export of dual-use goods (EUR million)	Transit of dual-use goods (EUR million)
2020	United Arab Emirates					0.22	0.221
	Afghanistan					0.06	
	USA	0.4	1.34				
	Belarus				0.2	3.91	2.4
	Bolivia					0.11	
	Brazil	0.013					
	Hong Kong				14.6		
	India					0.91	
	Indonesia					0.28	
	Israel		2.7		0.21	4.23	
	Canada	0.239					
	Kazakhstan						0.005
	Kenya					0.06	
	Kyrgyzstan		0.024			0.09	
	Russia				0.023	6.5	7.5
	China	0.145			2.2	1.78	
	Lebanon					0.25	
	Great Britain	0.026					
	Malaysia					0.17	
	Nigeria					0.06	
	Norway	1.9					
	Oman					0.05	
	Pakistan					0.20	
	Papua New Guinea					0.06	
	Saudi Arabia					0.39	
	Singapore					0.06	
	Sudan					0.10	
	Sri Lanka						0.025
	Switzerland	0.016	0.008				
	Taiwan					0.76	
Turkey				0.017	0.26		
Uganda					2.22	2.03	
Ukraine				0.266	0.60	0.004	
Vietnam					0.81	0.71	
Total in 2020		2.739	4.072	0.000	17.516	24.119	12.895

2021	United Arab Emirates				0.012	0.28	0.279
	USA	1.15	55.32				
	Australia		6.43				
	Belarus	17.2			0.055	4.08	3.32
	Bosnia and Herzegovina					0.2	
	Brazil	0.045			0.011		
	Chile		2.64				
	South Africa		1.38				
	South Korea	1.84	0.51			0.85	
	Egypt					0.09	
	Philippines					0.16	
	India				0.022		
	Indonesia					0.17	
	Israel	0.922	1.278		0.067	1.31	
	Japan					0.15	
	New Zealand		5.02				
	Canada	0.55					
	Kyrgyzstan		0.02				
	Russia				0.165	5.71	0.961
	Cuba					0.1	
	China	0.499			3.32	6.92	
	Great Britain	0.522	14.44		0.124		
	Morocco					2.26	
	Mexico					0.08	
	Nigeria					0.6	
	Norway	0.44	5.02				
	Pakistan					0.07	
	Saudi Arabia					0.48	
	Serbia		1.8				
	Singapore				0.06	0.62	
	Sri Lanka					0.13	0.048
	Switzerland	0.73	1.54				
Taiwan					1.1		
Thailand					0.17		
Tunisia						0.098	
Turkey	0.02				8.69		
Uganda					0.71	0.71	
Ukraine			0.024	0.276	0.89	0.082	
Uruguay		4.66					
Vietnam				0.003	0.69	0.611	
Total in 2021	23.918	100.058	0.024	4.115	36.51	6.109	
2022	United Arab Emirates					0.02	
	Argentina					0.01	

Armenia					0.02	
USA	41.2	122.03				
Australia	5.82	14.2				
Belarus	17.4					
Brazil	0.05				0.07	
Brunei					0.06	
Chile	0.29	0.4			0.05	
South Africa	0.6	1.5			0.39	
South Korea				0.42	1.48	
Philippines				0.16	0.33	
Ghana					0.12	
Hong Kong				0.008	0.08	
India					0.414	
Indonesia					0.02	
Israel	0.89	2.3		0.489	11.19	
New Zealand	3.7	12.85				
Canada	0.04					
Qatar					0.14	
Kazakhstan					0.01	
Cyprus	0.111					
Kyrgyzstan		0.02				
Columbia					0.11	
Kosovo					0.03	
Russia				0.07	0.06	
China	2.46			2.43	2.23	
Great Britain	15.57	54.7				
Malaysia					0.14	
Malawi					0.06	
Morocco					0.06	
Mexico					0.03	
Niger					0.03	
Nigeria					3.83	
Norway	7.1	13.37				
Saudi Arabia	0.049	0.049			0.08	
Singapore				0.03	0.18	
Sudan					0.001	
Switzerland	5.34	5.05				
Tajikistan					0.08	
Taiwan				0.09	0.2	
Thailand					0.23	
Turkey	0.37	0.017		0.1	0.21	
Ukraine		11.11	0.03	0.48	33.12	0.069
Uruguay	0.5	1.03				
Uzbekistan					0.02	

	Vietnam					0.036	1.19
	Total in 2022	101.49	238.626	0.03	4.277	55.141	1.259
	Grand total	128.147	342.756	0.054	25.908	115.770	20.263

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16. Annex 3 "Lists of countries used in Chapter 9"

1. List of countries in accordance with the Regulation of the Cabinet of Ministers No. 554 of 21 June 2010 "Regulation Regarding the Countries for the Citizens of which an Additional Assessment shall be Performed when Issuing a Visa or a Residence Permit".⁷⁸³
 - 1) Islamic Republic of Afghanistan
 - 2) Democratic People's Republic of Algeria
 - 3) Kingdom of Bahrain;
 - 4) Republic of Belarus;
 - 5) People's Republic of Bangladesh;
 - 6) Republic of South Sudan;
 - 7) Georgia (Abkhazia and South Ossetia);
 - 8) Arab Republic of Egypt;
 - 9) Republic of Indonesia;
 - 10) Republic of Iraq;
 - 11) Islamic Republic of Iran;
 - 12) Republic of Yemen;
 - 13) Hashemite Kingdom of Jordan;
 - 14) Republic of Cameroon;
 - 15) State of Qatar;
 - 16) Republic of Kenya;
 - 17) Democratic People's Republic of Korea;
 - 18) Russian Federation;
 - 19) State of Kuwait;
 - 20) Republic of Lebanon;
 - 21) Socialist People's Libyan Arab Jamahiriya;
 - 22) Republic of Mali;
 - 23) Kingdom of Morocco;
 - 24) Federative Republic of Nigeria;
 - 25) Sultanate of Oman;
 - 26) Islamic Republic of Pakistan;
 - 27) Palestinian Authority;
 - 28) Kingdom of Saudi Arabia;
 - 29) Syrian Arab Republic;
 - 30) Somalia;
 - 31) Republic of Sudan;
 - 32) Republic of Tunisia;
 - 33) Ukraine (Autonomous Republic of Crimea, Luhansk Region and Donetsk Region).


2. List of 27 third countries with strategic non-conformities in the systems of combating ML and TF adopted by the European Commission.⁷⁸⁴
 - 1) Afghanistan;
 - 2) Barbados;
 - 3) Burkina Faso;
 - 4) South Sudan;
 - 5) Cambodia;
 - 6) Cayman Islands;
 - 7) Democratic Republic of Congo;
 - 8) Democratic People's Republic of Korea;
 - 9) Gibraltar;
 - 10) Haiti;
 - 11) Iran;
 - 12) Jamaica;
 - 13) Jordan;
 - 14) Mali;
 - 15) Morocco;

⁷⁸³ Regulation of the Cabinet of Ministers No. 554. Rules on countries whose citizens are subject to an additional assessment when a visa or residence permit is issued. *Latvijas Vēstnesis*, 100, 28.06.2010 Available at: <https://likumi.lv/ta/id/212364-noteikumi-par-valstim-kuru-pilsoniem-izsniedzot-vizu-vai-uzturesanas-atlauju-veic-papildu-parbaudi>

⁷⁸⁴ European Commission. High risk third countries and the International context content of anti-money laundering and countering the financing of terrorism. Available at: https://finance.ec.europa.eu/financial-crime/high-risk-third-countries-and-international-context-content-anti-money-laundering-and-countering_en

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- 16) Mozambique;
 - 17) Myanmar;
 - 18) Panama;
 - 19) Philippines;
 - 20) Senegal;
 - 21) Syria;
 - 22) Tanzania;
 - 23) Trinidad and Tobago;
 - 24) Uganda;
 - 25) United Arab Emirates;
 - 26) Vanuatu;
 - 27) Yemen.
3. FATF-defined high-risk jurisdictions and jurisdictions subject to an enhanced surveillance regime.⁷⁸⁵
 - 1) Albania;
 - 2) Barbados;
 - 3) Burkina Faso;
 - 4) Cambodia;
 - 5) Cayman Islands;
 - 6) Democratic Republic of Congo;
 - 7) Gibraltar;
 - 8) Haiti;
 - 9) Jamaica;
 - 10) Jordan;
 - 11) Mali;
 - 12) Morocco;
 - 13) Mozambique;
 - 14) Panama;
 - 15) Philippines;
 - 16) Senegal;
 - 17) South Sudan;
 - 18) Syria;
 - 19) Tanzania;
 - 20) Turkey;
 - 21) Uganda;
 - 22) United Arab Emirates;
 - 23) Yemen.
 4. List of countries according to the Regulation of the Cabinet of Ministers No. 819 of 17 December 2020 "Regulations Regarding Low-Tax or Tax-Free Countries and Territories".
 - 1) Territory of Anguilla;
 - 2) US Territory of Guam;
 - 3) US Territory of Samoa;
 - 4) Territory of the US Virgin Islands;
 - 5) Commonwealth of the Bahamas;
 - 6) Republic of Fiji;
 - 7) Republic of Palau;
 - 8) Republic of Panama;
 - 9) Independent State of Samoa;
 - 10) Territory of Turks and Caicos Islands;
 - 11) Republic of Trinidad and Tobago;
 - 12) Republic of Vanuatu.
 5. List of countries according to the Regulation of the Cabinet of Ministers No. 655 of 7 November 2017 "Regulations Regarding Low-Tax or Tax-Free Countries and Territories", effective until 1 January 2021 (expired). It should be noted that, according to Paragraph 3 of the Regulations, a country or territory

⁷⁸⁵ FATF. Jurisdictions under Increased Monitoring - 21 October 2022. Available at: <https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Increased-monitoring-october-2022.html>



included in the list is not to be considered a tax-free or low-tax country or territory from the year in which the international treaty for the avoidance of double taxation and tax evasion becomes applicable to that country or territory, or the date on which a treaty on the exchange of information relating to taxes enters into effect in respect of that country or territory, unless otherwise provided in that treaty.

- 1) Antigua and Barbuda;
- 2) The United States Virgin Islands;
- 3) Commonwealth of the Bahamas;
- 4) State of Bahrain;
- 5) Brunei Darussalam;
- 6) Commonwealth of Dominica;
- 7) Republic of Djibouti;
- 8) Republic of Ecuador;
- 9) Grenada;
- 10) Guam (The United States of America)
- 11) Jamaica;
- 12) New Caledonia (French Republic);
- 13) Hashemite Kingdom of Jordan;
- 14) Republic of Kenya;
- 15) Republic of Liberia;
- 16) Macao (People's Republic of China);
- 17) Republic of Maldives;
- 18) Democratic Republic of São Tomé and Príncipe;
- 19) Saint Pierre and Miquelon (French Republic);
- 20) Saint Helena (The United Kingdom of Great Britain and Northern Ireland);
- 21) Tahiti (French Polynesia);
- 22) Kingdom of Tonga;
- 23) Republic of Vanuatu;
- 24) Republic of Venezuela;
- 25) Zanzibar Island (United Republic of Tanzania).

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