



**Financial Intelligence Unit**

# **ANNUAL REPORT**

---

**2019**



## Contents

Foreword	2
General description of the activities performed by the FIU Latvia	4
Status, direction, objectives, and priority measures of the FIU Latvia	4
Financial resources and performance results of the FIU Latvia	6
Funding from the state budget and use thereof	6
Activities and results of the FIU Latvia	9
Digitalisation of data processing and analytical processes	12
Strategic analysis	14
Cooperation coordination	17
Representation of Latvian position in evaluation by Moneyval and FATF	21
International cooperation	23
Financial intelligence	26
Studies of the Financial Intelligence Unit	32
Employees of the Financial Intelligence Unit	36
Communication with the public	39
Plans of the Financial Intelligence Unit for 2020	43
Funding from the state budget and its use	44
Statistics	45
Money Laundering Scheme	49
	49



## Foreword

*Head of Financial Intelligence Unit of Latvia,  
Ilze Znotiņa*

High-level political commitment, which was not only expressed in promises but also implemented in action, opened a new page in a story of improving the financial system of Latvia, and the mandate of the Financial Intelligence Unit to be the key driving force has served as a fundamental basis for reconstructing the field of anti-money laundering and combating financing of terrorism and proliferation.

The year 2019 was spent fighting for Latvia not being included in the list of countries under increased supervision by the FATF, i.e. the list of countries with which financial collaboration is not recommended. The FIU Latvia in close cooperation with responsible ministries, supervision and control authorities, law enforcement authorities, prosecutor's office and private sector has carried out invaluable work not only by introducing compliance provision measures but also by demonstrating the progress and results that have led to achievements, which in the international community in the field of anti-money laundering is called as a success story of Latvia.

I am grateful to each institution and their employees involved for heavy, scrupulous, and insistent work in implementation of significant and permanent changes in the field of anti-money laundering and combating financing of terrorism and proliferation in Latvia. Today we can be proud of Latvia — the first member state of Moneyval that has ensured implementation of all 40 FATF recommendations and, as recognised by international experts, has reached the impossible result in a year and a half.

In addition to systemic work to introduce and implement the recommendations of the international experts, the FIU Latvia has improved the National Risk Assessment of money laundering and terrorism financing risks, carried out significant work in enhancing the quality of reports, organised wide range of studies and seminars, as well as invested resources to strengthen capacity and quality of work by investing in the improvement of the IT infrastructure, expanding the personnel with field experts and introducing new functions in the daily work carried out by the FIU Latvia.

Among others, autonomy and operational independence of the FIU Latvia has been strengthened in 2019, as well as its status as a leading institution with an aim to eliminate the possibility to use the Latvian financial system for money laundering and financing of terrorism and proliferation. The FIU Latvia has strengthened its capacity both in a strategic and operational analysis that allowed concluding 2019 with excellent performance indicators.

The FIU Latvia in 2019 showed that it is an active member of the community of the financial intelligence units. FIU Latvia has organised an international conference on effectiveness in a fight against proliferation financing, which was attended by experts from more than 30 countries. Also, in close cooperation with



the Egmont group, FIU Latvia has opened a new chapter in the story of international cooperation by forming and managing a task force for cooperation of the FIUs. The key mission of the FIU Latvia within this task force is to provide the international partners and Europe in general with a new view of investigating complicated financial crimes, providing horizontal and vertical cooperation as well as unifying understanding and objectives.

The results of FIU Latvia in 2019 prove that extensive work has been done in a short period of time and the assigned mandate of the leading institution is well justified. The work objective and obligation of the FIU Latvia is to eliminate possibilities of using the financial system of Latvia for money laundering and financing of terrorism and proliferation, and the FIU Latvia will continue to perform this obligation with full devotion so that the Latvian financial system would become more sustainable and trustful not only on the national but also on a global scale.

Looking further, the FIU Latvia has great plans in several directions: not only to strengthen current cooperation formats but also to establish new mechanisms, organise well-arranged and specialised trainings and seminars, continue to work on strengthening seizure and investigation regime, create an office in suitable premises, as well as contribute to reformation of international cooperation.

Every crisis is an opportunity. In 2018, the Latvian financial sector faced possibly one of the lowest stages of the sector's reputation. However, owing to responsible attitude of politicians, relevant authorities, and banks towards the situation, in 2019 Latvia did a great job improving and strengthening the financial system of Latvia. Our objective is to reach permanent changes and excellence in this field and to be an internationally recognised good example to other countries. In 2020, FIU Latvia will continue its path to excellence.

**“Excellence is never an accident.**

**It is always the result of high intention, sincere effort, and intelligent execution; it represents the wise choice of many alternatives – choice, not chance, determines your destiny.”**

*/Aristotle/*

## General description of the activities performed by the FIU Latvia

### Status, direction, objectives, and priority measures of the FIU Latvia

As of 1 January 2019, FIU Latvia is an independent direct administration authority acting under supervision of the Cabinet of Ministers. The Cabinet implements institutional supervision through the Minister for the Interior. The supervision does not apply to implementation of tasks and rights of the FIU Latvia, as well as to internal organisation issues including issue of internal laws and regulations, development of inquiries and decisions that refer to employees.

When defining and strengthening the status of the FIU Latvia, the principles of the Unit's independence and decision-making autonomy have been incorporated in regulatory framework in compliance with the Financial Action Task Force (FATF) recommendations regarding the autonomy and independence of the financial intelligence services, which requires the state to ensure that the institution is independent, i.e., it is entitled to execute its rights independently, without political intervention, including to take decisions, to analyse, to request and/or to transfer information to other competent authorities. The significance of the operational independence and autonomy is referred to in the Charter of the Egmont group (international network of FIUs), in the principles of information exchange and participation criteria of the Egmont group.

As of 29 June 2019, FIU Latvia is the leading authority with an **objective** to eliminate possibilities of using the financial system of the Republic of Latvia for money laundering and financing of terrorism and proliferation.

**The key functions** of the FIU Latvia, according to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing (hereinafter — the Law), is to implement control over suspicious transactions and other information received. The FIU Latvia has an obligation to obtain, receive, register, process, compile, store, and analyse the information mentioned before and to provide it to pre-trial investigating institutions, the Prosecutor's Office and court for prevention, detection, pre-trial criminal proceedings or adjudication of money laundering and financing of terrorism and proliferation (and attempts to perform such actions) or other associated criminal offences. Additionally, the FIU Latvia ensures an operation of a private and public cooperation coordination group, as well as evaluates national risks of money laundering and financing of terrorism and proliferation.

**Mission** of the FIU — to ensure continuous and effective analytical activities for prevention of money laundering and combating terrorism and proliferation financing.

**Visions** of the FIU — the FIU is an internationally recognised and highly appreciated financial intelligence unit which provides a broad range of financial intelligence data and other important information to cooperation institutions so that they, within the scope of their respective competences, would examine/investigate money laundering, related predicate offences, as well as cases of terrorism and proliferation financing.



**Strategic priorities** set by the FIU Latvia:

1. Detection of large-scale money laundering schemes;
2. Freezing of laundered proceeds on a large-scale;
3. Drafting of materials by the FIU Latvia in a quality that facilitates effective pre-trial investigation.

Along with the strategic priorities and everyday work of financial intelligence, the FIU Latvia, when receiving, analysing, and transferring information on criminal financial flows to law enforcement and security authorities, as well analogous FIUs in other jurisdictions, set several key tasks for 2019:

1. To introduce a well-arranged legal framework to prevent and combat money laundering and financing of terrorism and proliferation;
2. to ensure an effective cooperation mechanism to enhance acquisition and exchange of information on criminal financial flows with public and private sector cooperation partners both at the strategic and operational level;
3. to shape and/or raise awareness of the private sector of risks of money laundering and financing of terrorism and proliferation, as well as of opportunities to effectively and adequately reduce and prevent such risks;
4. to support development of a solid, unified, and risk-corresponding supervision system;
5. to improve understanding and knowledge of the staff of law enforcement and security authorities regarding possibilities of combating criminal financial flows.

## Financial resources and performance results of the FIU Latvia

### Funding from the state budget and use thereof

Funding to the FIU Latvia is provided from the budget programme 43.00.00. "Operation of the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity". In 2019, the funding in the amount of 1.2 million euro was used for implementation of the key functions. Along with implementation of the key functions of the institution within the funding of the budgeted programme for 2019, also priority activities were implemented, i.e., "Action Plan to Prevent Money Laundering and Terrorism Financing till 31 December 2019" amounting to a total of 3.1 million euro and the activity financed by Fund for Confiscating the Proceeds Derived from Criminal Activity, "Strengthening of FIU Capacity for Better Combating of Financial and Economic Crimes", for the total amount of 50,000 euro.

Within the budget programme for 2019, there were two performance indicators defined: "Received reports" with the achievable value 25,000 and "Suspended amounts (millions, EUR)" with the achievable value 50.

#### **Performance results and indicators of the budget programme 43.00.00 "Operation of the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity" in 2019.**

	<b>Plan 2019</b>	<b>Execution 2019</b>
<b>Received reports/threshold declarations (number)</b>	25,000	33,236
<b>Materials sent to further advancement (number)</b>	250	401 <sup>1</sup>
<b>Orders issued on suspension of money asset operations (number)</b>	150	362
<b>Suspended amounts (millions, EUR)</b>	50	345.98 <sup>2</sup>

Table 1.

It is important to explain that the performance indicators of the budget programme for 2019 were defined prior launching a reform of reporting on suspicious and unusual transactions when using the indicators of previous years as a point of reference. The reform of the reporting system launched in 2019 also introduced adjustments in the planning of performance indicators, envisaging a different approach in determining the results to be achieved. A significant proportion of the reports received are unusual transaction reports which also determined necessity for the reform, which among others aimed to improve the quality of the suspicious transaction reports, as well as replacement of the unusual transaction reports with threshold declarations. At the same time, it should be noted that one of the indicators that indicates an increase in the quality of the suspicious transaction reports is the decrease in the number of defensive reports,

<sup>1</sup> Amendments of 29 June 2019 to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing include a new type of information to be sent to the responsible institutions. The FIU in 2019 has sent 199 materials as per Section 55, Paragraph one of Law and 202 materials as per Section 55.1, Paragraph one of the Law.

<sup>2</sup> The result exceeded by 591%.

which was implemented in 2019 as a result of the activities performed by the FIU Latvia. the

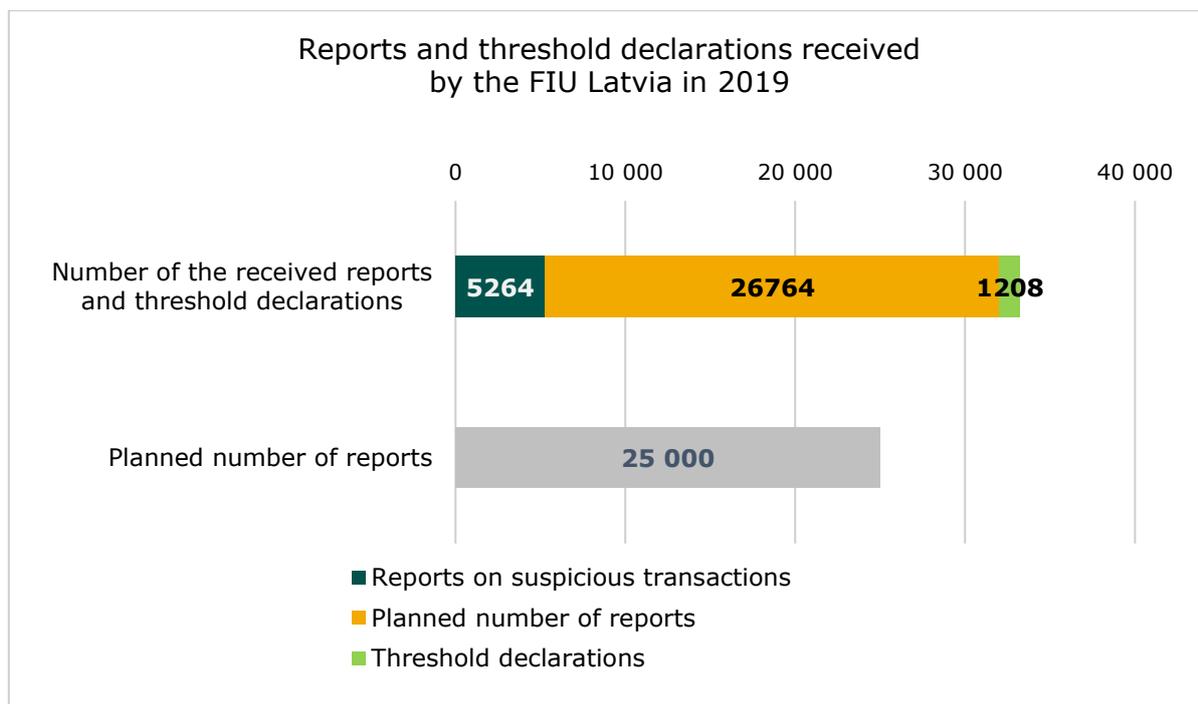


Chart 1.

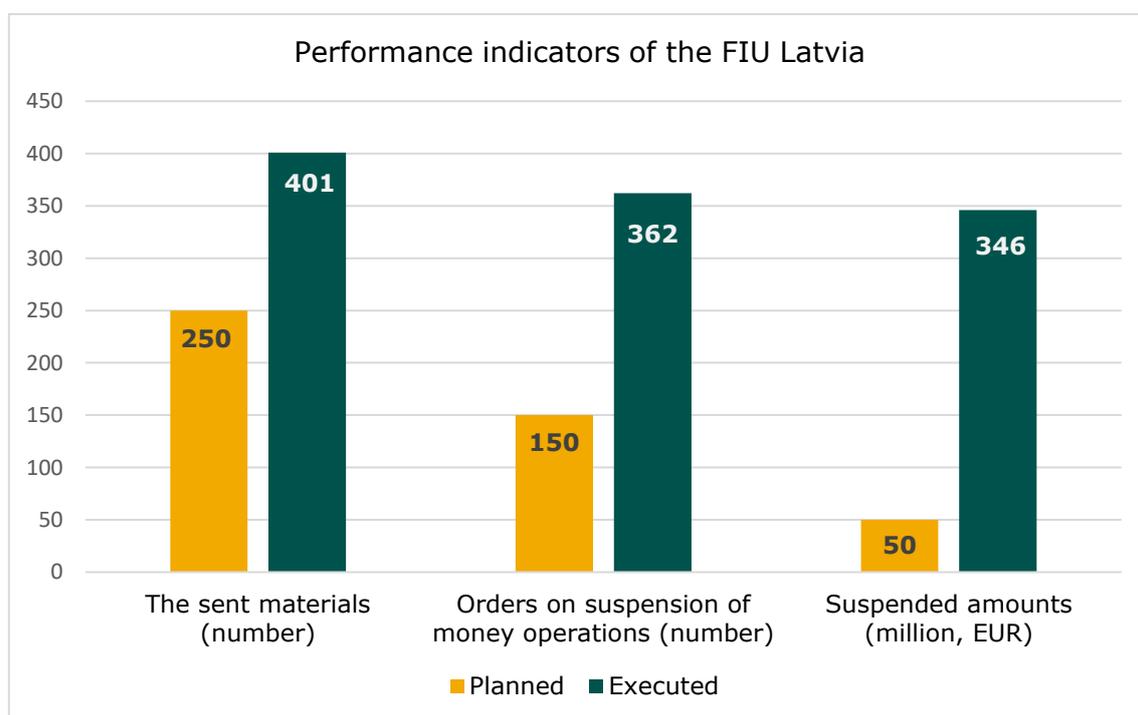


Chart 2.

The amount of the suspended assets, defined in the plan of the FIU Latvia, has been affected by several significant factors. Thus, in 2019, significant changes were made in the regulatory framework envisaging the identification of stand-alone money laundering without the identification of specific predicate crime. Stand-alone money laundering offenses account for 66% of all criminal offenses. Also, it is important to emphasize that the FIU Latvia suspends or freezes the assets both based on the information (reports on suspicious transactions) received



from the obliged entities under the Law and based on its own initiative, i.e., based on the information available to the Unit FIU Latvia containing reasonable suspicions of a criminal offence. In 2019, the amount of the frozen assets was undeniably affected also by freezing the assets of the credit institutions with their core operation suspended.

## Activities and results of the FIU Latvia

The activity of the FIU Latvia in 2019 is characterised by growth and development, implementation of new approaches to financial intelligence, strategic analysis, and demonstration of progress in execution of the recommendations provided by experts of FATF and the European Council's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, Moneyval, (hereinafter – Moneyval).

The activity of the FIU Latvia during the reporting period was planned and implemented according to its operational strategy and "Action Plan to Prevent Money Laundering and Terrorism Financing till 31 December 2019" (hereinafter – Action plan) approved on 11<sup>th</sup> of October, 2018 with the Cabinet of Ministers Order No 512. The FIU Latvia in its work has also taken into account the following policy planning documents:

- Cabinet Order No. 126 approved on 21<sup>st</sup> of March, 2017 "On the Financial Sector Development Plan 2017-2019";
- Cabinet Order No. 210 approved on 7<sup>th</sup> of May, 2019 "On Action Plan of the Government for the Implementation of the Declaration on Activities Planned to be Implemented by the Cabinet managed by Arturs Krišjānis Kariņš".
- Informative report "On Monthly Remuneration and Required Additional Funding thereof for Officials (Staff) of the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity", reviewed at the meeting of the Cabinet of Ministers on 15<sup>th</sup> of January, 2019 (Minutes. No. 2, § 72).

Development of the FIU Latvia during the reporting period was determined not only by the regulatory framework and policy planning documents but also by the Unit's ambitious goal – to establish the FIU Latvia as the main expertise and competence center for prevention of money laundering and combating financing of terrorism and proliferation. To reach the goal, the FIU Latvia invested appropriate resources and efforts to create a professional team, introduced digital data analysis and processing solutions, managed the Latvian delegation for execution of the recommendations set by Moneyval and FATF experts, and implemented other reforms to strengthen the system for prevention of money laundering in Latvia.

## The following factors contributed to the achievement of the objectives:



- Public support, including by authorising Head of the FIU Latvia, Ilze Znotiņa, to lead the delegation of the Republic of Latvia at Moneyval and FATF<sup>3</sup>;
- The status of the FIU Latvia as the leading institution and its operational independence has been strengthened in the regulatory framework;
- An effective cooperation coordination platform, where the institutions involved in the anti-money laundering and combating terrorism and proliferation financing system operate at both national and international level;
- Professional and well-experienced team of the FIU Latvia;
- Fast access to the information required on a daily basis in performance of intelligence work;
- Well-developed and effective system for intelligence exchange with foreign financial intelligence units;
- Systemically accrued financial intelligence information and corresponding intelligence exchange system among law enforcement authorities.

## The following factors hindered the achievement of the objectives:

- Lack of a long-term funding to meet the future requirements in the field of financial intelligence

The core operations performed by the FIU Latvia is in part funded by assets of the priority action plan, although there should be funding in the Unit's general budget (e.g., costs for rent of premises, positions, maintenance of IT data bases, etc.). Also, implementation of some obligations of the FIU Latvia is funded by using the European Economic Area's (EEA) Financial instrument programme "International Police Cooperation and Combating of Crime" (e.g., providing information to obliged entities under the Law and society) that can be considered to be a funding source of occasional costs.

- Human Resources

During the reporting period, the FIU Latvia formed a team of high-level professionals, however, increasing amount of work (advancement of Moneyval and FATF assessment processes, changes to regulatory framework, etc.) in busy terms, long hours of intense work, as well as increasing demand of new knowledges and skills cause a risk of occupational burnout. The burnout of the employees is also increased by the necessity to emotionally distance oneself from public attacks on the purposefully implemented activities of the FIU Latvia to prevent money laundering in Latvia. The occupational burnout of the employees is a serious challenge for the FIU Latvia to continue fulfilling its tasks and obligations with enthusiasm and greatest responsibility.

- Information and Communication Technology Resources

Rapid development of information and communication technologies' environment of the FIU Latvia poses significant risks as well. They include both huge investment of finances and human resources to work with high-level analytical programs and

<sup>3</sup> Cabinet Order No. 360 of 17 July 2019



necessity for a suitable financial investment so that it would be possible to ensure regular performance assessment in the information systems. Lack of funding should be emphasised as an important long-term risk — a majority of the funding for IT development is based on the funding that was granted to the activities defined in the Action plan; such funding is not included in the general budget. Without the funding of the necessary amount to maintain and update the systems, there is a risk of losing both the former contributions and key instruments for provision of the basic operations in the future.

## Digitalisation of data processing and analytical processes

When establishing the FIU Latvia as an expertise centre for prevention of money laundering, adoption of global best practices in IT development was set to be one of the priorities. To reach the aim, the FIU Latvia implemented various targeted actions.

- E-reporting (e-services) site <https://zinojumi.fid.gov.lv> is one of the main information channels at the FIU Latvia. By implementing the reform of the reports on suspicious and unusual transactions received by the FIU<sup>4</sup>, changes to the e-notification system were also required. The initial function of the e-reporting site was to receive reports for further analysis only from obliged entities under the Law. A content reform of the notification system allowed to significantly expand the technical functionality of the e-notification site — both automatic filling of data fields and data copying were introduced. To provide convenient information circulation between the FIU Latvia and obliged entities under the Law, an information circulation platform for registered users only was created and, on the platform, the obliged entities under the Law regularly receive updated information about tendencies, typologies, risk indicators in the field of anti-money laundering and combating financing of terrorism and proliferation, as well as on the procedure for reporting suspicious and unusual transactions (as of the end of the year — threshold declarations). Also, to ensure compliance of the basic system of the FIU Latvia with the new reporting system, significant change to the system's architecture has been made, thus providing continuousness of report analysis, and strengthening capacity for analysis of increasing data volumes.

- The core operation of the FIU Latvia is analysis and processing of the data received; therefore, to strengthen the analytical capacity of the FIU Latvia, new and modern data analysis tools — *IBM i2*, *IBM SPSS*, and *IBM SPSS Modeler* — have been introduced.

**IBM i2** provides not only information exchange but also helps to visualise large amount of data and prepare clear schemes that have been used in money laundering, thus allowing analysts to better overlook and define interconnections of financial crimes.

**IBM SPSS** and **IBM SPSS Modeler** allow performing a statistical analysis used for the strategic analysis to obtain statistically credible conclusions with empirical data reflecting not only a qualitative but also quantitative analysis of the characteristic features.

The above-mentioned software is valuable IT tool requiring high qualification of their users. Although some of these tools are known for a long period of time, the use of such tools in the financial intelligence and strategic analysis is innovative and even the most modern FIUs worldwide are only starting to introduce them in their operation during the last years. The FIU Latvia undoubtedly is one of the institutions that are changing the usual practice and implements new and well-recognised technologies.

---

<sup>4</sup> On 17 December 2019, the new reporting procedure entered into force stipulating submission of reports on suspicious transactions and threshold declarations.

- 
- The FIU Latvia has launched introduction of an application, *goAML*, developed by United Nations Office on Drugs and Crime (UNODC). *GoAML* is a fully integrated software solution specially developed for work of the FIUs ensuring the functions of data collection, processing, analysis, document management, work flow and statistics and is one of the strategical solutions of the UNODC in a fight against financial crime, money laundering, as well as terrorism financing. *GoAML* ensures information exchange among the obliged entities under the Law and other involved institutions; it is also a tool of report flow management and in-depth analysis. It is expected that the *goAML* application in 2021 will replace the currently used system and e-reporting system of the FIU Latvia. The *goAML* application, developed by the UNODC, is used by more than 50 FIUs worldwide, while more than 100 units have initiated its introduction.
  - To ensure digitalisation of record-keeping of the FIU Latvia, in 2019, a document management system was introduced. It fully provides centralised document management replacing the previous procedure of Unit's document exchange.
  - During this period, safety management, performance, and security test audits of the Unit's information systems have been performed, thus ensuring safety management of the Unit's information technologies in compliance with laws and regulations and allowing to start provision of conformity with requirements of ISO 27001.
  - Also, a system for processing and protecting personal data has been created at the FIU Latvia in 2019, including development of a register of personal data processing actions and a register of data protection violations, as well as provision of availability of a data protection specialist.



## Strategic analysis

Ensuring fulfilment of the objectives defined in the Action plan, performance strategy of the FIU Latvia, and other policy planning documents, the FIU Latvia implemented the following strategic analysis tasks:

1. The National Money Laundering and Terrorism and Proliferation Financing Risk Assessment has been improved and supplemented by developing the following risk assessments for 2017–2018:
  - 1.1. [National Terrorism Financing and Proliferation Financing Risk Assessment Report](#);
  - 1.2. [Legal Persons and Non-governmental Organisations: Money Laundering and Terrorism Financing Risk Assessment Report](#);
  - 1.3. [Sectoral Money Laundering and Terrorism Financing Risk Assessment Report](#);
  - 1.4. [Virtual Currencies: Money Laundering and Terrorism Financing Risk Assessment](#)
  - 1.5. [Money Laundering and Terrorism Financing Risk Assessment of Professional Service Providers](#).
2. Work on development of National Risk Assessment Report on Money Laundering and Terrorism Financing for 2017–2019 has been started:
  - 2.1. National Money Laundering Threat Assessment has been developed;
  - 2.2. Examination of the latent crime amount has been carried out - the laundered proceeds deriving from the latent crime is potentially dangerous to the international financial system and joint market of the European Union.
3. Risk indicators or “red flags” for identification of suspicious transactions have been defined and communicated to the obliged entities under the Law on:
  - 3.1. Engagement of legal persons and NGOs in the activities in relation to money laundering and financing of terrorism and proliferation;
  - 3.2. Engagement of natural or legal persons, also of legal arrangements, in the activities in relation to proliferation financing;
  - 3.3. Use of services provided by tax consultants, outsource accountants, certified auditors, certified auditor companies, sworn notaries, sworn advocates, and other legal service providers for operations in relation to money laundering and financing of terrorism and proliferation;
  - 3.4. Engagement of natural or legal persons, also of legal arrangements, in the activities in relation to terrorism financing;
  - 3.5. Currency smuggling as an element of money laundering and financing of terrorism and proliferation;
  - 3.6. Use of virtual currencies in the activities in relation to money laundering and financing of terrorism and proliferation.



4. Use of an analysis of financial intelligence data has allowed developing of the strategic analysis studies:

- 4.1. [Risk Profiling of Latvian Credit Institutions](#) (restricted information)
- 4.2. [Illegal Cash Turnover Circulation of Cash Derived from Criminal Activity in Latvia](#)



The study objective was to analyse cash circulation in Latvia with an aim of identifying the characteristics of money laundering. The study was based on publicly available data and data possessed by the FIU Latvia on cash circulation in credit institutions, currency exchange capital companies, as well as the data on cash declarations at border of the Republic of Latvia.

The study allowed concluding that issue of euro by the Bank of Latvia (surplus of the assets paid by the central bank over of paid assets) at the end of 2018 was by 2.0–2.6 billion euro lower than the current euro amount in Latvia. This shows that in the Latvian economy, from 2014 to the end of 2018, an average of 400–500 million euro per year have been injected in cash. A significant amount of such assets was brought in banknotes of a high denomination. Issue of 500-euro banknotes at the end of 2018 reached -1.2 billion euro, while the one of 100-euro banknotes reached -0.49 billion euro. The high denomination banknotes, considering their advantage when transporting them, have increased risks of money laundering.

Similar decline of the issue indicators can be observed in 2019 as well, when they reached -253 million euro at the end of the year.<sup>5</sup> The considerable asset flow from foreign countries to Latvia, including in the high denomination banknotes, indicates the presence of laundered money in the Latvian financial sector. It is possible that professional service providers who make pay-outs in neighbouring countries of the EU and bring the cash into Latvia to pay envelope salaries and make shadow economy payments are the main factor that drives negative issue.

#### 4.3. [Cross-border financial flows in foreign currency](#)

Historically Latvia has taken a position of a regional financial transaction centre that respectively attracted and provided significant transit flows of financial assets, as well as deposits of non-residents. Considering the policy implemented by the Latvian government and reforms of the financial sector, the aim of the study was to identify changes to the amount of cross-border financial flows in foreign currencies, as well as the amount of the payments made by non-residents.

The study allowed concluding that the amount of the cross-border financial assets received by clients of Latvian credit institutions, comparing 2015 and 2018, reduced by 76% while the amount of the sent cross-border financial assets in foreign currencies during the same period decreased by 80%. Regarding the cross-border payments in euro, it is concluded that their amount has steady increased both for the received and sent cross-border payments from 2015 to 2018.

The study also allowed identifying that, despite the significant decrease in the total amount of cross-border transactions or payments, various Latvian credit institutions still continue servicing non-resident clients and provide the transit flows of financial assets between the CIS countries and offshore countries.

<sup>5</sup> In quarter 2 of 2020, when borders were closed for several months due to emergency situation, the euro amount issued by the Bank of Latvia is slightly becoming positive.

Besides, companies of the Great Britain, Cyprus, British Virgin Islands, Hong Kong, Belize, and other countries with open accounts in Latvian credit institutions are intermediaries of such transactions. The study concludes that the servicing of clients from CIS countries will continue to have increased risks of money laundering, considering the high corruption and crime level in the relevant region.

#### 4.4. Study regarding risks in lotteries and gambling sector

The aim of the risk assessment of the lotteries and gambling field was to assess the number and quality of the reports received from gambling organisers and to assess their compliance with the money laundering risks, as well as to re-assess the money laundering risks in the lotteries and gambling field in Latvia. In the study, reports on unusual transactions submitted by the lottery and gambling organisers were extensively analysed, the current situation in the lottery and gambling market was reviewed, and regulatory framework of the field was evaluated.

It was concluded in the risk assessment, that — although the regulatory framework of the Latvian gambling field stipulates significant tax burden for gambling wins, which makes money laundering through this field expensive, the current win recording procedure allows avoiding payment of personal income tax for the wins exceeding 3000 euro.

In 2019, the number of the reports on suspicious transactions received from the lottery and gambling organisers, suspicious and unusual transactions reported by other obliged entities under the Law involving the lottery and gambling organisers, as well as an analysis of the unusual transactions shows that several internal control systems of gambling companies might not correspond to the respective money laundering risks.

5. Enhanced quality of the reports (on suspicious and unusual transactions and later — threshold declarations) by profiling the risks of obliged entities under the Law, ensuring a feedback to the obliged entities under the Law, as well as to supervision and control institutions.

6. Guidelines for improvement of work of the FIU Latvia, law enforcement authorities, supervision and control institutions, and/or obliged entities under the Law have been elaborated:



6.1. Guidelines for development of money laundering and terrorism and proliferation financing risk assessment;

6.2. Guidelines for prioritising money laundering cases;

6.3. Guidelines for risk management of politically exposed persons, their family members, and closely related persons;

6.4. Guidelines for clarifying information on and examination of a beneficial owner;

6.5. Guidelines for cooperation of FIU Latvia with other analogous FIUs of Egmont group.

## Cooperation coordination

The Cooperation Coordination Group has been formed according to the amendments<sup>6</sup> to Section 55 of the Law, defining a cooperation coordination mechanism, which foresees that the FIU Latvia coordinates cooperation between operational activity subjects, investigation authorities, prosecutor's office, State Revenue Service, as well as obliged entities under the Law and the institutions supervising and controlling them. The cooperation is aimed at facilitation of effective execution of the tasks set to all institutions involved in the coordination group.

### Scheme of the Cooperation Coordination Group

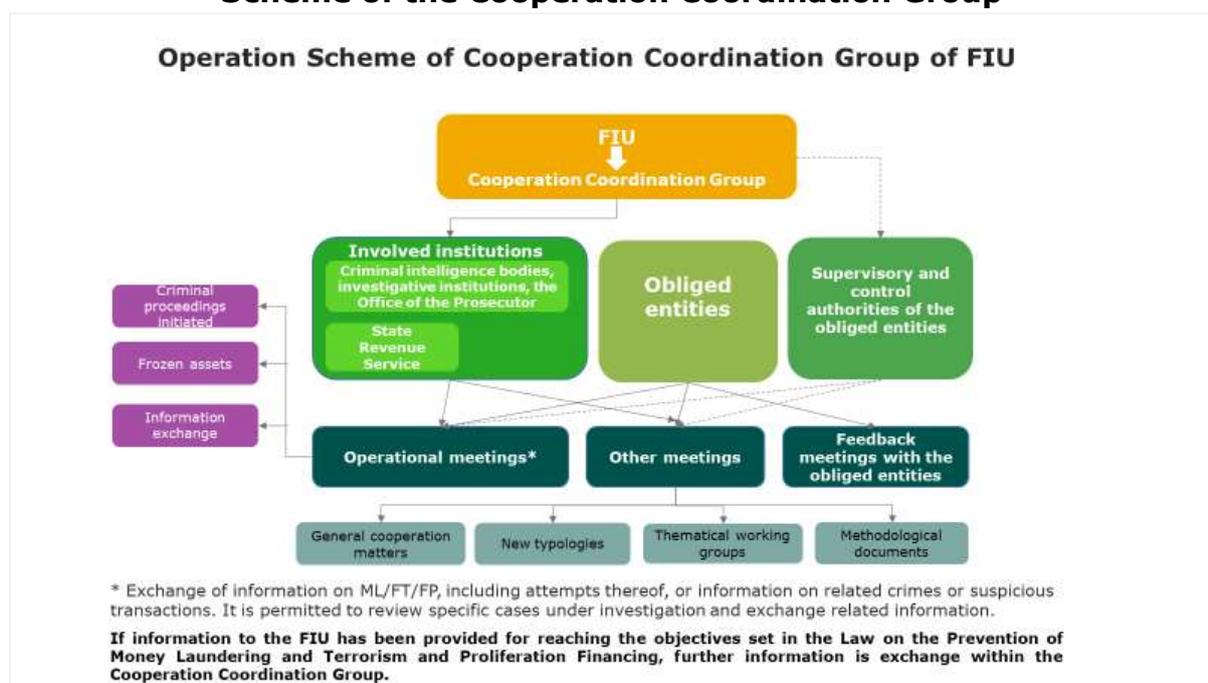


Figure 1.

Meetings of the Cooperation Coordination Group are convened by the FIU Latvia on its own initiative, while the group meetings may also be organised on the initiative of the involved institutions. The institutions involved in the Cooperation Coordination Group are entitled to discuss certain situations that include examinations or investigations, and they can exchange information. The meetings of the Cooperation Coordination Group allow representatives of the private sector or obliged entities under the Law to meet officials of law enforcement authorities or safety authorities and FIU Latvia to discuss an action when establishing a potential offence.

The cooperation coordination mechanism, created under guidance of the FIU Latvia, established an internationally increasing practice to facilitate the cooperation between the public and private sectors for prevention of money laundering and financing of terrorism and proliferation. The cooperation model introduced in Latvia is internationally recognised; this is approved by participation of FIU Latvia experts in various high-level forums — a high-level discussion on the best international practice for voluntary cooperation platform for information

<sup>6</sup> The amendments to the Law were adopted on 26 April 2018 and entered into force on 9 May 2019.

exchange organised by Royal United Services Institute, the 37<sup>th</sup> Cambridge International Symposium on Financial and Economic Crime, EUROPOL meetings, etc.

The meetings of the Cooperation Coordination Group are held on a regular basis as of the second half of 2018. To ensure effective and meaningful cooperation in the public and private partnership platform, a Cooperation Coordination Department with three employees were set up in the FIU Latvia.

During the reporting period, 107 meetings of the Cooperation Coordination Group have taken place. During the meetings of the Cooperation Coordination Group, both operational issues for effective prevention or investigation of a particular offences and strategic issues have been discussed.

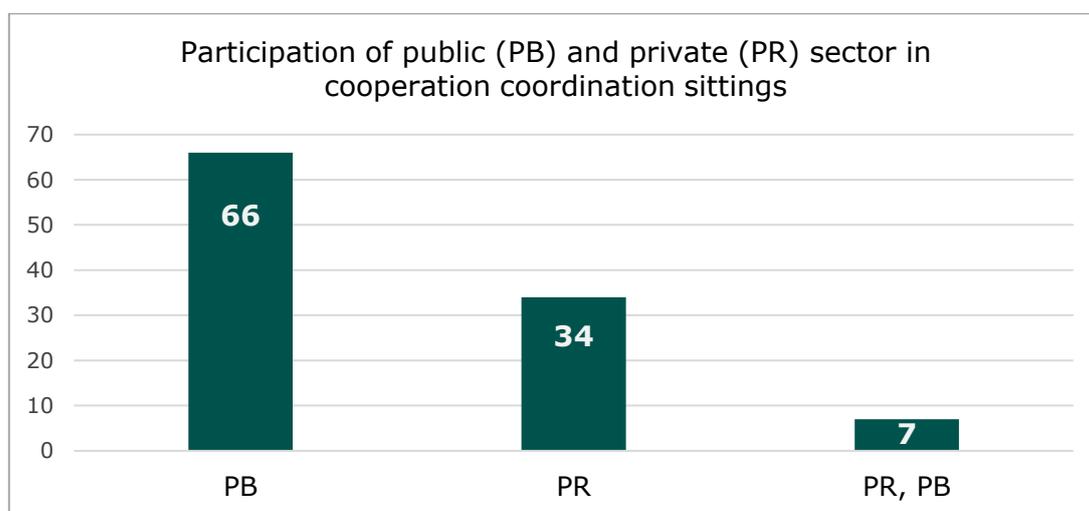


Chart 3.

During feedback meetings, the FIU Latvia and obliged entities under the Law discuss the quality of the submitted reports and analyse technical shortcomings of the reports and their defects as to the substance.

The meetings also include the issues on enhancement of effective execution of the obligations stipulated by laws and regulations, e.g., tendencies, typologies, features of money laundering. Particularly effective meetings are those, in which unclear issues or issues of preventing money laundering and financing of terrorism and proliferation in a broader context — interpretation of laws and regulations, institutional jurisdiction of offence investigation, safety of information exchange, development of risk assessments for money laundering and financing of terrorism and proliferation, etc. — are being solved.

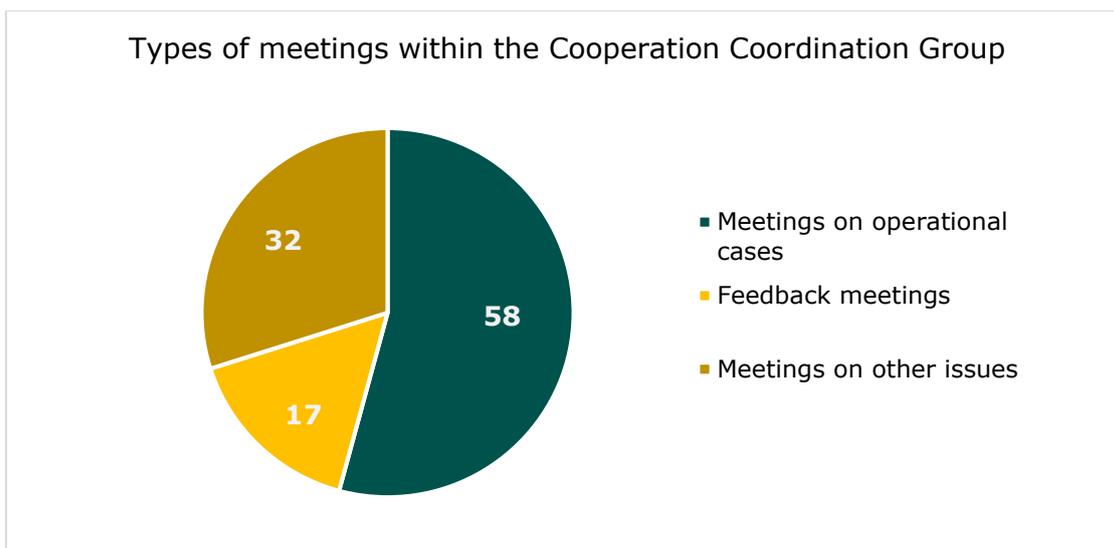


Chart 4.

Under guidance of the FIU Latvia, Cooperation and Coordination Platform for Supervision and Control Institutions has been created, and it ensures regular meetings of representatives of all supervisory and control institutions. The goal of the above-mentioned platform is to facilitate mutual coordination and cooperation among the institutions that supervise and control the obliged entities under the Law, as well as to facilitate joint approach to fulfilment of supervision and control duties.

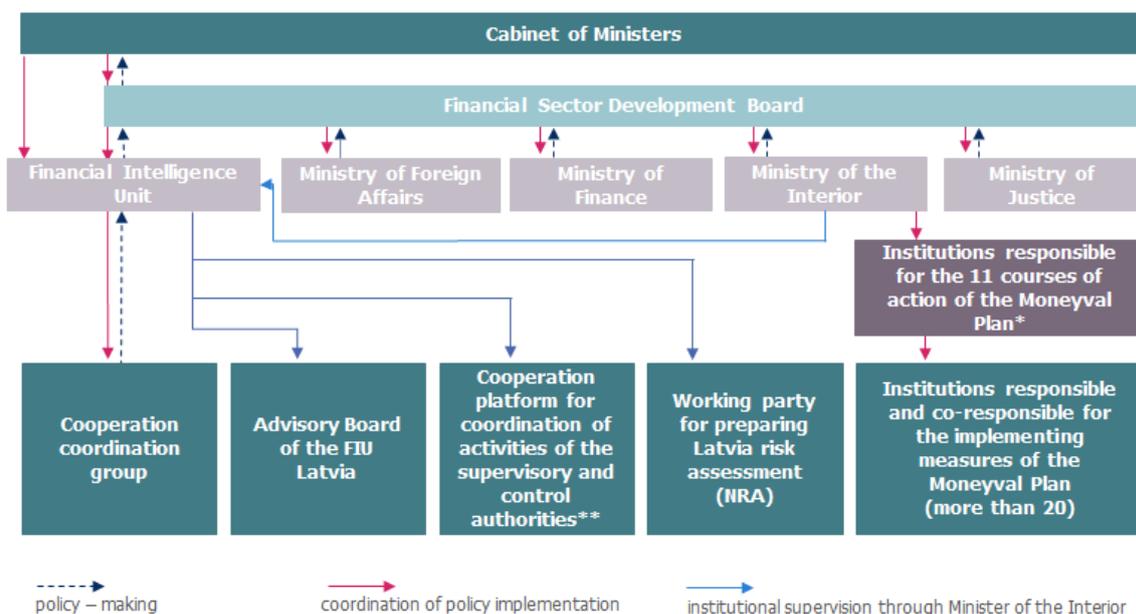
During the reporting period, the following issues have been addressed at the meetings:

- Development of the Sectoral Money Laundering and Terrorism and Proliferation Financing Risk Assessment for 2017–2018;
- Procedure for clarifying the beneficial owner in the supervised sectors;
- Guidelines for international cooperation of supervision and control institutions and analogous foreign institutions;
- Efficiency of fines applied by the supervisory and control institutions;
- Trainings and seminars organised for obliged entities under the Law;
- Development of a single method to ensure compliance with the fit and proper requirements;
- Identification of politically exposed persons;
- Seminars to obliged entities under the Law providing information of the risk assessment reports, that have been drawn up in 2019.

Consultative Council<sup>7</sup> of FIU Latvia, arranged according to the Law, during the reporting period has been familiarised with performance results of the FIU Latvia and, within the scope of its competence, has provided proposals for work improvement.

The FIU Latvia has also been an active participant in different national-level cooperation formats; see participation in Figure 2.

<sup>7</sup> Composition of the Consultative Council is stipulated by Section 60 of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing.



\* Ministry of the Interior; Ministry of Justice; Ministry of Finance; FIU

\*\* Financial and Capital Market Commission; Bank of Latvia; State Revenue Service; Consumer Rights Protection Centre; Lotteries and Gambling Supervision Inspection; National Cultural Heritage Board; Latvian Association of Certified Auditors; Latvian Council of Sworn Notaries; Latvian Council of Sworn Advocates

**Parliamentary supervision:** Defence, Internal Affairs and Corruption Prevention Committee; Budget and Finance (Tax) Committee

**Law enforcement authorities:** General Prosecutor's Office; State Police; Tax and Customs Police Department of SRS; Corruption Prevention and Combating Bureau

**National security authorities:** State Security Service

**Other significant cooperation mechanisms:** Crime Prevention Board lead by the Prime Minister; Council for Tackling the Shadow Economy; National Criminal Intelligence Model of the State Police; Criminal Law working group of the Ministry of Justice; Criminal Procedure Law working group of the Ministry of Justice; Advisory Board of Experts of Counter-terrorism Centre; working group for development of Latvian progress reports (Moneyval/FATF)

Figure 2.

## Representation of Latvian position in evaluation by Moneyval and FATF

In July 2018, during the Moneyval's 56<sup>th</sup> plenary meeting, a fifth round Mutual Evaluation Report (MER) of Latvia was adopted. The Evaluation Report contained a summary of the measures for prevention of money laundering and financing of terrorism and proliferation after an on-site visit from 30 October to 10 November 2017 when the current situation in Latvia was evaluated. Since publishing of the MER, Latvia has demonstrated strong and permanent commitment of political, supervisory, and institutional authorities to their fight against financial crimes.

Initially the Latvian political commitment was showed by a decision of the Cabinet of Ministers when adopting an Action plan that provided strong foundations for creation of a comprehensive, well-coordinated, and targeted approach with an aim to eliminate the risks identified by the Moneyval experts.

As a result of commitment, coordination, and cooperation of political and institutional representatives involved in the implementation of the reform, significant changes have been made in the adaptation of the Latvian regulatory framework to international standards — 40 FATF recommendations. That was reached by developing new or amending current laws and regulations, developing recommendations, explanations, guidelines, as well as risk assessments on money laundering and financing of terrorism and proliferation.

On 30 August 2019, Latvia submitted a progress report on improvement of the system for prevention of money laundering and financing of terrorism and proliferation to the Moneyval expert committee. After receiving the Latvian report, Moneyval experts reassessed Latvia's compliance with all 11 recommendations, where shortcomings were previously identified. Currently, in all 11 recommendations, Latvia's assessment has been increased, assessing compliance with FATF standards as "mostly compliant" or "fully compliant". Consequently, the current Latvian regulatory framework is generally assessed as complying with FATF standards - all 40 recommendations.

On 11 November 2019, Latvia submitted post-observation period report to the FATF expert committee providing comprehensive information on the progress of all immediate outcomes that have been assessed as "moderate" or "low". The progress reflected on the report shows not only Latvian commitment to improve regulatory framework but also ability to apply it effectively in practice. The Latvia's efficiency or application of the regulatory framework in the fight against money laundering and financing of terrorism and proliferation was positively recognised by the FATF experts in February 2020, and thus, Latvia has become the country that has successfully fulfilled all 11 FATF immediate outcomes

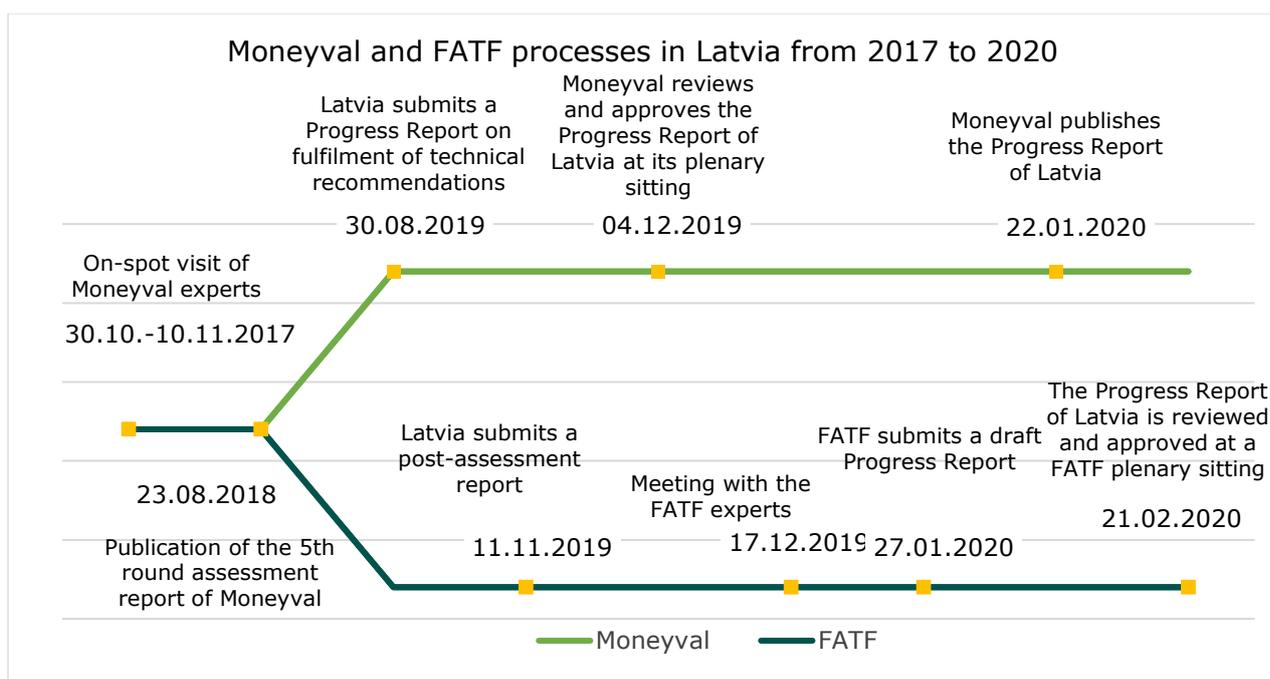


Chart 5.

As already mentioned, adaptation of the Latvian regulatory framework to international standards was reached by adopting new or amending the current laws and regulations, elaborating recommendations, explanations, guidelines, as well as national risk assessments. Some of the most significant amendments:

1. Amendments to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, which include a prohibition of financial institutions to make transactions with shell companies, revoke a requirements of providing the FIU the reports on unusual transactions, introduce the institute of threshold declarations, amend the legal status of the FIU, and foresee an opportunity to convene the meetings of cooperation coordination group or public-private partnership platform.
2. Amendments to the Law on International Sanctions and National Sanctions of the Republic of Latvia (and the related Cabinet Regulations) — ensuring direct and immediate application of the sanctions set by the United Nations Security Council without waiting for their adoption in the EU's law system; forming Sanctions Coordination Council under the Ministry of Foreign Affairs; clarifying the range of persons that are subject to the law requirements, as well as describing the sanction application in the field of public procurements in detail and expanding the range of supervision authorities.
3. Amendments to the Criminal Law foreseeing criminal liability for failure to declare or false declaration of large-amount cash (exceeding the total sum of 50 minimal monthly remunerations) when crossing the border of the Republic of Latvia.
4. Amendments to the law On Declaration of Cash at the State Border — creating a clear mechanism of how to declare or discover incoming and outgoing cash cross-border transfers not only outside the EU, but also within the EU.
5. Amendments to the Law on the Financial and Capital Market Commission — expanding the Commission's operational objectives, functions, and responsibility with an aim of strengthening the prevention of money laundering and financing of terrorism and proliferation in the field of financial and capital market.

## International cooperation

The FIU Latvia is a member of Egmont group — a group of international financial intelligence units. This participation allows the FIU Latvia to communicate and exchange information with all members of the group by using a safe and protected information exchange channel. The FIU Latvia is actively using the opportunities provided by the Egmont group, since preparing answers to requests of analogous foreign units, as well as preparing requests by the FIU Latvia for submission to the foreign units are some of the key international cooperation functions for the Unit.

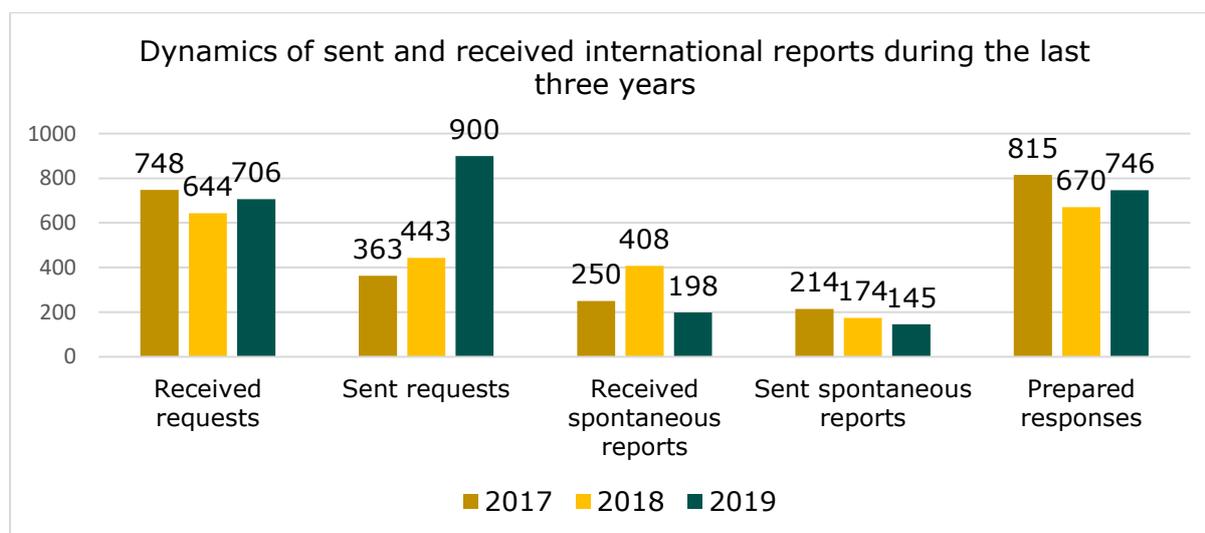


Chart 6.

The requests of foreign FIUs are mainly related to the following offences: stand-alone money laundering, fraud, misappropriation, corruption and bribery, tax evasion and equivalent payments, forgery of documents, and smuggling and forgery of documents.

Upon an international initiative, in 2019, 32.08 million euro have been frozen as potentially laundered assets.

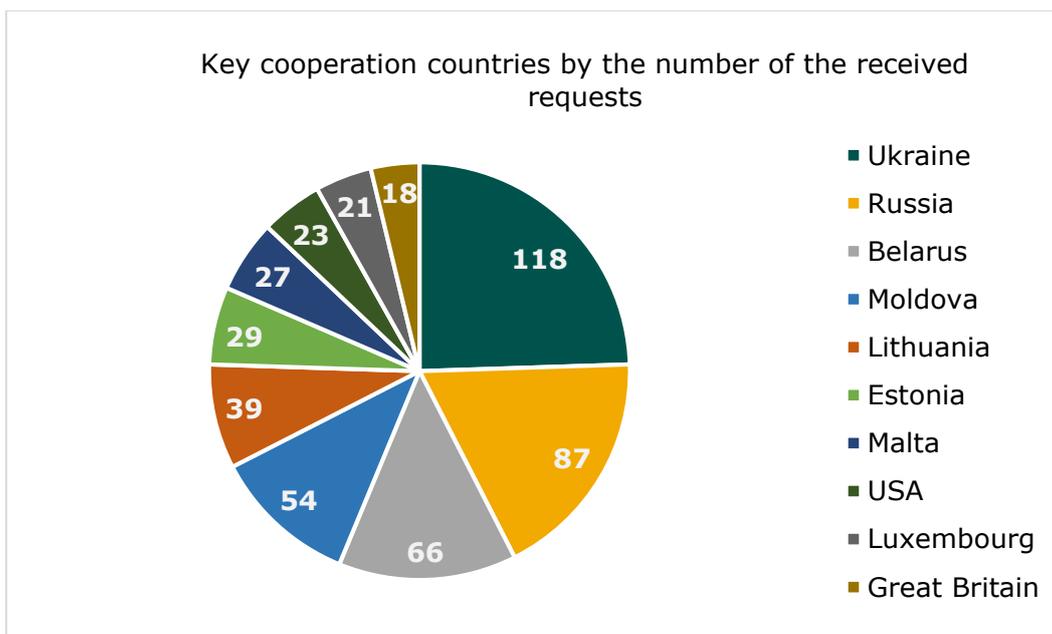


Chart 7.

In 2019, the FIU Latvia established and led a specialised International Financial Intelligence Task Force (*ad hoc* IFIT) (hereinafter — IFIT) consisting of representatives from 22 countries with their financial institutions having performed the most transactions with a particular Latvian credit institution. The main mission of the FIU Latvia in IFIT was not only provide the international partners with a vision of how to investigate financial crime, but also how to facilitate versatile cooperation paying a special attention to global nature of financial crimes.

In 2019, several meetings of the IFIT took place:

1. The first meeting of the IFIT was held on 2 July 2019 in Hague, the Netherlands, during the plenary session of the Egmont group where the FIU Latvia presented an idea on formation of such unprecedented international cooperation model indicating its contribution in improvement of anti-money laundering and prevention of terrorism and proliferation financing for every jurisdiction involved.
2. The second, and by now largest, meeting of the IFIT took place on 28–29 October 2019 in Riga. The FIUs of the jurisdictions involved in the meeting presented the identified connection and transactions with the particular credit institution. Based on a comprehensive data analysis, the FIU Latvia provided a progress overview of this process, and Mr. Yehuda Shaffer, an international expert, and Mr. Enrique Nort, a representative of Egmont, presented the identified characteristics of professional money laundering.

On 27–30 January 2020, an IFIT session has already taken place during the meeting of the Egmont group where FIU Latvia presented a progress of the current case and made a joint analysis of the involved transactions with colleagues of the foreign FIUs. In 2020, it is planned to organise at least three IFIT meetings to discuss the progress of the analytical processes, share information of the discovered money laundering schemes, characteristics, and typologies, as well as to agree on the further priority directions of the analysis and tasks to be done. Apart from the joint meetings of the IFIT, it is expected that there will also be a



bilateral meeting with separate members of the IFIT with an aim to discuss particular operational questions in more detail.

In 2019, the FIU Latvia organised international conference “How to Improve Effectiveness in IO.11? Practical Challenges of Sanction Implementation” in Riga. According to the FATF standards, IO.11 or immediate outcome No. 11 is a performance indicator “Targeted Financial Sanctions for Combating Proliferation Financing”. Proliferation financing is financing of manufacture, storage, transport, use or distribution of any weapons of mass destruction. The key task of the conference was to unite high-level specialists from different countries for a discussion on challenges in the field of proliferation financing. The conference gathered approximately 100 experts from 30 countries.

## Financial intelligence

In 2019, the FIU Latvia has issued 362 freezing orders by freezing potentially laundered assets in the amount of 345.98 million euro. For further investigation, 199 materials and 202 information reports or risk information (Chart 9) were sent to law enforcement authorities.

The above described result was reached since the FIU Latvia received and processed 5264 reports of suspicious transactions, and 3317 of them was examined and analysed deeper. In 2019, the FIU Latvia also received 26,764 reports on unusual transactions and 1208 threshold declarations that replaced the reports on unusual transactions as of 17 December 2019<sup>8</sup>.

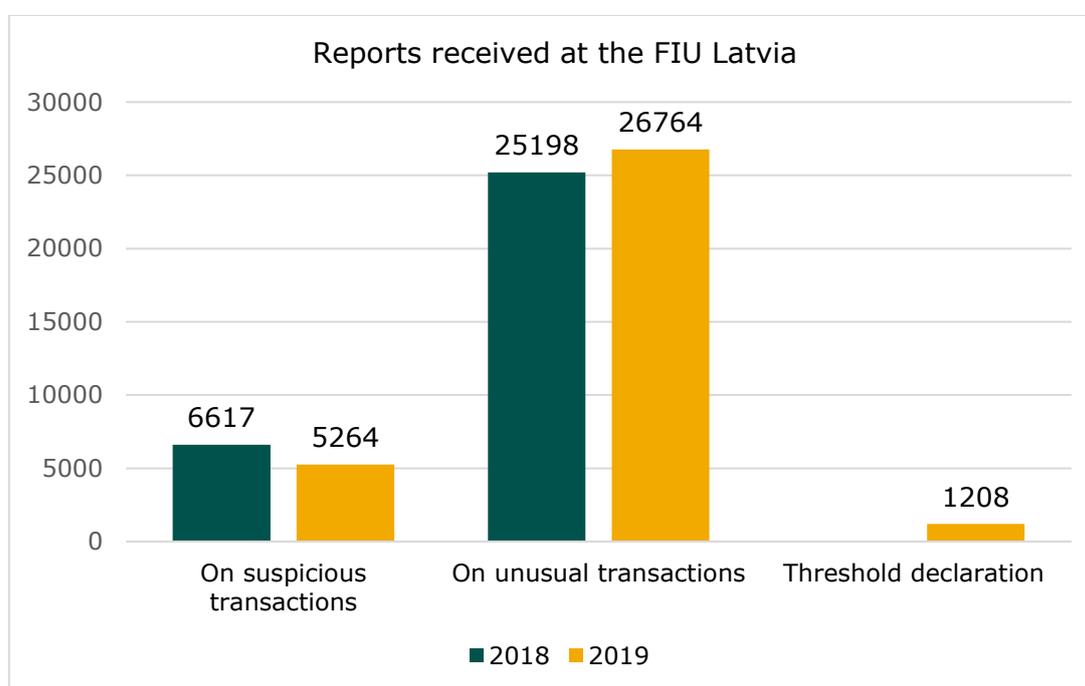


Chart 8.

The reports on unusual transactions and threshold declarations are used by the FIU Latvia for a strategic analysis, while the reports on suspicious transactions are being analysed to identify certain cases of money laundering and financing of terrorism and proliferation.

<sup>8</sup> According to the Cabinet Regulation No. 407 of 27 August 2019 On Submission Procedure and Content of Threshold Declarations.

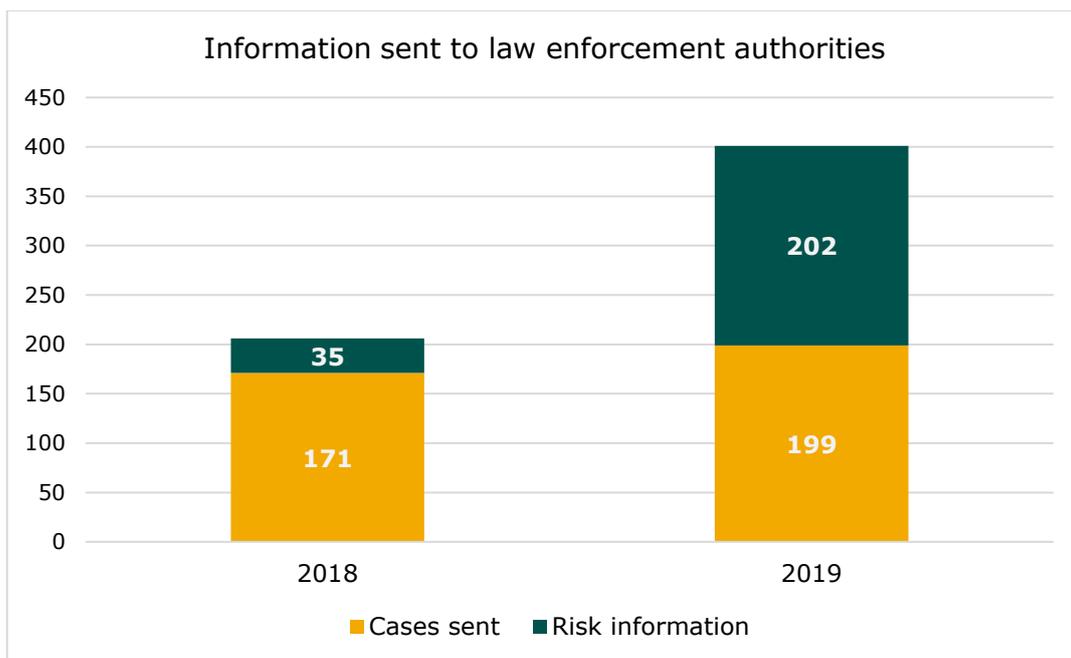


Chart 9.

In 2019, the amount of the examined cases has increased against proportionally to the total number of the received reports, compared to previous years. Also, the number of the reports on suspicious transactions received by the Unit has decreased in relation to the seminars for obliged entities under the Law, organised by the FIU Latvia, as well as changes to functionality of the e-reporting system.

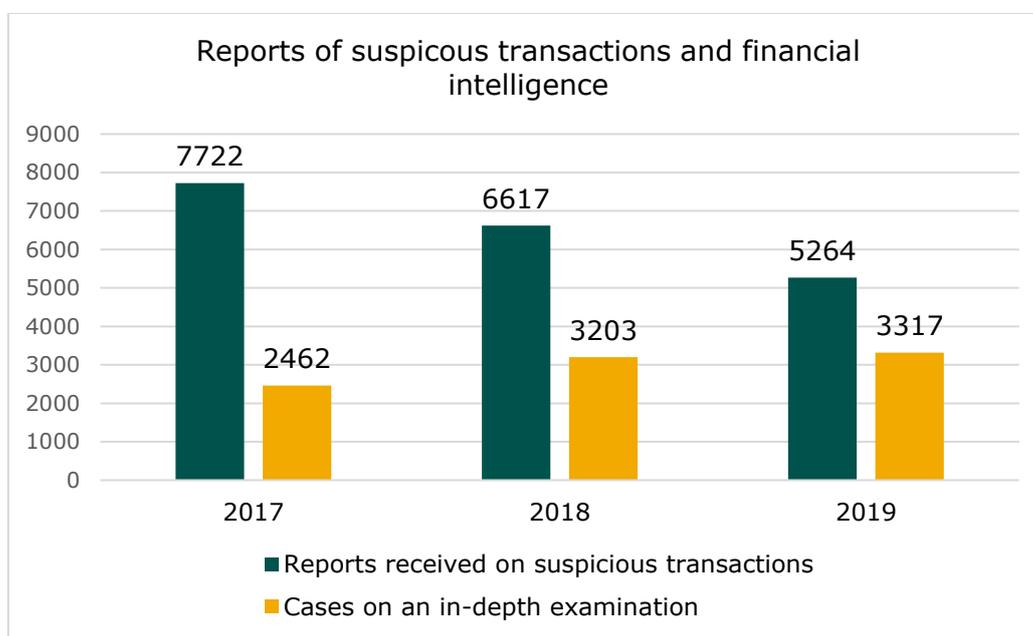


Chart 10.

The majority of typologies of the reports on suspicious transactions — **laundering of proceeds from crime of an unknown origin, tax evasion and equivalent payments**, fraud on electronic environment, as well as cases of other types of fraud. While the main characteristics of suspicion in the reports received in 2019 were unclear origin of the assets used in a transaction, tax evasion, transactions without an evident legal purpose, use of unreasonably complicated schemes, etc.

As already mentioned, in 2019, historically greatest amount of potentially laundered assets was frozen — 345.98 million euro, which exceeds the indicator of 2018 by three times. In 2019, 16 properties and four bank safe deposit boxes were also frozen.

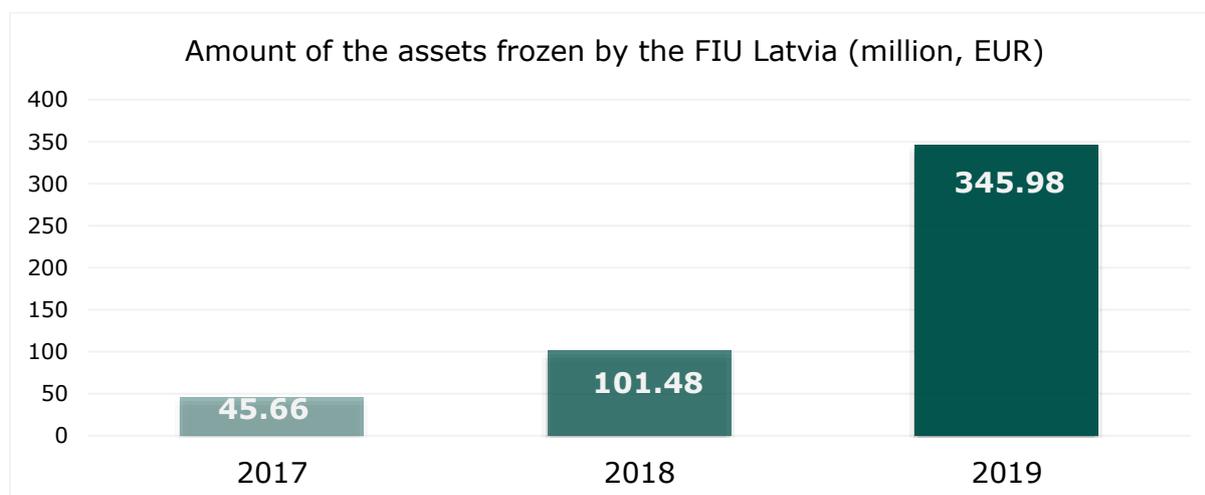


Chart 11.

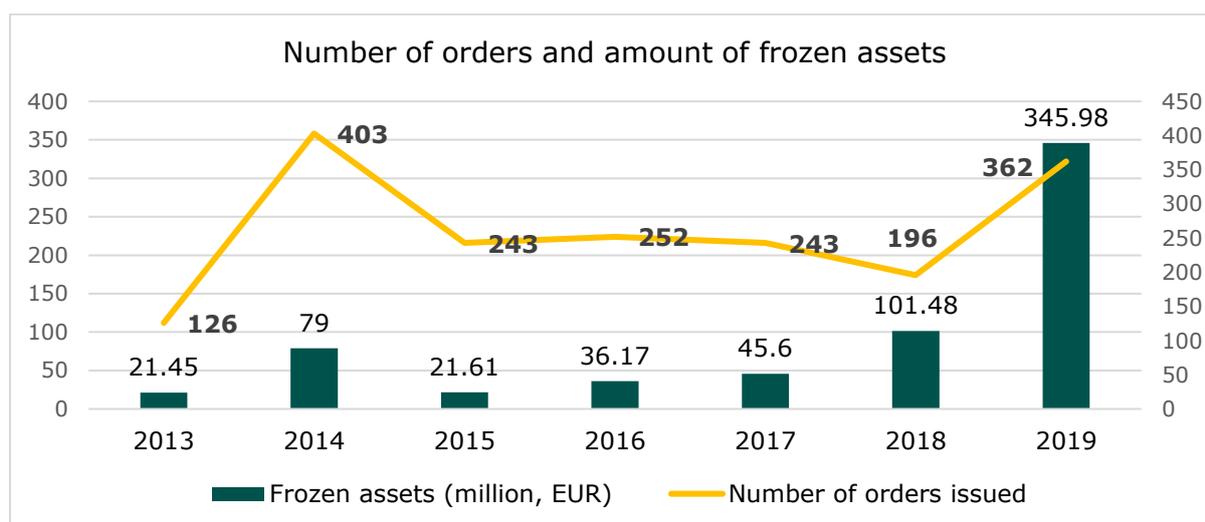


Chart 12.

In 2019, the biggest amount of potentially laundered assets (financial assets and securities) was frozen on an initiative of the FIU Latvia, while the second initiator was obliged entities under the Law with their reports thus refraining from carrying out a transaction<sup>9</sup>, and requests received by the foreign FIUs was the third initiator of the freezing.

<sup>9</sup> According to Section 32 of the Law.

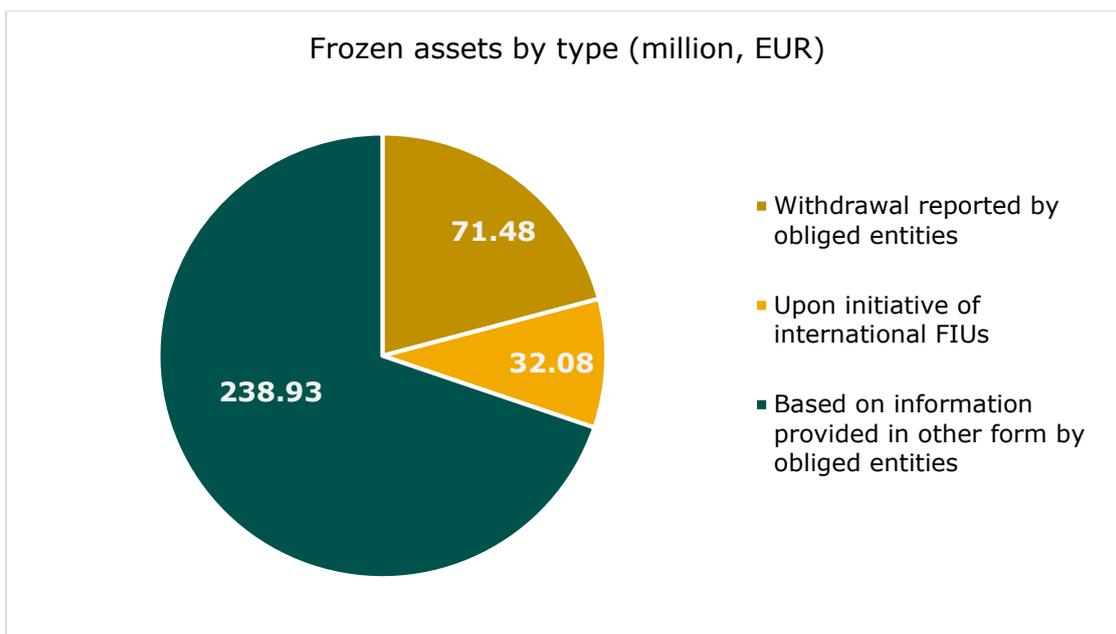


Chart 13.

Analysing the amount of potentially laundered assets by a type of an offence (Chart 14), the most assets were frozen for stand-alone money laundering, violations of sanctions set by various international organisations or national authorities, as well as for offences in the tax field, fraud, and corruption.

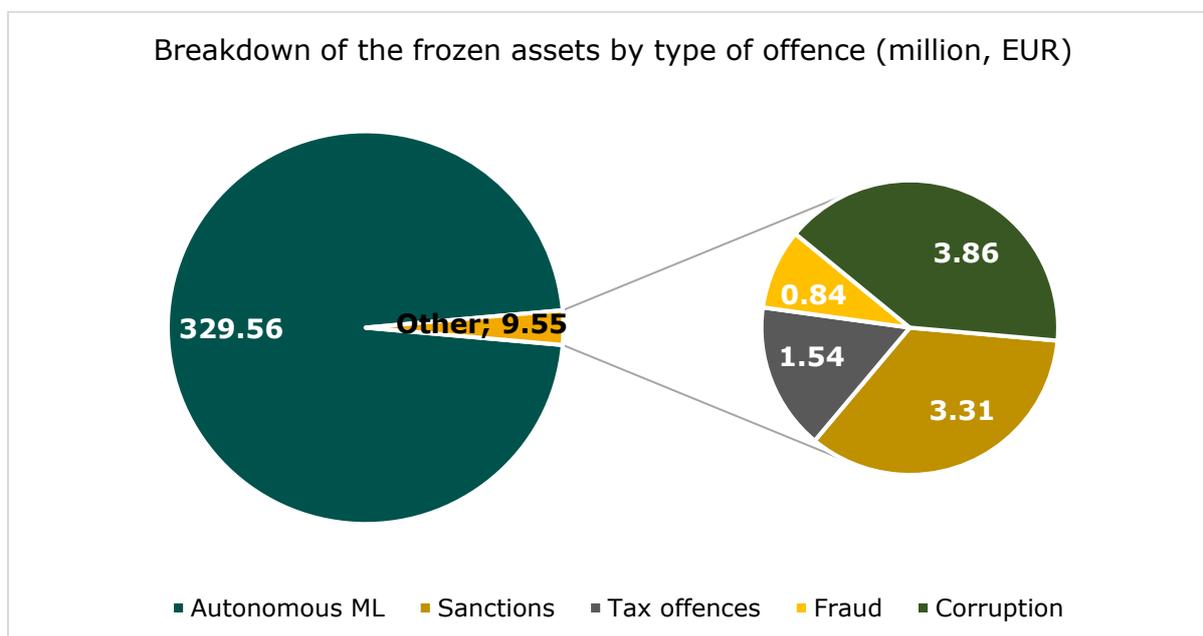


Chart 14.

One of the priorities set in the Declaration of the Intended Activities of the Cabinet of Ministers headed by Arturs Krišjānis Kariņš<sup>10</sup> was to reorganize the financial sector and restore international reputation of Latvia, deleting references from the regulatory framework of Latvia as a regional financial centre and reducing servicing of money flows of foreign clients in financial institutions, as well as implementing certain activities on behalf of changes. The activities of the

<sup>10</sup> Full Declaration is available here:

[https://www.mk.gov.lv/sites/default/files/editor/declaration\\_of\\_the\\_intended\\_activities\\_of\\_the\\_cabinet\\_of\\_ministers.pdf](https://www.mk.gov.lv/sites/default/files/editor/declaration_of_the_intended_activities_of_the_cabinet_of_ministers.pdf)

institutions involved in financial sector resulted in gradual decline of foreign money flow in Latvia, while the performance results of the FIU Latvia in 2019, when freezing potentially laundered assets, show that the share of the frozen assets is to a great part constituted by the financial assets of foreign persons, both natural and legal.

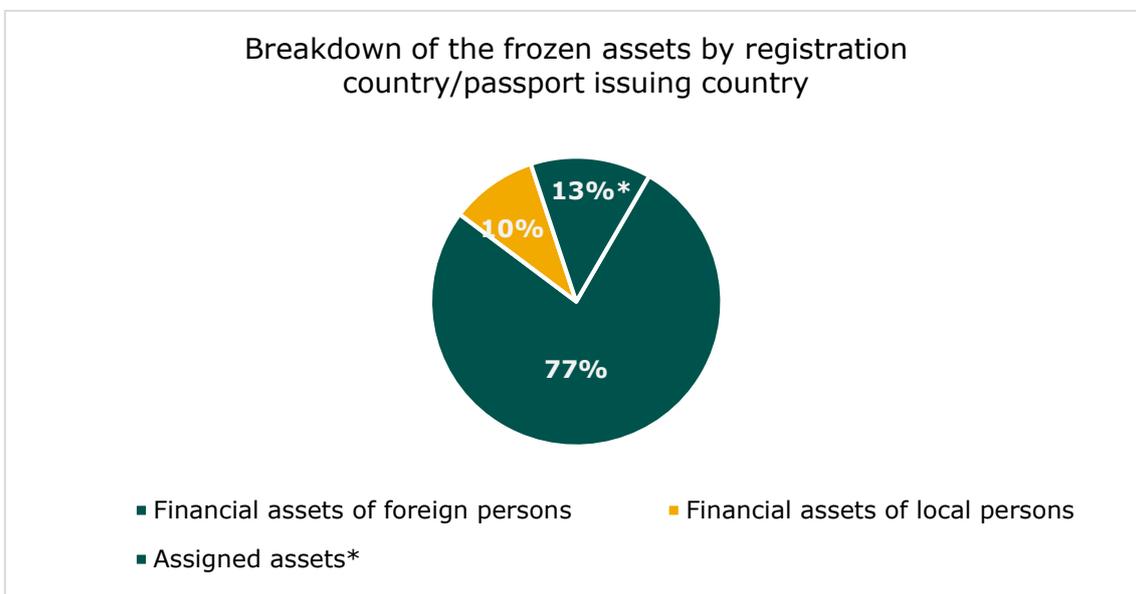


Chart 15.

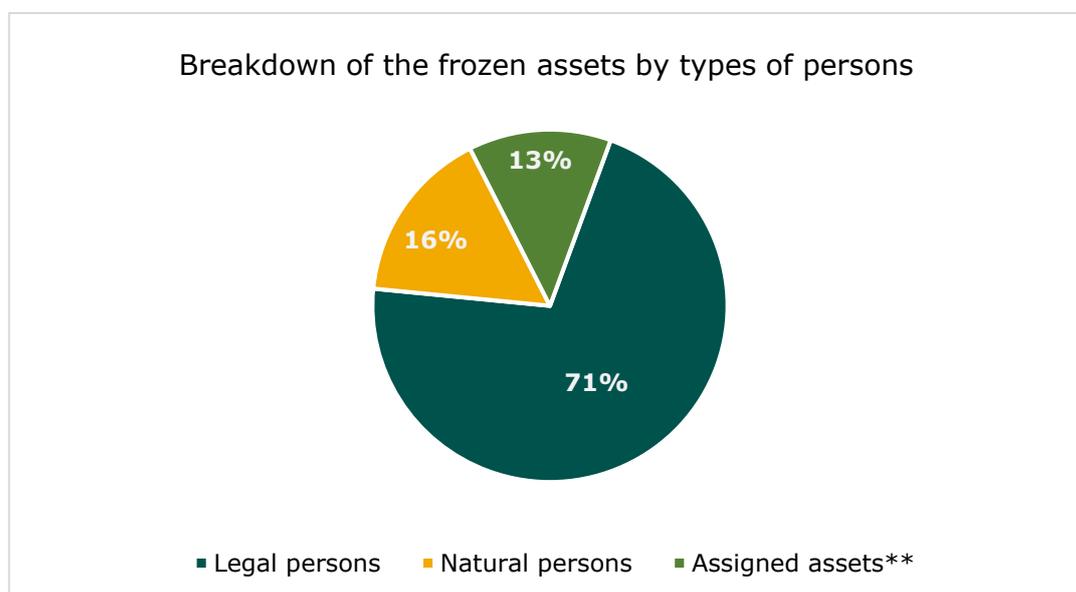


Chart 16.

\* right to demand assigned from foreign persons to local persons during the reporting period

\*\* right to demand assigned from legal and natural person to a legal person during the reporting period

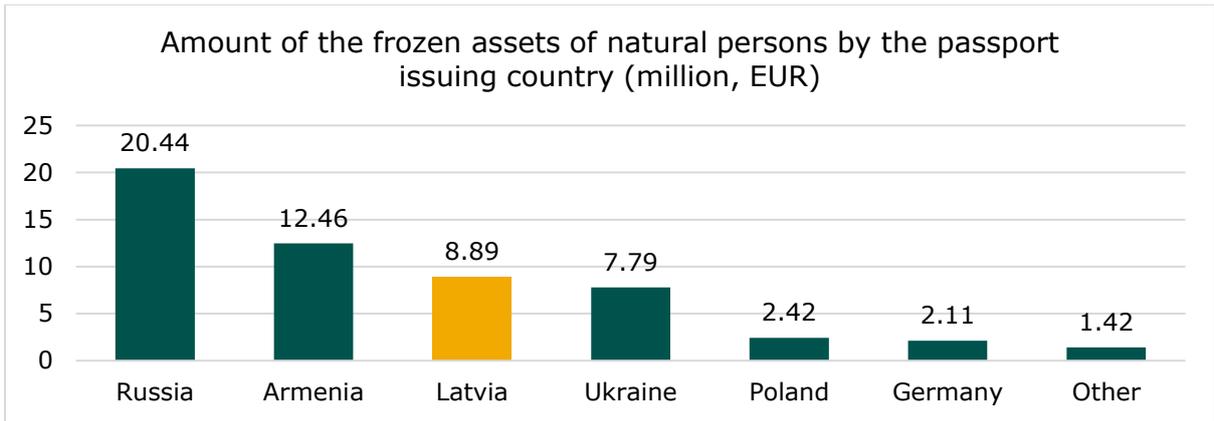


Chart 17.

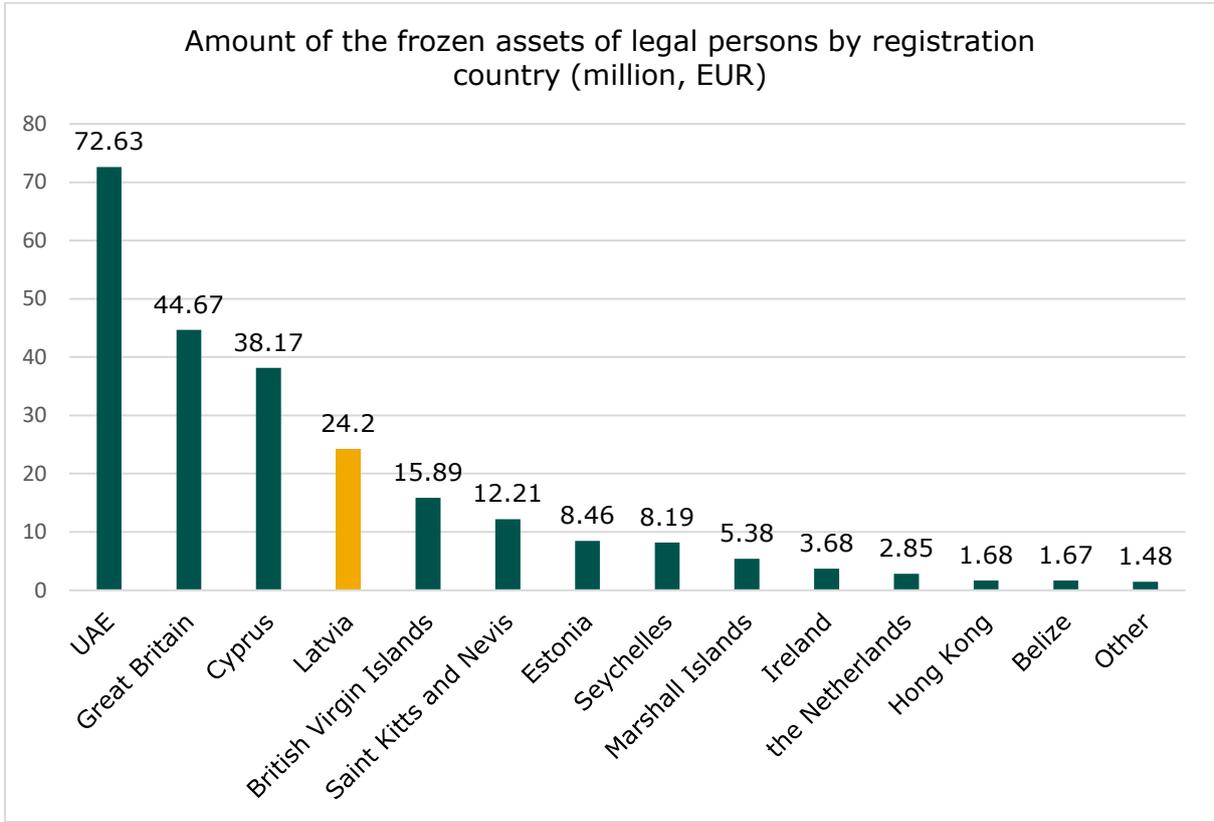


Chart 18.

## Studies of the Financial Intelligence Unit

In 2019, the FIU Latvia performed several strategic analysis studies, which are described in section "Strategic analysis". By engagement of outsource experts, research "Measuring the scope of latent criminality with the resulting money laundering being potentially dangerous to the international financial system and joint market of the European Union" was developed. The total amount of the study was 15,000 euro.

The study objective was to find out the scope of latent criminality<sup>11</sup> in Latvia. The study allowed concluding that the amount of the laundered assets derived from latent criminality is of such a large scale that it is dangerous to the international financial system and joint market of the EU. Considering that the latent criminality study is closely related to the National Risk Assessment of Money Laundering and Terrorism Financing, the study's aim was to find out the amount of assets derived from latent criminality that can be laundered.

### Key study results:

The most significant threats in Latvia for money laundering are caused by (1) corruption and bribery (malfeasance), (2) offences in relation to taxes, (3) fraud, (4) smuggling, and (5) offences of a large amount and/or in an organised group<sup>12</sup>. The authors of the study point out that, taking into account the latency factors of a particular crime, in some areas the latency may exceed even 90% of the total number of crimes committed.

According to the studies performed by the State Revenue Service, undeclared revenue of natural persons in 2012 was 3.533 billion euro, while in 2017 – 2.315 billion euro<sup>13</sup>.

According to data of the Bank of Latvia<sup>14</sup>, a part of these assets is a remuneration for Latvian residents employed abroad, including the remuneration to seafarers. The amount of these assets as of 2012 exceeds 0.5 billion euro per year. However, also exclusion of such remuneration forms the undeclared revenue, a share of them with an unknown origin exceeds 1.8 billion euro and serves as a ground for an assumption that a great part of these assets is gained from illegal activities.

### **Difference of undeclared revenue and remuneration received abroad for those employed in other countries (million, EUR)**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Undeclared revenue</b>	3,533	2,875	2,790	2,603	2,318	2,315
<b>Remuneration</b>	0,568	0,574	0,712	0,675	0,624	0,578
<b>Difference</b>	<b>2,965</b>	2,301	2,078	1,928	1,694	<b>1,737</b>

Table 2.

<sup>11</sup> A set of crimes performed in the territory of the Republic of Latvia and not reflected in the overall crime statistics

<sup>12</sup> According to the Second National Report on the Assessment of Money Laundering and Terrorism Financing – [https://www.fid.gov.lv/images/Downloads/useful/ML\\_TF\\_ENG\\_FINAL.pdf](https://www.fid.gov.lv/images/Downloads/useful/ML_TF_ENG_FINAL.pdf)

<sup>13</sup> Assessment of undeclared revenue, gaps of mandatory state social insurance contributions and personal income tax. Tax Administration Risk Management Section of the SRS. November 2018. Presentation. Slide 10. [https://www.vid.gov.lv/sites/default/files/vsaoti\\_un\\_iin\\_plaisa\\_2018.qada\\_aprekins\\_lv.pdf](https://www.vid.gov.lv/sites/default/files/vsaoti_un_iin_plaisa_2018.qada_aprekins_lv.pdf)

<sup>14</sup> Statistical Database of the Bank of Latvia, <https://statdb.bank.lv/lb/Data.aspx?id=200>

To approve correctness of this assumption, the study analysed several offence types.

### Crimes committed in state institutions

The study is based on information on 27 criminal cases investigating bribery of large amounts or abuse of service position due to desire to acquire property by causing losses of a large scale to the state or a local government. After concluding a comprehensive data analysis and interviews with experts, the study allowed to conclude that the total amount of the laundered assets in a year in this crime category exceeds 50 million euro.



On the basis of shadow economy studies in construction, the total potential volume of bribes in the construction was estimated. In 2017, it exceeded 500 million euro. This means that the experts' assumption that latency of bribery on a large scale is not less than 90% is too optimistic. The studies give grounds to conclude that latency of bribery on a large scale is not less than 98%. A correlative component of other economic fields has not been studied, therefore, the amount of money assets that are still reaching the illegal circulation remains unknown.

The experts were reluctant to assess latency of abuse of service position with large material damage.

The authors of the study indicate that approximately 500 million euro are laundered each year through crimes committed in state institutions.

### Crime against property

Although crimes against property are the most common crimes, which in general cause major losses and lead to significant amounts the laundered assets, their latency rapidly decreases as the amount of the caused damage grows. The latency of the crimes against property of a large scale does not exceed 10% of the total number of crimes.

From 2014 to 2018, total losses from the crimes against property exceeded 318 million euro. Only a rather small part of the assets gained in this way remains in the possession of criminals without the need of laundering it (the money assets were wasted through misappropriation or the stolen money assets were hidden by not putting them into circulation); it is reasonable to consider that approximately 80% or at least 48 million euro per year are laundered.

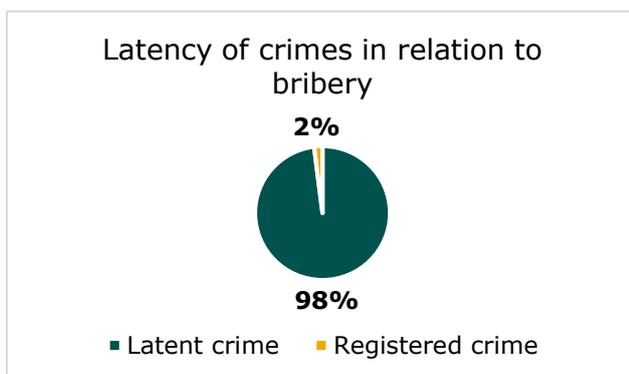


Chart 19.

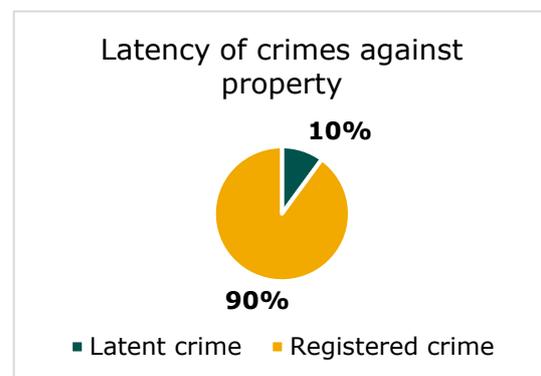


Chart 20.

Comparing the latency of bribery-related offences and latency of crimes against property, it can be concluded that in the first case, discovery of the crime is not beneficial to neither of the parties, while in the second group of crimes the latency is small and, according to the experts, these are the cases when:

- 1) Source of the victim's assets is dubious;
- 2) Victim's overall welfare outweighs the discomfort of reporting a crime committed against him/her and participating in investigation and trial;
- 3) Loss has been caused to a legal entity, and its representatives, on the grounds that disclosure of information about a crime may harm the legal entity's reputation or fear for their alleged liability, do not inform the law enforcement institutions about what happened.

### Crimes in relation to economy

The study allowed concluding that manufacturing and dissemination of counterfeit money take a form of putting into circulation certain banknotes or coins. With their amount ranging from 51,000 to 120,000 euro, this money does not constitute significant amounts of the laundered assets.



However, considerable losses to the state budget are caused by intentional tax evasion. As per the study conclusions, a calculation of three out of 15 tax types in Latvia suggests that a tax gap every year exceeds 1 billion euro. Nevertheless, the experts emphasise that the tax gap is not formed by intentional tax evasion only, since it is formed also by tax debts and inability, based on objective reasons, to pay the taxes.

Undoubtedly, crime in relation to illegal circulation of excise goods is one of the offences with relatively high latency involving the money laundering. The study authors indicate that the latency in relation to circulation of illegal cigarettes is gradually declining and reached 66.4% in 2018.

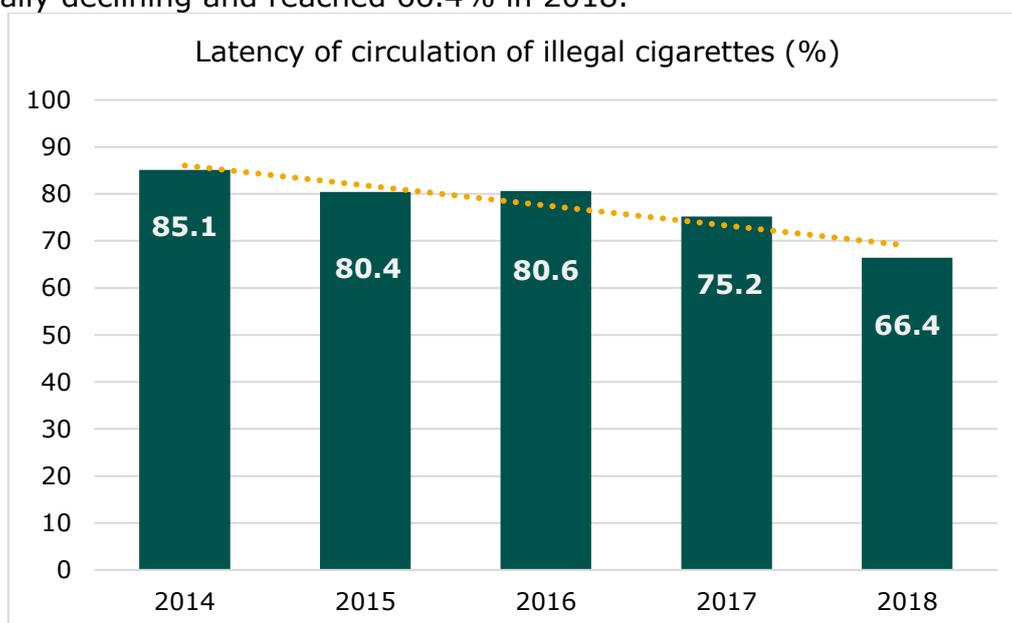


Chart 21.

Very slightly yet gradually also the latency of circulation of illegal alcoholic beverages is reducing (ranging from 97 to 98.5%), while the latency of circulation of illegal fuel exceeds 99% and it tends to grow.



Similarly, the study authors point out that revenue from illegal circulation of narcotic substances will continue to grow. From 2014 to 2018, income from illegal circulation of narcotic substances was 236 million euro and the respective latency – 85%.

When analysing the crimes committed in state institutions (abuse of service position, bribery, etc.), crimes against property, crimes in economy, including manufacturing of counterfeit money, tax evasion, money laundering, as well as the crimes in relation to circulation of excise goods and the latency of the crimes in relation to illegal circulation of narcotic substances, the study allowed concluding that every year approximately **1.5 billion euro of the laundered money** enter into circulation in Latvia due to such crimes.

## Employees of the Financial Intelligence Unit

One of the significant resources in the work of the FIU Latvia is its team. To effectively prevent money laundering and financing of terrorism and proliferation, the FIU Latvia has managed to create the team of high-level professionals with corresponding knowledge and competence.

In 2019, a funding for provision of 16 additional positions was granted to the FIU Latvia. On 1 January 2019, there were 38 active positions at the FIU Latvia, while at the end of the year, this number reached 54, and 17 of them were the positions of civil servants, while 37 held the position of an employee. During the reporting period, the team of the FIU Latvia was increased by 25 new employees. They took their positions after a competition, when a careful selection allowed assessing their qualification compliance, eligibility to the position, work experience, and education.

The personnel rotation (turnover) ratio in 2019 was 0.77.

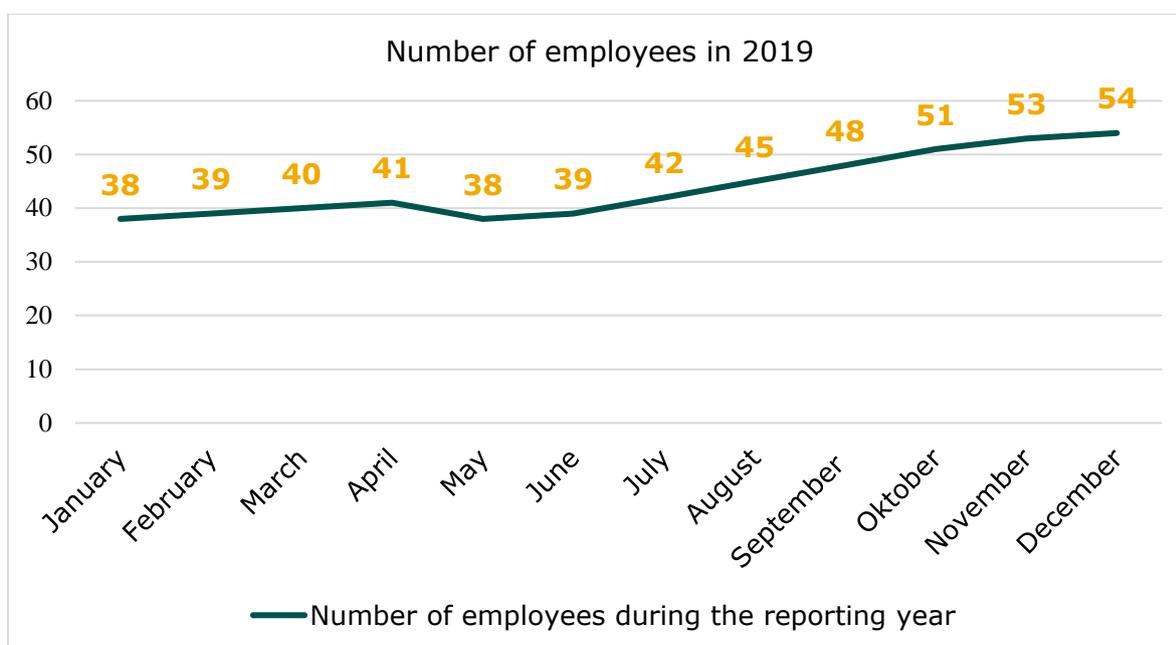


Chart 22.

The average age of the employees of FIU Latvia is 38, and the largest part of the employees in 2019 represented the age group of 30–39 years. 70% of the employees of the FIU Latvia are women.

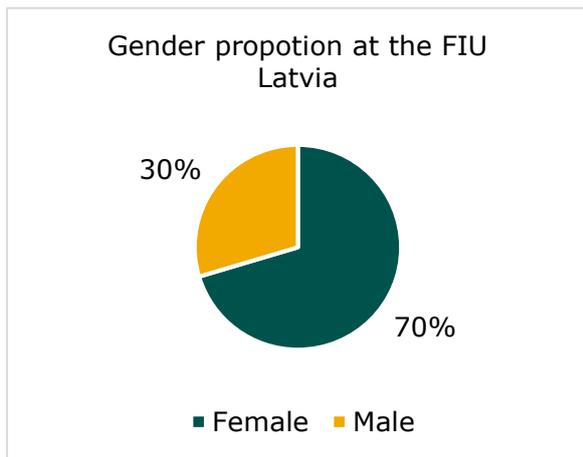


Chart 23.

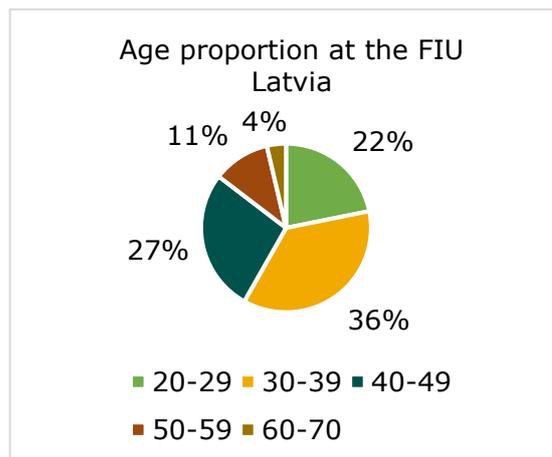


Chart 24.

Considering the specific features of the operation performed by the FIU Latvia, 38% of the employees have obtained higher education in law, while 22% — in business administration/management.

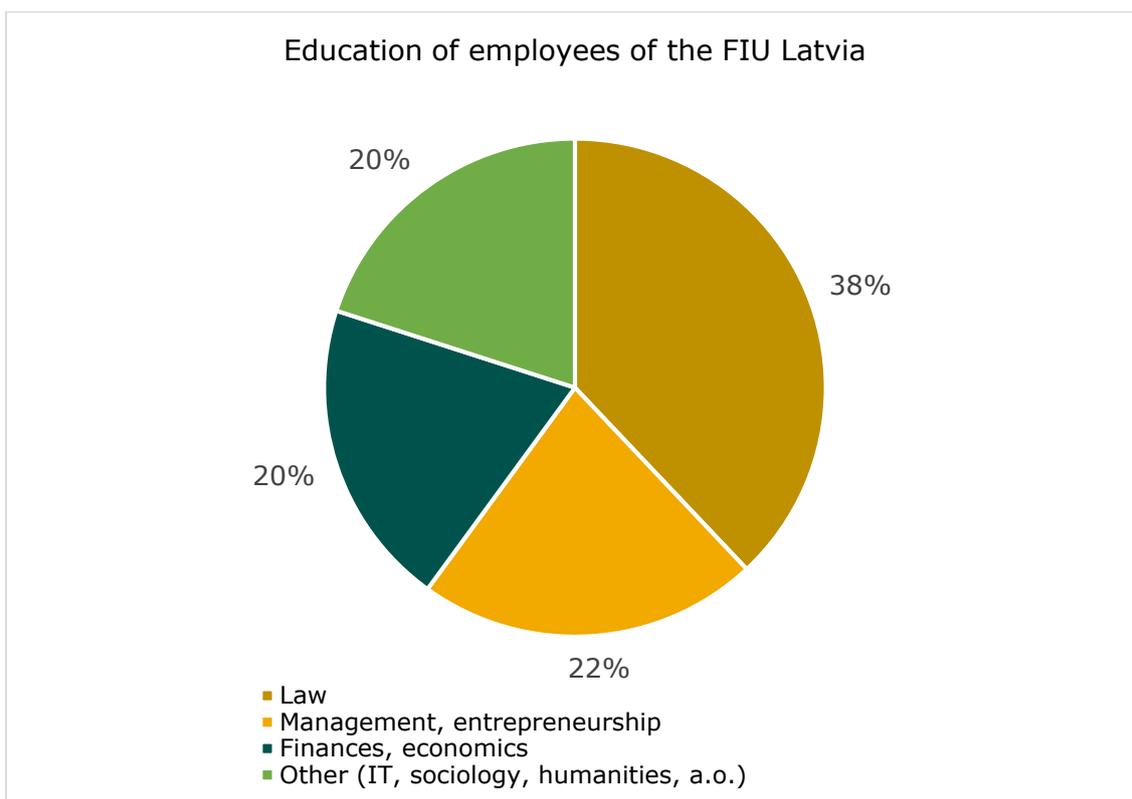


Chart 25.

There are two deputies of the Head of the FIU Latvia — a Deputy Head for Financial Intelligence and a Deputy Head for Administrative and Strategic Communication.

### Structure of the Financial Intelligence Unit

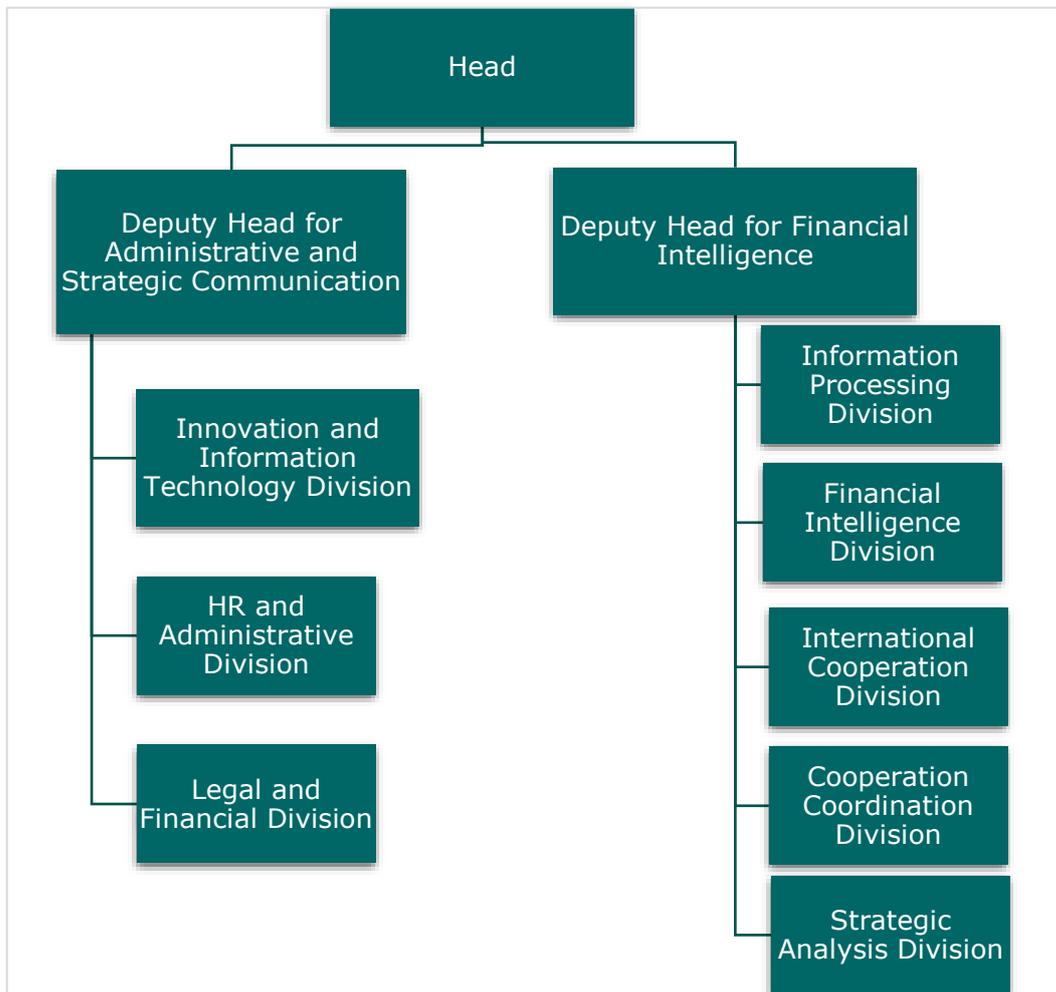


Chart 26.

For more effective fulfilment of the personnel functions, the FIU Latvia in 2019 introduced a single personnel management system “Horizon” with “Hops”, a personnel self-service portal.

According to a principle of good management, the FIU Latvia has developed a [Code of Ethics](#), thus starting to introduce internal control systems for identification and reduction or prevention of corruption and conflicts of interests; the introduction will continue in 2020 as well.

## Communication with the public

When informing the public about the questions of prevention of money laundering and financing of terrorism and proliferation, the FIU Latvia selected the most suitable communication channels, methods, and forms for each target audience.

In 2019, the main communication topics were of FIU Latvia:

- Strengthening the role of the FIU Latvia in the system of anti-money laundering;
- Anti-money laundering in Latvia, local and international cooperation in anti-money laundering;
- Moneyval recommendations to Latvia, their fulfilment and provision of fulfilment supervision;
- Impact of economic and financial crime;
- Cooperation of the public and private sectors in anti-money laundering;
- Risks of financial crime in various target audiences and options to avoid them.

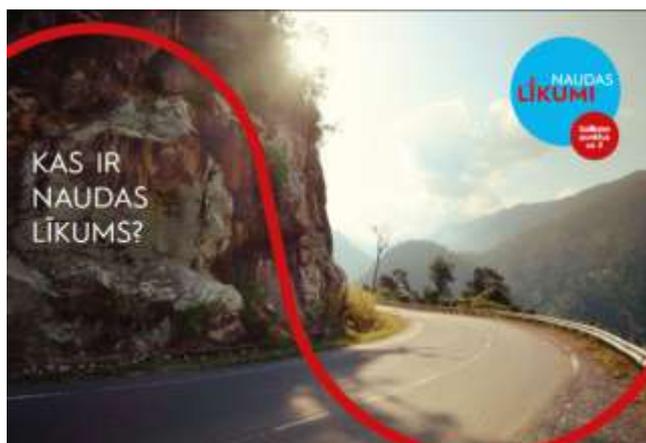
The most current topics defined by the FIU Latvia were presented by largest mass media as both informative stories, interviews and educational and explanatory materials, and the Unit's experts also took part in discussion platforms organised by media.

To educate the public on prevention of money laundering and financing of terrorism and proliferation, the FIU Latvia during the reporting period implemented the following key activities:

- Educational campaign "Zini naudas li(i)kumus!" ("Know the (f)laws of money!"), mainly aimed at informing the public on issues of money laundering and financing of terrorism and proliferation so that it would be possible to raise the public awareness, improve skills for recognising the financial crimes in different situations, and improve ability of the public and each individual to avoid being involved in criminal activities. The key target audience of the campaign — small and medium-size entrepreneurs. To address the audience, the FIU Latvia during the campaign implemented successful cooperation with the Latvian Employers Confederation and Business Union of Latvia.



In the campaign "Know the (f)laws of money!", The FIU Latvia invited all interested to participate in a [digital game](#) offering several risk scenarios for both natural and legal persons. There were three simple scenarios: "[Money Mule](#)", "[Straw Man](#)", "[Western Agent](#)" allowing to play the situations that are being used by criminals.



For the campaign to reach the target audience, a digital campaign was developed and profiles of the FIU Latvia on [Twitter](#) and [Facebook](#) were created.

- Participation in a conversation festival "Lampa" (in Cēsis from 28 to 29 June 2019), discussion "Neielaid vīrusus savā maciņā!" ("Don't let Viruses into Your Wallet!"). The discussion was aimed at conversation and explanations on how to protect oneself in order not to become a victim of dishonest people due to unawareness. During the discussion, experts explained the consequences of population carelessness and high tolerance of economic crimes indicating who are the beneficiaries of such transactions. At the same time, it was explained what the Moveyval and FATF expert recommendations are and how do they affect population in their everyday life.
- Participation in the 58<sup>th</sup> plenary session in Strasbourg (France) where the Head of the FIU Latvia, Ilze Znotiņa, presented the progress of Latvia in a year after publishing the MER and provided a comprehensive reading on the challenges when establishing autonomy of the FIU Latvia and strengthening its status of the leading institution.



- Participation in a high-level discussion on the best international practice organised by the Finance Latvia Association in cooperation with the Royal United Services Institute (RUSI) on cooperation platforms of voluntary exchange of information, where local and international audience was acquainted by the FIU Latvia with its experience in the cooperation of the public and private sector for prevention of financial crimes.



- The public-private cooperation platform created by the FIU Latvia was one of the topics at the 37<sup>th</sup> Cambridge International Symposium on Economic Crime (<https://www.crimesymposium.org/>) in Great Britain, where the Head of the FIU Latvia, Ilze Znotiņa, shared experience and achievements of the FIU Latvia in prevention of money laundering and other financial crimes. The Cambridge Symposium of Economic Crime is organised by the world's leading education and research authorities by involving both government institutions and judicial institutions, as well as the leading academic personnel/professors, entrepreneurs, and supervision institutions. The Symposium's forums allow analysing practical examples and engage in a joint discussion on topicalities of crime prevention.
- To form a single understanding about the approach to supervision issues and to ensure a feedback to the obliged entities under the Law, the FIU Latvia has conducted 12 seminars, where 650 representatives of the private sector (obliged entities under the Law) were informed about the risk assessments of the field and national risks assessments regarding the prevention of money laundering and financing of terrorism and proliferation. The seminars gathered (1) the persons who are working with consumer crediting, debt recovery service providers and capital companies who deal with purchase and sales of cash in foreign currencies, (2) outsource accountants and tax advisers, (3) independent providers of legal services and service providers for establishing legal arrangements or legal persons and ensuring operation, (4) members of the market of art and antique items, (5) organisers of lotteries and gambling, (6) sworn advocates, (7) real estate agents and intermediaries, representatives of sellers of precious metals, vehicles, and other high-value goods, (8) sworn notaries, (9) certified auditors.
- In 2019, the FIU Latvia organised a training for law enforcement authorities' staff by involving international field experts.



- The FIU, in cooperation with the Ministry of Foreign Affairs in Riga in 2019 organised an [international conference](#) "How to Improve Effectiveness in IO.11? Practical Challenges of Sanction Implementation"<sup>15</sup>, combining high-level specialists from different countries for a discussion on the challenges in prevention of proliferation financing. The conference gathered approximately 100 experts from 30 countries.



- Representatives of the FIU Latvia participated in a scientific conference at Sorbonne University (Paris, France) on unilateral sanctions with an extraterritorial scope. The panel discussion included Latvian experience after a US federal institution in February 2018 accused a credit institution registered in Latvia on a violation of the US sanctions against the North Korea.

During the reporting period, the FIU Latvia actively participated in a communication coordination working group of the financial sector by planning and preparing the required information for a well-coordinated provision of information about the topicalities of the sector to the public.

---

<sup>15</sup> According to the FATF standards, IO.11 is a performance indicator "Targeted Financial Sanctions for Combating Proliferation Financing". Proliferation financing is financing of manufacture, storage, transport, use or distribution of any weapons of mass destruction.

## Plans of the Financial Intelligence Unit for 2020

- To ensure representation of Latvia and coordination of actions to be fulfilled during a post-reporting period regarding the assessment processes performed by Moneyval and FATF;
- To develop the National Money Laundering and Terrorism and Proliferation Financing Risk Assessment for 2017 –2019;
- To develop the Risk Assessment of New Technologies and Virtual Currencies;
- To elaborate assessments of several sectors – currency exchange in capital companies, activity of lottery and gambling organisers, trade in precious metals, precious stones and their products and non-bank creditors;
- To continue regular training of the persons (incl. obliged entities under the Law, supervisory and control institutions, law enforcement authorities) involved in the anti-money laundering system and providing information to them about the risks, typologies, indicators, etc. of money laundering;
- To continue introduction of *goAML* application in the FIU Latvia. This system in 2021 will replace the currently used system and e-reporting system of the FIU Latvia;
- To initiate implementation of EEA Financial instrument programme “International Police Cooperation and Combating of Crime”, strengthening the staff’s knowledge about prevention of money laundering and financing of terrorism and proliferation in cooperation with the Financial and Capital Market Commission. The programme foresees organisation of seminars, training courses, and exchange of experience visits;
- To organise the second international conference on practical challenges and solutions for implementation of extraterritorial sanctions with participation of more than 100 experts.

The priority tasks of the FIU Latvia for 2020 are incorporated in the Cabinet of Ministers Order No. 653 of 23 December 2019 “On Action Plan for Prevention of Money Laundering and Financing of Terrorism and Proliferation from 2020 to 2022”. Also, the operational strategy for 2020–2022 (which is a medium-term management document of the FIU Latvia) will define the Unit’s strategic objectives, tasks to reach them, and performance indicators. Activity of the FIU Latvia in 2020 will be implemented according to needs of various situations with provision of fast response and flexible adaptation to the circumstances.

## Funding from the state budget and its use

Funding from the state budget and its use (euro) at the FIU Latvia

No.	Financial indicators	Previous year (actual execution)	Reporting year	
			Approved by the Law <sup>16</sup>	Actual execution
<b>1.</b>	Financial resources for cost covering (total)	1,830,477	4,346,330	4,366,736
<b>1.1.</b>	Subsidies	1,830,477	4,346,330	4,366,736
<b>1.2.</b>	Paid services and other own revenue	0	0	0
<b>1.3.</b>	Foreign financial aid	0	0	0
<b>1.4.</b>	Donations and gifts	0	0	0
<b>2.</b>	Costs (total)	1,780,477	4,396,330	4,363,796
<b>2.1.</b>	Maintenance costs (total)	1,592,480	3,746,261	3,721,251
<b>2.1.1.</b>	Current costs	1,592,480	3,746,261	3,721,251
<b>2.1.2.</b>	Interest costs	0	0	0
<b>2.1.3.</b>	Subsidies, grants, and social benefits	0	0	0
<b>2.1.4.</b>	Current payments to the budget of the European Community and international cooperation	0	0	0
<b>2.1.5.</b>	Maintenance cost transfers	0	0	
<b>2.2.</b>	Costs for capital investment	187,997	650,069	642,545

Table 3.

<sup>16</sup> Approved plan, according to the changes made in 2019.

## Statistics

### Reports on suspicious transactions

Year	Number of reports
2017	7722
2018	6617
2019	5264

### Reports on suspicious transactions that have been under an in-depth examination and analysis

Year	Number of the analysed cases
2017	2462
2018	3203
2019	3317

### Frozen assets and values thereof

Year	Frozen assets and other values
2017	45.6 million euro
	2 real estates
	2 bank safe deposit boxes
	1 vehicle
2018	101.48 million euro
	2 real estates
	4 bank safe deposit boxes
	8 vehicles
2019	345.98 million euro
	16 real estates <sup>17</sup>
	4 bank safe deposit boxes
	1 vehicle

<sup>17</sup> The value of the frozen real estates is included in the total frozen sum of potentially laundered assets

## Assets and values confiscated and deemed illegal

Year	Confiscated assets and other objects
2017	36.78 million euro
	4 real estates
	1 vehicle
2018	7.23 million euro
	6 real estates
	9 vehicles
	8 precious stones
	29,591.8542 security items
	40 items of computer equipment and mobile phones
2019	48.26 million euro <sup>18</sup>
	8 real estates
	13 vehicles
	131 electric appliances and other values

## Recipients of the cases sent by the FIU Latvia

Recipient	Number of the sent cases
State Police	136
<b>Tax and Customs Police Department of the State Revenue Service</b>	35
Corruption Prevention and Combating Bureau	13
State Security Service	11
Internal Security Bureau	4
<b>Total</b>	<b>199</b>

## Criminal proceedings initiated on money laundering<sup>19</sup>

Year	Number of proceedings
2017	104
2018	181
2019	257

<sup>18</sup> The total amount of the confiscated assets repeatedly includes the assets in the amount of 27.15 million euro (earlier, a decision on the confiscation was adopted in 2017), examining the case based on new circumstances after the judgement of the Constitutional Court of 11 October 2017 in the case No. 2017-10-01.

<sup>19</sup> According to Section 195 of the Criminal Law



Proceedings transferred for the initiation of prosecution and in which prosecution has been initiated

<b>Year</b>	<b>Criminal proceedings transferred for the commencement of criminal prosecution</b>	<b>Criminal proceedings in which criminal prosecution has been commenced</b>
2017	24	16
2018	33	22
2019	62	65

Number of persons prosecuted for money laundering

<b>Year</b>	<b>Number of prosecuted persons</b>
2017	5
2018	8
2019	24

# Money Laundering Scheme

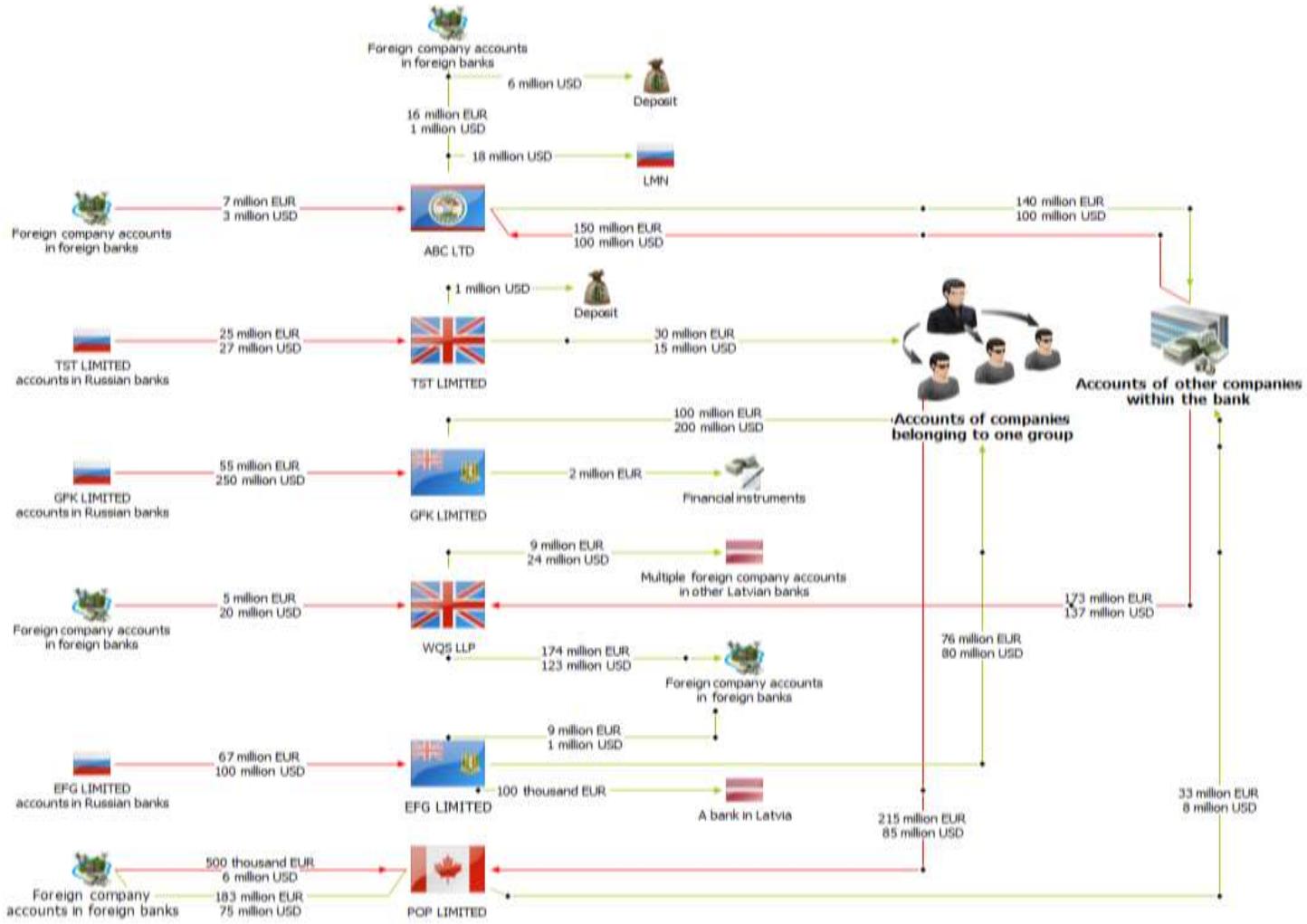


Chart 27.



The money laundering scheme (Chart 27) is characterised by performance of complex and multi-layered transactions without an economic intention by using the companies that have features of a “shell” company using several jurisdictions and accounts of mutually related companies for transit transactions.

According to information of the FIU Latvia, the accounts in a Latvian credit institution of mutually related companies (hereinafter — Group of companies) shown in this scheme were used to launder the proceeds derived from an offence in interests of (possibly) several Russian citizens.

The analysis performed by the FIU Latvia allows concluding that a complex transaction scheme was made when dozens of related “shell” companies, using the accounts in the Latvian credit institutions, received money assets of a large amount from the accounts in foreign credit institutions, and in many transactions such assets were transferred among the accounts of the Group of companies without an economic purpose (transit transactions), thus imitating third-party transactions<sup>20</sup> with an aim to move them away from their source of origin (the second stage of laundering). Later, a part of these assets was invested in financial instruments (the third stage of laundering), while another part was transferred outside the credit institution.

These suspicions are reasoned by the following facts:

- The companies involved in the transactions have “shell” features: they are registered abroad in countries with weak supervision and control or with simplified registration conditions;
- The accounts have been opened in a neutral territory — in Latvia — without a direct link to the registration countries of the companies, economic activity, and a residence country of the beneficial owner;
- Transactions are related to transit — money transfers have been made often and fast; several large-amount transfers with small intervals during a single day, i.e., the money assets paid to an account have immediately been transferred to other shell company, involved in the scheme, without an economic purpose;
- The transactions in the scheme are considered to be fictive — unclear, inaccurate, and general payment details; the same transaction parties receive the payments for very diverse product groups that is not a characteristic of a true economic activity; a part of the payments are defined as “a loan” while interest is not received/paid on the accounts;
- The accounts of several members of the Group of company have received more than 10 million euro from the companies, registered abroad, that can be found in a well-known money laundering scheme “Russian Laundromat”;
- The transit transfers imitate third-party transactions and form a complicated and economically unreasonable scheme causing suspicions on an internal “laundromat” network within the Latvian credit institution.

---

<sup>20</sup> Money laundering as an independent crime can take a form in seemingly legal third-party transactions that, considering their objective — to perform money laundering — are not effective according to Section 1415 of the Civil Law.