

# MYTHS AND TRUTHS ABOUT MONEY LAUNDERING, TERRORIST FINANCING, AND TARGETED FINANCIAL SANCTIONS

Circumventing targeted financial sanctions, money laundering and terrorist financing are morally and ethically inappropriate, illegitimate and punishable. Stay away from involvement in the afore-listed and other financial crimes not only because such conduct is prohibited by law but pri-

marily because zero tolerance towards all types of financial crime is an issue of a nation's financial and economic soundness and stability.

**Latvia is not and should never be recognized as a country tolerating violation of law and money laundering.**

## Myth 1

**High compliance standards, risk management and compliance culture delay and encumber inflow of investments into national economy.**

## Truth

The financial sector is open and ready to service transparent and legitimate investments, without tolerating violations of the statutory requirements, attempts to conceal ultimate beneficial owners, legalize proceeds of crime, finance terrorist activity or circumvent targeted financial sanctions.

## Myth 2

**Money laundering and terrorist financing become topical when dealing with large transactions, e.g. above 10 000 EUR - 15 000 EUR or in case of cash transactions.**

## Truth

Risks are not determined by the amount of transaction! The amount is one among many factors. To establish circumvention of targeted financial sanctions, the amount can be of minor relevance. Real cases have proven that acts of terror that have taken lives of many innocent people have largely been financed by small amounts and contributions.

## Myth 3

**Anti-money laundering and countering financing of terrorism is a responsibility of financial institutions, and no other individuals must deal with this. When and if funds have been successfully transferred to a financial institution, "everything is OK" and no further own risk assessment and risk management is required.**

## Truth

Financial institutions are obliged by law to conduct customer's due diligence to prevent the abuse of the financial system for illegitimate purposes; however this by no means revokes each person's own liability and obligations. Financial institutions are only a part of the obliged entities. In their work, financial institutions may apply a risk-based risks mitigation policy. It may also determine certain client groups and types of transactions as being of prohibited or of a high risk therefore not to be serviced or processed by the said financial institution.

#### Myth 4

**No due diligence or enhanced due diligence of source of funds or wealth are required – in case of suspicion the only duty of an individual is to report to the FIU.**

#### Truth

Reporting to the FIU does not exempt one from the statutory duty to identify and prevent money laundering, terrorist financing or circumvention of targeted financial sanctions. One may be required to prove that to the extent reasonably possible, obliged entities and other persons have done their best to verify the origin of funds and wealth, and check whether the applicable tax liabilities have been complied with.

#### Myth 5

**No person must explain the origin of their funds or wealth. It is not a matter of a concern of the financial institution either. Governmental agencies are bound to collect evidence and prove that a person has committed an offence.**

#### Truth

Each person is obliged to explain and even prove the legitimate origin of their funds or wealth. In the event no such information is provided to the financial institution, cooperation with such client must be terminated. In case no sufficient and documentarily substantiated information is provided to governmental agencies. Irrespective of establishing an offence or not, such funds can be recognized to constitute proceeds of crime and confiscated on behalf of the state in accordance with the statutory procedure.

#### Myth 6

**Tax evasion (e.g. “envelope wages”) has nothing to do with money laundering and terrorist financing.**

#### Truth

According to law, financial crimes and particularly tax evasion is a predicative, punishable offence. Large-scale tax evasion is a criminal conduct subject to penal sanctions. Any further use of proceeds from tax evasion can be considered money laundering and constitutes a separate crime.

#### Myth 7

**Financial institution must collect information about the clients’ transactions and credentials and it is not their client’s responsibility. It is safe to assume “I haven’t done anything wrong” or “It is a commercial secret”.**

#### Truth

True, effective, transparent and timely cooperation between the client and the financial institution is vital for a sufficient due diligence process. Refusal to provide information and/or documents, necessary to conduct customer due diligence or enhanced due diligence to a financial institution by the statutory deadline, is a satisfactory, strict basis for terminating cooperation with the client. Financial institution does not need to obtain a court order or administrative ruling to terminate business relationship with a client.

#### Myth 8

**Latvia must demonstrate a firm national position and it should not succumb to recommendations or pressure of international organizations (e.g. Moneyval).**

#### Truth

*Moneyval* is entrusted with assessing compliance of European countries with internationally recognized standards of anti-money laundering and countering terrorism financing. Concerted action in accordance with internationally recognised risk assessment, risk management and compliance standards allow countering a financial crime globally. Effective financial crime compliance programme ensures Latvia’s entrepreneurs and individuals unencumbered and smooth cross-border transactions, attract long-term foreign direct investments, purchase goods and raw materials abroad. To neglect these standards means to shut one off from other countries and face international isolation.

#### Myth 9

**“My funds are legal”, and therefore “I do not have to think of targeted financial sanctions...they do not affect me!”**

#### Truth

Anti-money laundering and countering financing of terrorism must be distinguished from targeted financial sanctions as they serve a different purpose. Sanctions’ regimes prevent designated persons from certain actions against peace and disrupt their access to funding for such actions. The targeted financial sanctions are imposed by the EU and the UN. The financial sector is also bound by the sanctions imposed by different countries due to involvement into international transactions. For example, the sanctions imposed by the USA. Regrettably, targeted financial sanctions can adversely affect legitimate local businesses. If an entity within your supply chain is subject to any sanctions, you will not be able to make transfers under the contract or vice versa.

#### Myth 10

**I will not be facing criminal liability in case someone asks me for assistance and my bank account is credited with some amount from unknown source that might have been acquired illegally.**

#### Truth

The account holder is responsible for the operations in the account. Assistance to a person involved in an offence allowing them to evade a statutory liability, constitutes legalisation of proceeds of crime.