

OFFICE FOR THE PREVENTION OF LAUNDERING OF PROCEEDS DERIVED FROM CRIMINAL ACTIVITY

Report for 2017

1. General Description of the Control Service

Legal basis

On 13 August 2008, the new “Law on the Prevention of Money Laundering and Terrorism Financing” (hereinafter referred to also as the Law) entered into the power, currently including the legal provisions arising from:

1. Council Decision of 17 October 2000 concerning arrangements for cooperation between financial intelligence units of the Member States in respect of exchanging information.
2. Council of Europe Convention of 2005 on laundering, search, seizure and confiscation of the proceeds from crime and on the financing of terrorism.
3. Directive (EU) 2015/849 of the European Parliament and of the Council (also called the 4th Directive) of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

By amendments to the Law requirements of this 4th Directive became effective on 9 November 2017.

Chapters IX, X, XIII of the Law determine the legal status, duties and rights, cooperation matters with the state and municipal institutions and international cooperation of the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity (hereinafter also referred to as the Control Service).

In accordance with the requirements of the Transitional Provisions of the Law, underlying regulatory enactments have been adopted (issued anew), the Regulation of the Cabinet of Ministers, in development of drafts of which, inter alia, participated also the Control Service.

- 22.12.2008. Regulation No. 1071 “Regulations on the List of Indicators of an Unusual Transaction and Procedure for Reporting Unusual or Suspicious Transactions” (wording of 01.01.2014., in force until 30.04.2018.);
 - Regulation No. 765 “Amendments to the Cabinet Regulation No. 1071 “Regulations on the List of Indicators of an Unusual Transaction and Procedure for Reporting Unusual or Suspicious Transactions” of 22 December 2008” approved on 6 December 2016;
 - Regulation No. 674 “Regulations on the List of Indicators of an Unusual Transaction and Procedure for Reporting Unusual or Suspicious Transactions” (in force until 01.05.2018.) approved on 14 November 2017;
 - Regulation No. 1092 “Procedure on How the State and Municipal Institutions Provide Information to the Office for the Prevention of Laundering of Proceeds

Derived from Criminal Activity” approved on 22.12.2008.;

- 01.03.2016. “Law on International Sanctions and National Sanctions of the Republic of Latvia”;
- 22.07.2016. Regulation No. 468 “Procedures for Execution of International and National Sanctions”;
- 13.01.2009. Regulation No. 36 “Regulations on Countries and International Organisations that Have Formed Lists of Persons Suspected of Involvement in Terrorist Activities” is no longer in force because on 11.03.2016 Regulation No. 138 “Regulation on Countries and International Organisations that Have Formed Lists of Persons Suspected of Involvement in Terrorist Activities or Manufacturing, Storage, Transport, Use or Distribution of Mass Destruction Weapons” entered into force.
- 15.06.2010. Regulation No. 535 “Regulations on Procedure on How a Credit Institution Provides Information in Relation to Monitoring of a Transaction in a Customer’s Account, Deadlines for Provision of Such Information”.

Due to coming into force of the Law, the whole internal regulatory basis of the Control Service consisting of more than 30 various internal regulatory enactments was reissued as well during the period 2009-2016. The work in this direction was also continued in 2017.

Capacity of the Control Service

Information at the disposal of the Control Service is strictly protected by the Law which requires that the Head and employees of the Service to comply with the requirements specified in the “Law on Official Secrets”.

In line with the allocated financing pursuant to Order No. 41-16 of the Prosecutor General of the Republic of Latvia issued on 29.12.2016., in 2017 the Control Service had the following structure and staff positions: Head, Deputy Head, System Analysis Department – 5 positions, Information Processing Department – 6 positions, Information Analysis Department – 11 positions, Strategic Analysis Department – 3 positions, International Cooperation Department – 4 positions, office manager, secretary, assistant manager.

Since 28 May 1999, the Control Service has been a member of the international organisation EGMONT Group of Financial Intelligence Units that legally gives the right, as well as technical possibilities for mutual information exchange with such services of more than 150 countries by using the special, protected network for information exchange, and imposes an obligation to comply with specific principles for information exchange and strict measure for protection.

The cooperation with Financial Intelligence Units of the Member States of the European Union is effected also via another special protected network for exchange of information, FIU-NET, where employees of the Service take particularly active part, including in annual improvements of its functionality.

Already since 1998, the Control Service develops and updates, on an annual basis, specific software used for creation of a data base of reports on unusual and suspicious transactions and for information analysis of various types in accordance with specific functional priorities (development of information selection functions, visualisation in schemes, etc.), as well as for performance of various special tasks within the area of competence of the Service. In recent years, the development of the software is continued with a purpose to facilitate its use and increasing the speed of processing of information.

In 2016, was conducted development of information systems of the Control Service (Search Tool of Subjects of Sanctions - sankcijas.kd.gov.lv), development (E-service for submission of reports on unusual and suspicious transactions - zinojumi.kd.gov.lv) and further enhancement of the functionality of the data base, with the following main directions:

1. Detailed development of role definition and access mechanism;
2. Initiated migration of data visualisation tool to technologically higher platform;
3. Developed and enhanced inclusion of XML files in the system;
4. Software clarifications - developed methodology for data selection by using scripts; developed and implemented a new classification system, anonymisation of the test data base of the system and additions to the functionality of data mining.

In 2017, use of the website of the Control Service (www.kd.gov.lv) was started; e-service “Providing information on unusual and suspicious financial transactions” was developed; and enhancement of data base functionality was performed, with the following main directions:

1. Enhancement of registration of reports and list functionality of report sets (packages);
2. Optimisation of the importing process of reports, including comparison process of persons;
3. Enhancement of office journal functionality;
4. Enhanced use of XML files in the system – support of additional notification structure in the procedure of importing; creation of annex links;
5. Established framework of a new module “Task management”.

At the same time, several also significant measures were conducted in 2017 for ensuring the security of the information systems of the Control Service by implementing technologically more high-quality solutions.

On the basis of the provisions of the Cabinet Regulation No. 497 “Procedure on How the State Institutions Provide Information to the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity” of 29.12.1998. (in force until 31.12.2008.), the Control Service has available a great number of data bases for the purposes of analysis of the information, including several dozen online, i.e., by electronically requesting and receiving the necessary information. Currently effective Cabinet Regulation No. 1092 “Procedure on How the State and Municipal Institutions Provide Information to the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity” adopted on 22 December 2008, legally enhanced the possibilities of the Control Service to obtain the necessary information also from the local governments as of 1 January 2009.

In the second half of 2009, at the initiative of credit institutions and supported by the Ministry of Finance, a new set of measures was introduced so that the Control Service can receive reports from credit institutions on unusual and suspicious transactions in an electronic encrypted format and send requests to such institutions likewise. Subsequent to introducing the required amendments to the Cabinet Regulation No. 1071, on the basis of bilateral agreements the Control Service had exchange of information already with the most active 40 various subjects of the law. It is important to note that such measures did not require

additional funds; moreover, funds were saved due to a decreased number of printed materials in circulation.

By Cabinet Regulation No. 765 of 6 December 2016 was determined a new channel for reporting on unusual or suspicious financial transactions, specifically – if the subject of the law submits the report by using e-service on the website maintained by the Control Service <https://zinojumi.kd.gov.lv>, it completes the fields in the online form or uploads an XML (Extensible Markup Language) file in accordance with the requirements specified in Annex No. 3 to this Regulation. Control Service maintains the prepared XSD (XML Schema Definition) scheme on its website by making it available to the subjects of the law and supervisory and control institutions thereof. Mentioned requirements became effective as of 1 January 2018.

In practice, this reporting system operates already since April 2016.

In 2013, the Control Service prepared two sets of methodology materials: one on the system for reporting on unusual and suspicious transactions, and the other on matters pertaining to the prevention of terrorism financing and in 2014 made changes to these materials in accordance with the amendments (effective as of 16.09.2014.) to the Law on the Prevention of Money Laundering and Terrorism Financing. For example, as concerns the measures for prevention of terrorism financing, please refer to the methodical material initially distributed by the Control Service to all supervisory and control institutions on 30 May 2013 by letter No. 1-10/65. The revised version of this informative letter on measures for prevention of terrorism financing (letter No. 1-10/205 of 6.11.2014.) is available on the website of the Control Service: <http://www.prokuratura.lv / /30252.html>, which also contains materials on the system for reporting of unusual and suspicious transactions.

In 2015, materials placed on the website were supplemented by various translated FATF documents (3 documents on problems of proliferation (financing distribution of mass destruction weapons), FATF 40 recommendations, explanations thereof, glossary of terminology).

In 2016, various methodological materials were developed and sent to various subjects of the law (including banks, payment institutions) (for example, for VAT scheme cases, on a new indicator of unusualness in relation to negative information in mass media; current typologies).

Taking into account the following requirements of the regulatory enactments:

- New clauses 15 and 16 of the Paragraph one of Section 51 of the Law impose an obligation to describe current typologies of money laundering and terrorism financing and to provide information both on the website and to supervisory and control institutions;

- On 1 May 2018 became effective Cabinet Regulation No. 674 “Regulations on the List of Indicators of Unusual Transaction and Procedures for Submission of Reports on Unusual or Suspicious Transactions” approved on 14 November 2017 providing conceptually new indicators of unusualness of transactions and significant changes to reporting on suspicious transactions.

- On 18 September 2017, methodological letter was sent to supervisory and control institutions on typologies of money laundering and terrorism financing, general description of which can be found here: <http://www.kd.gov.lv/index.php/metodiskie-materiali/zinosanas-sistema>

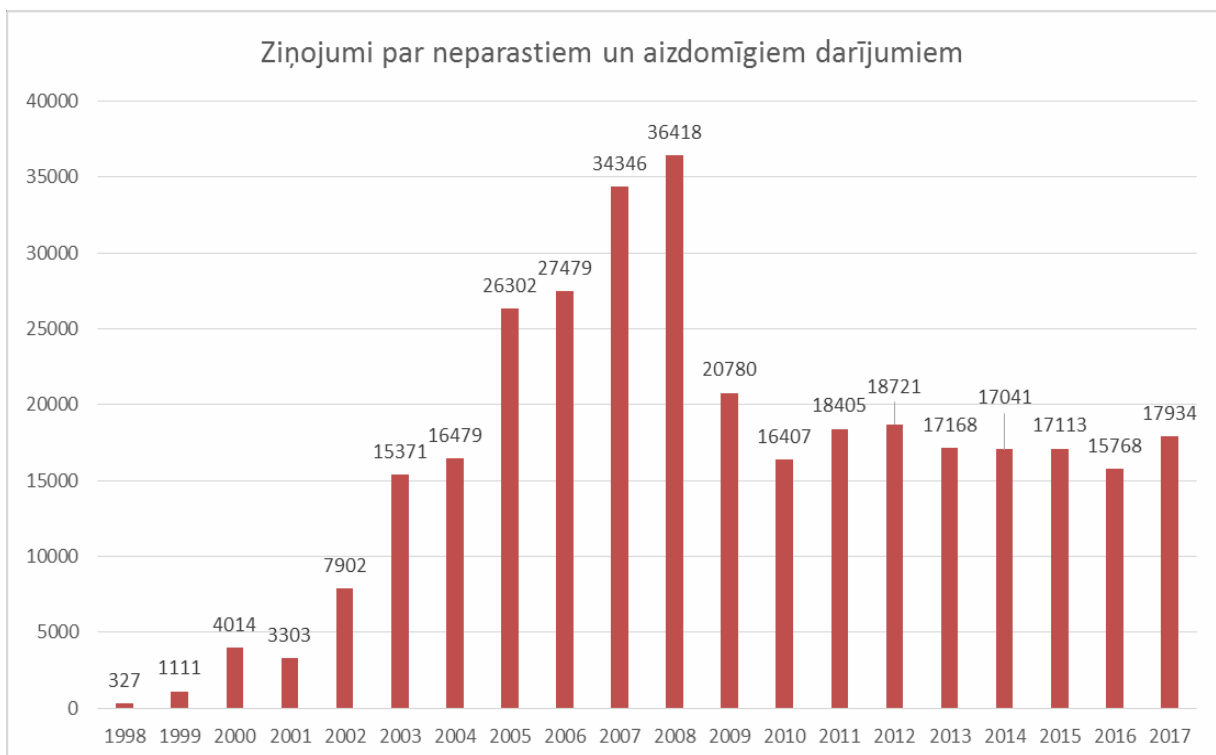
2. Results of Work

Reports on unusual and suspicious transactions

Already mentioned (repealed) EU Directives 2005/60/EC and 2006/70/EC and also the new Directive 2015/849, current effective Law on the Prevention of Money Laundering and Terrorism Financing, as well as other regulatory enactments, including Cabinet Regulation No. 1071 “Regulations on the List of Indicators of Unusual Transaction and Procedures for Submission of Reports on Unusual or Suspicious Transactions” of 22 December 2008 (effective as of 01.01.2009.) require reporting of unusual and suspicious transactions.

The growing number of reports submitted to the Control Service over the recent years testified both to involvement of new subjects of the law in the prevention of money laundering and increasingly stricter compliance with the requirements of the law in practice. The number of reports received in the period from 2002 to 2008 indicated a certain stability of growth in these processes. Whereas, over the last 8 years, the number of reports has stabilised. In order to increase reporting efficiency, during the training process of the employees of the subjects of the law in 2016 the Control Service paid special attention to necessity of reporting such suspicious transactions the nature of which is related to current trends and typologies of money laundering (for example, VAT schemes, defrauding money from the funds of the European Union, “phishing” fraud and other current types of fraud). Whereas, critically was evaluated the trend to submit reports on formal indicators of suspicion without a specific possible relation to any of the criminal offences. It should be noted that not in general, but only in specific directions has been achieved decrease in number of reports on suspicious transactions; therefore, creating a positive influence on reporting efficiency and reducing the resource use of the subjects of the law (mostly banks) and the Control Service.

Figure: Reports on unusual and suspicious transactions



Comparison of the number of reports and reported transactions/non-transactions (concerning the latter please refer to the next figure and count the unusual and suspicious

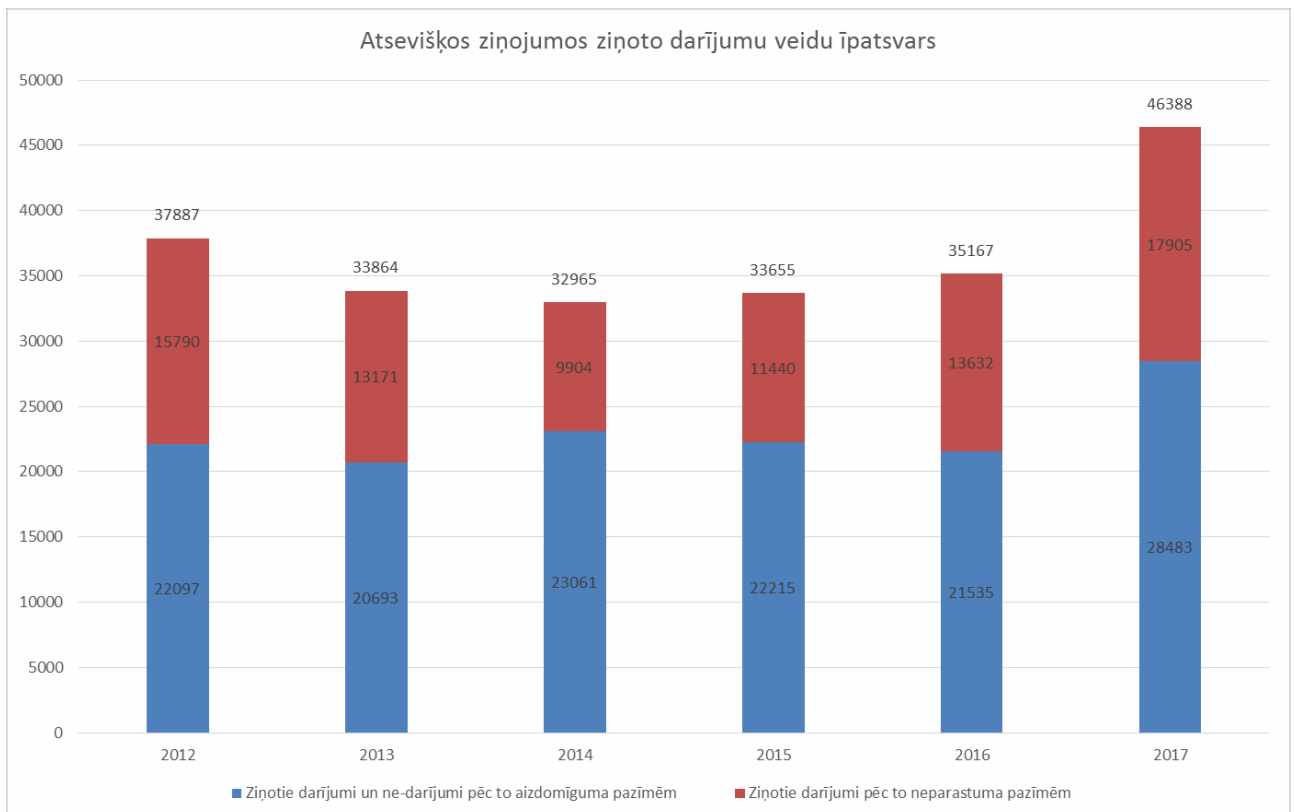
transactions/non-transactions) indicates that reports regularly contain information on several interconnected transactions/non-transactions. This can be explained by consistent compliance with a specific requirement of the Law (Section 20 (2) 1), when carrying out monitoring of business relationship, the subject of the law pays special attention to the customer's unusually large, complex transactions or mutually linked transactions, which have no apparent economic or visible lawful purpose). This requirement is also strongly emphasised during the training process, which has had a positive impact on implementation of the priorities laid down by the Council for the Development of the Financial Sector in 2005 and 2017 (for more details please refer to section **Description and Implementation of Operational Priorities**).

Prevalence of certain types of reports

The Law on the Prevention of Money Laundering and Terrorism Financing (Paragraph one of Section 30) requires the subjects of the law to report on each suspicious or unusual transaction. The indicators of unusual transactions are defined in Cabinet Regulation No. 1071 "Regulations on the List of Characteristics of an Unusual Transaction and Procedure for Reporting Unusual or Suspicious Transactions" of 22.12.2008.

The dynamics of reported unusual and suspicious transactions in the last 6 years is illustrated by the following statistics indicating a certain stability of proportions of these types of reports.

Figure: Ratio of reported types of transactions in separate reports
(blue: reported transactions and non-transactions by indicators of suspiciousness
red: reported transactions by indicators of unusualness)



Each year the Control Service performs statistical registration of reported unusual and suspicious transactions and conducts analysis by reference to indicators of unusualness and suspiciousness.

A few examples: in 2017, the highest number of reports was prepared based on the following indicators of unusualness, with the number of reports provided in brackets:

- a cash transfer transaction involving EUR 40,000 and more (6,914);
- a cash transaction involving EUR 60,000 and more (other than payment of salaries, pensions and social benefits, loans, inter-bank settlements) (3,419);
- a client buys or sells foreign currency for amount equivalent to EUR 8,000 and more (2,829).

In 2017, the highest number of reports was prepared based on the following indicators of suspiciousness, with the number of reports provided in brackets:

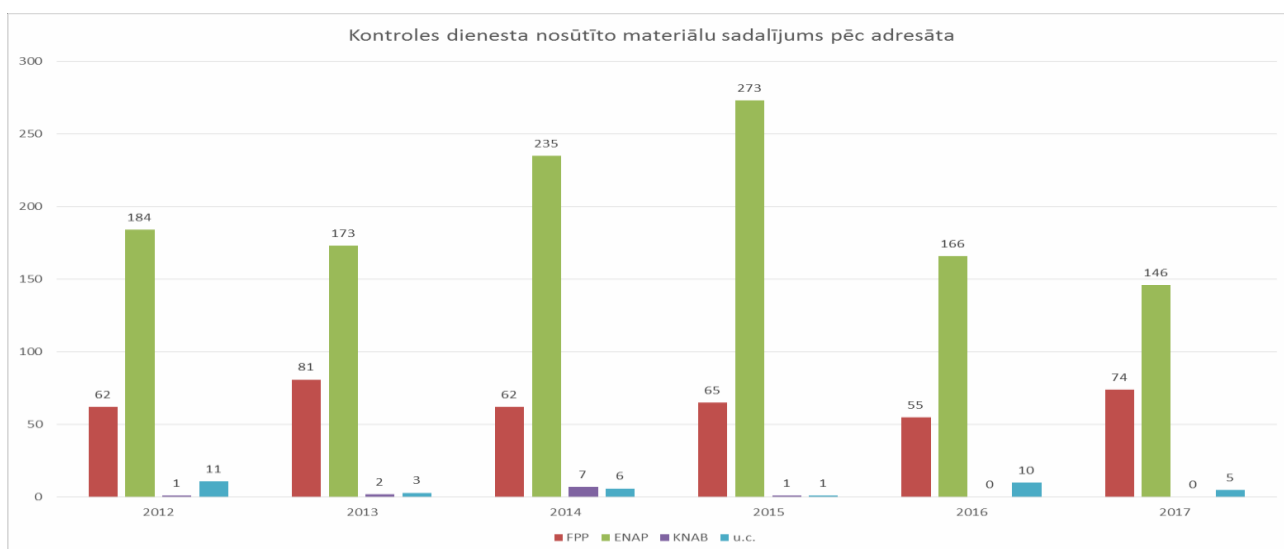
- unclear origin of funds used in the transaction (6,134);
- transaction does not have an apparent legal purpose (or relation to personal or business activity) (3,983);
- cash is debited from the account immediately after crediting it (3,389).

In 2017, all types of materials sent to various law enforcement authorities contained information on 54.14% of suspicious transactions reported in this year and previous years, or 37.44% of all kinds of reported transactions, which is a very high efficiency level.

Materials prepared and sent by the Control Service

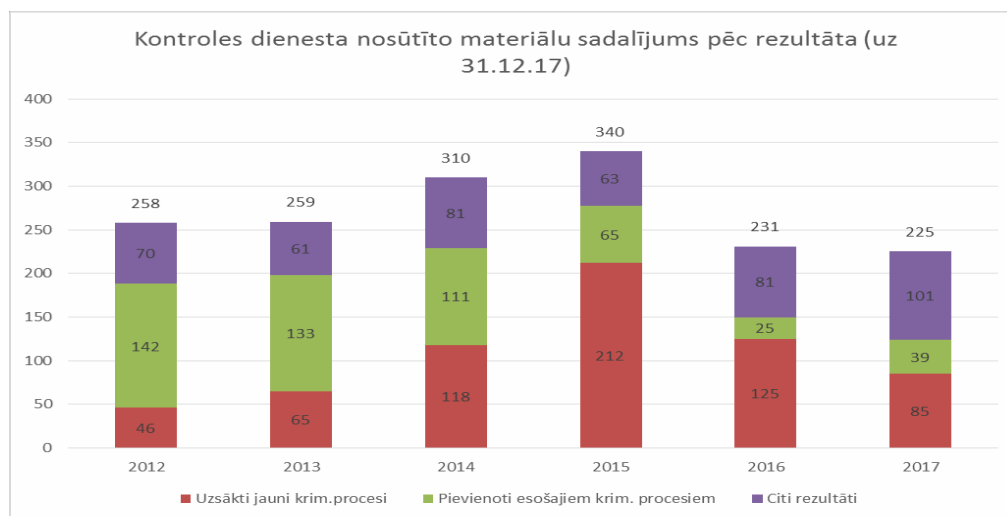
Various events have significantly impacted the number of materials prepared and sent to law enforcement authorities regarding potential criminal offences identified by the Control Service.

Figure: Distribution of materials sent by the Service according to recipient (red: Financial Police; green: Department for Combating Economic Crimes; purple: KNAB; blue: other)



Significant increase in the number of materials sent to the law enforcement authorities in 2011 was primarily related to notable growth in one of the money laundering typologies (“phishing”, for details please refer to section: **Current Typologies of Money Laundering**). In 2010, the Department for Combating Economic Crimes received 67 materials of this type, but in 2011 the number was already 318.

Figure: Distribution of the materials sent by the Control Service according to result (as at 31.12.17.)
(red: initiated new criminal proceedings; green: added to existing criminal proceedings; purple: other results)



The specifics of this typology and other relevant matters remain the focal point of constant cooperation between the Control Service and the employees of the said Department both by way of exchange of information and common discussions. The number of such materials continued to decrease in 2012 and 2013, which impacted the total number of materials prepared. 169 materials were prepared in 2014 concerning cases of laundering of funds defrauded this way, which represents an increase in number of such cases, which in 2015 increased even more – up to 194. In 2016, number of such materials decreased to 90, and in 2017 down to 69, which gave the Control Service a possibility to direct more resources to research of other typologies.

It should be noted that statistics on initiated criminal proceedings is likely to increase as, for example, upon completion of a large number of audits and audits of large scope (or tax calculations), the Financial Police Department (currently Tax and Customs Police Department) would make decisions on initiation of criminal proceedings also based on materials sent in previous years.

According to the data of the Prosecutor’s Office in 2017 (Section 195 of the Criminal Law):

- number of registered criminal offences – 123;
- number of received criminal cases for initiation of prosecution – 24;
- 9 criminal cases were forwarded to the court accusing 48 persons of criminal offences;
- 61 criminal proceedings were initiated regarding property obtained from criminal activity (Section 627 (1) of the Criminal Procedure Law).

According to the data of the Control Service

73 criminal proceedings regarding property obtained from criminal activity (Section 627 (1) of the Criminal Procedure Law) were examined by the courts, in which the court has made 84 adjudications regarding confiscation of EUR 36.66 million, 4 immovable properties and movable properties, including one car.

Of the above-mentioned, on the basis of information of the Control Service, the courts have examined 63 criminal proceedings in which the court has made decisions on recognition of EUR 36.58 million as obtained from criminal activity and to be confiscated.

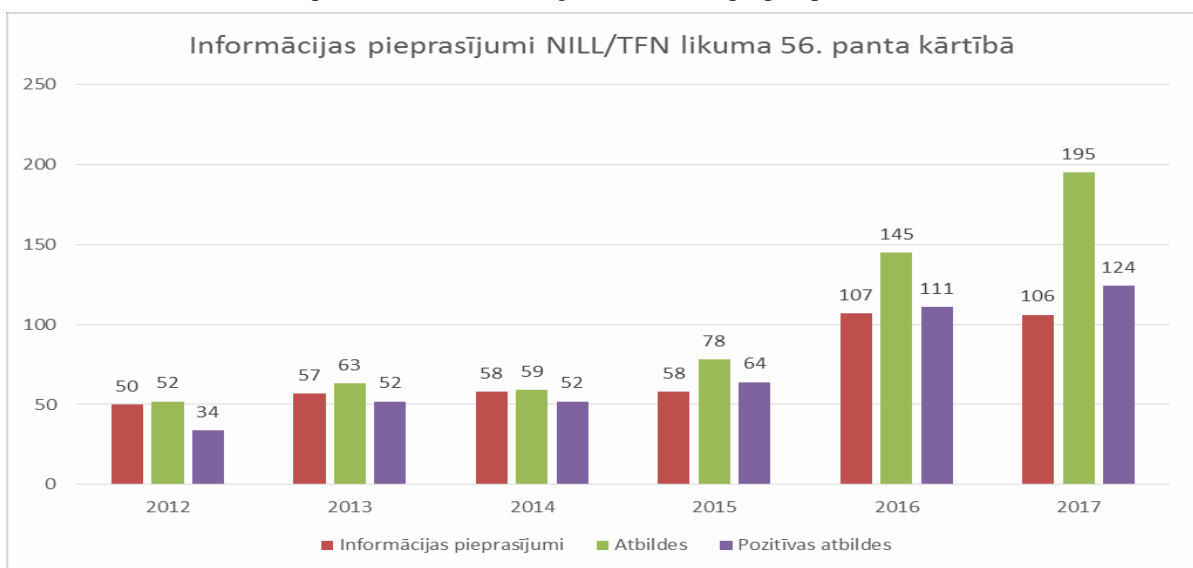
Requests for information

In 2015, number of the requests made by law enforcement authorities remained at the level of previous years (58), that should rather be evaluated as low.

Positively should be assessed the fact that the significant increase in the number of requests made by the law enforcement authorities in 2016 and 2017 (107 and 106, respectively) that shows not only the understanding of the process of requesting information, but mostly an indirect acknowledgement that the information to be obtained (please refer to the number of positive answers) facilitates the speed of the pre-trial proceedings and a broader range of the volume to be investigated.

Note – at the beginning of each year the answers were provided also to several requests made by the end of the previous year.

Figure: Information requested pursuant to procedure set out in Section 56 of the Law on AML/CTF (red: requests for information; green: answers; purple: positive answers)



3. Operational Priorities and Implementation Thereof

The Council of Prevention of Laundering of Proceeds Derived from Criminal Activity (since 2007 entitled the Council for the Development of the Financial Sector) chaired by the Prime Minister, held a meeting on 14 December 2005, where it suggested that the Control Service set its operational priorities, for example, prioritise research of such possible money laundering cases and freezing of funds where a large amount of funds may be frozen. In 2017, in the meeting of the Council it was stated that work should be continued with these priorities.

Taking into account the above, work is focussed on the following priorities:

1) Freezing of large amounts of funds derived from criminal activity.

As illustrated by the information below, in 2014 the Control Service has been able to achieve the best results in execution of this priority. The second best result in this area was achieved last year.

In 2015, the court in 27 court proceedings recognised by 31 decisions 25.68 million euros, two cars and one immovable property as obtained from criminal activity on which decision to confiscate was made.

In 2016, the courts examined 52 criminal proceedings regarding property derived from criminal activity (Section 627 (1) of the Criminal Procedure Law), during which the court has made 66 adjudications on confiscation of EUR 51.23 million and two cars.

As already mentioned, in 2017 in relation to the information provided by the Control Service, the court made 63 decisions on recognition of property as derived from criminal activity, the total amount of which is EUR 36.58 million.

Figure: Number of orders issued by the Control Service and volume of frozen funds (EUR)
(green: frozen funds; red line: number of issued orders)

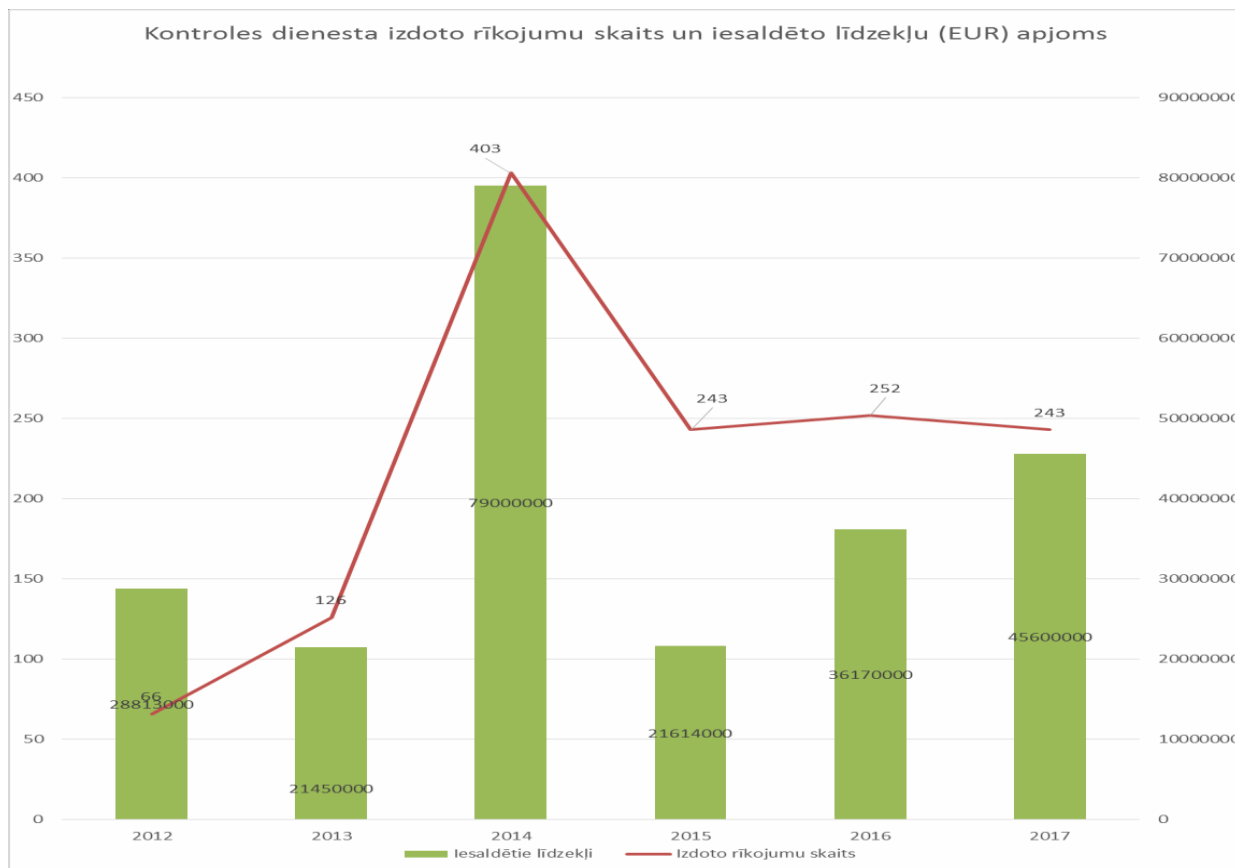
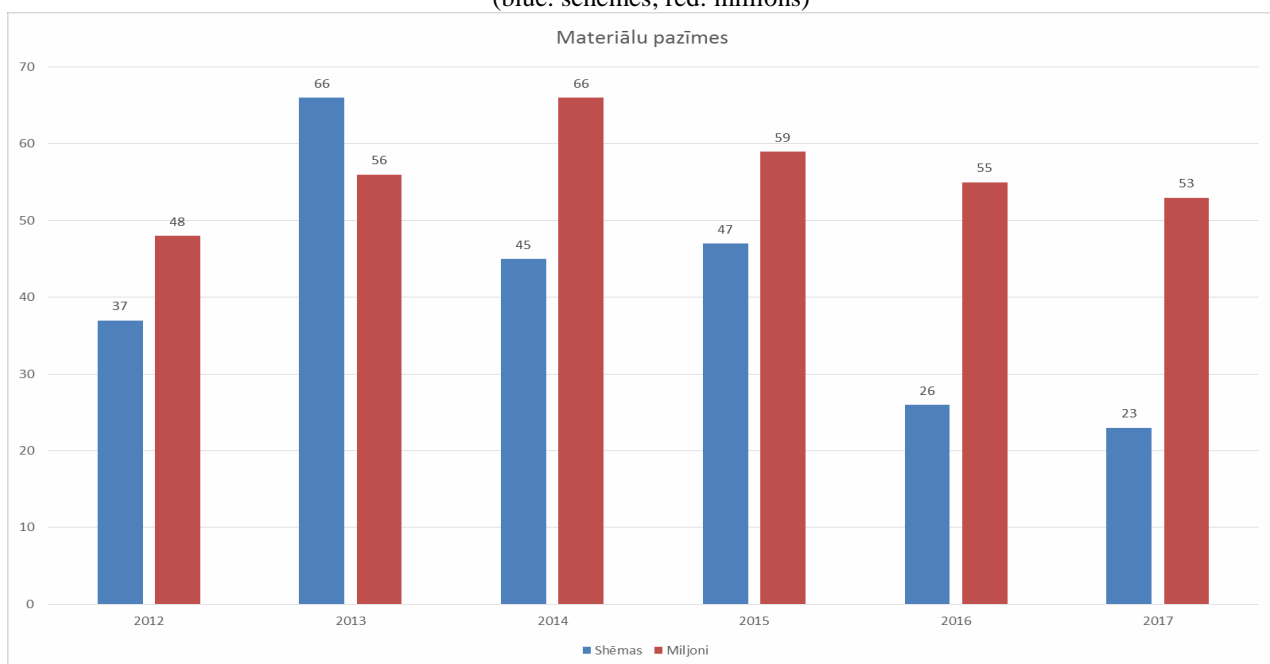


Figure: Indicators of materials
(blue: schemes; red: millions)

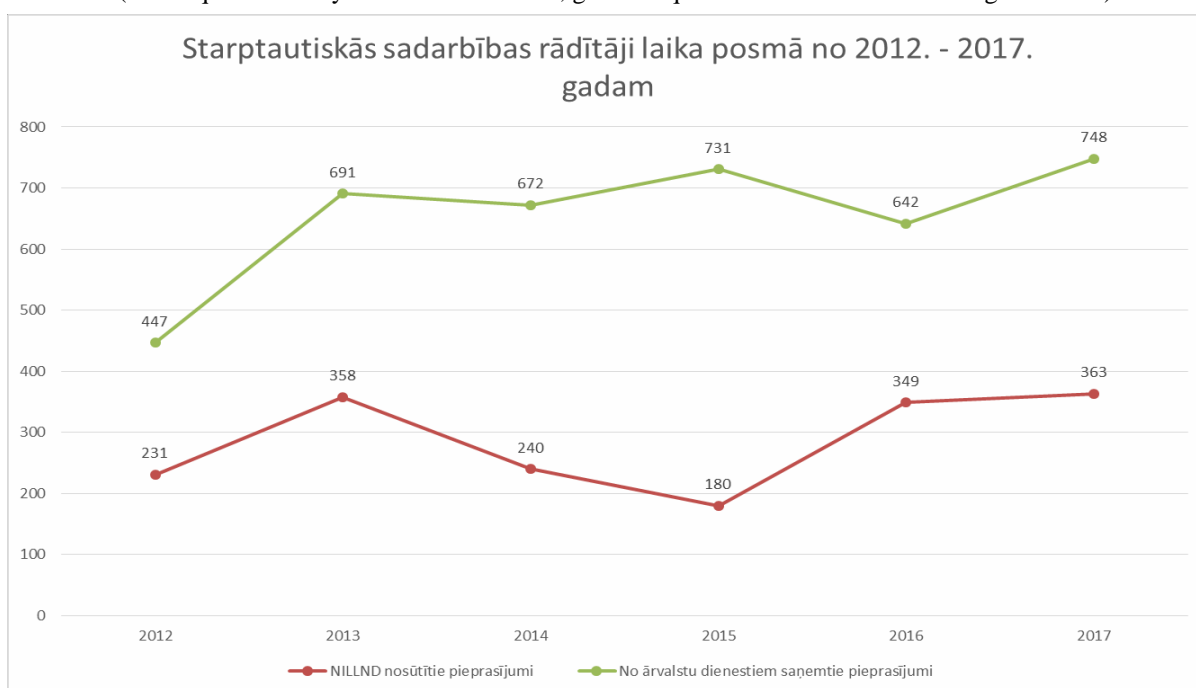


Materials sent to the law enforcement authorities can be characterised by such indicators as discovered large transaction schemes (with at least 20 natural or legal persons as participants of transactions), as well as so-called schemes of millions, in which the amount of transactions is at least one million euro.

4. International Cooperation

In accordance with Section 62 of the Law on the Prevention of Money Laundering and Terrorism Financing, the Control Service exchanges information with Financial Intelligence Units of foreign countries, and with foreign and international institutions for combating terrorism on issues pertaining to the movement of funds or property connected with terrorism.

Figure: Indicators of the international cooperation for the period of 2012-2017 (red: requests sent by the Control Service; green: requests received from the foreign services)



Since 1998, the Control Service has signed 39 bilateral agreements on exchange of information with counterparts in foreign countries. Information is exchanged via the special network of the international organisation EGMONT group or via FIU NET communication network of such units of the EU Member States. In 2013, a number of such agreements were signed, including with the counterparts of Norway and Japan. New cooperation agreements were not signed in 2014 (the agreement with the counterpart of the Russian Federation was updated). In 2016, agreements were signed with the counterparts of Israel and Kazakhstan, as well as negotiations were started regarding signing of agreements with counterparts of several other countries.

In 2017 were signed 9 such agreements: with counterparts of Cyprus, Singapore, Vatican City-State, the Netherlands, Armenia, Belarus, Liechtenstein, Taiwan and Hungary, and negotiations were continued with respective units of other countries regarding signing of such agreements.

The statistical data regarding the exchange of information during the past years between the Financial Intelligence Unit of the Republic of Latvia, the Control Service, and its counterparts of foreign countries not only indicate changes in the scope of work (over the last

5 years the growth is apparent), but also the number of instances when information was requested (Latvia vs. foreign countries).

In 2017, number of requests for information from foreign counterparts has increased.
- 748 requests were received from FIU of 66 countries.

2016 and 2017 can be characterised by almost double increase of requests made by the Control Service to the foreign colleagues. As an example may be mentioned that final part of VAT schemes is often located beyond the borders of the Republic of Latvia.

Measures to prevent terrorism financing

Following the events of 11 September 2001 in the USA, the Control Service has established a system for the prevention of terrorism financing, based on the regulatory framework, methodological materials, a network of contacts of subjects of law, and two Control Service employees responsible for the processing of the lists of terrorists and their supporters, inspection of reports of subjects of the law and other measures.

The consolidated lists were prepared and sent electronically 121 times, including 9 in 2006, 4 in 2007, 10 in 2008, 12 in 2009, 13 in 2010, 12 in 2011 and 10 in 2012, 11 in 2013, 11 in 2014.

In 2005, subjects of the law reported 30 times on suspicions of potential terrorism financing, in 2006 - 6 times, in 2007 - 3 times, in 2008 - 7 times, and in 2009 - 20 times, in 2010 - 10 times, in 2011 - 39 times, and in 2012 - 79 times, including 41 (64 transactions) associated with potential terrorism financing. 21 such reports on 58 transactions have been submitted in 2013. In 2014 were received 39 reports on 52 transactions. In 2015 were received 130 reports that contained information on 124 transactions. In 2016 were received 105 reports on 181 transactions.

In 2017 were received 87 reports on 428 transactions, which were verified in relation to potential criminal offences of various nature. The Control Service carried out inspections, including initiating the exchange of information with the responsible foreign services, and reported the results in all cases to the subject of the law.

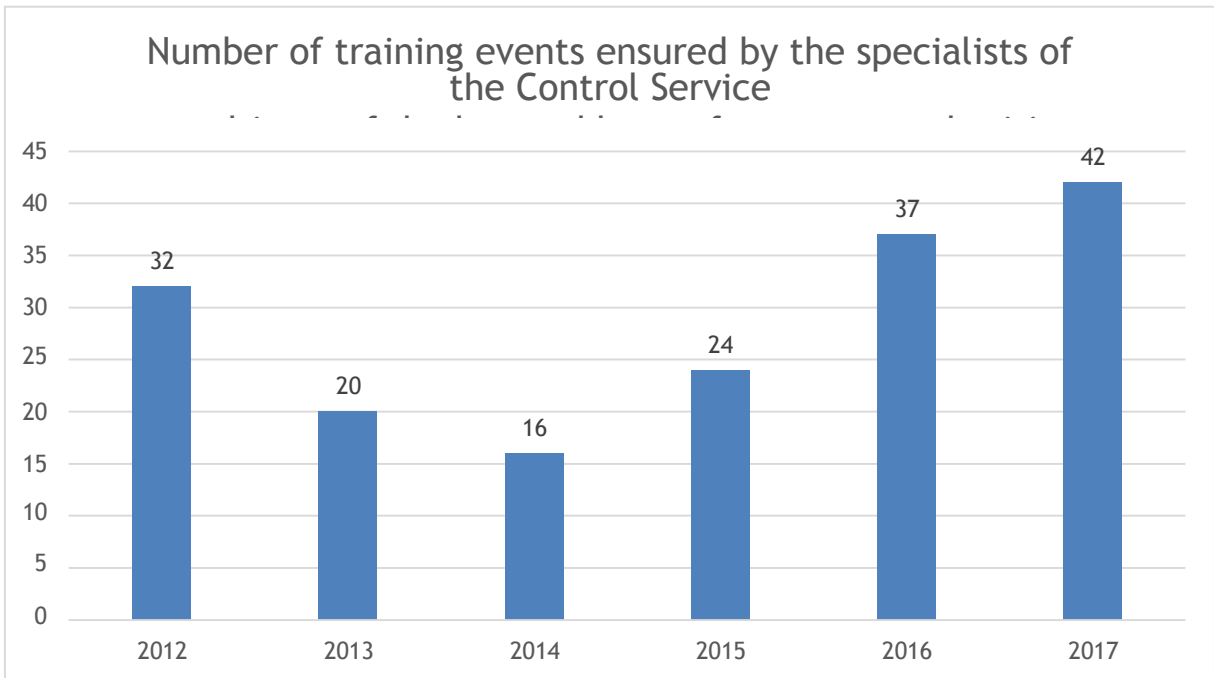
Currently the Control Service maintain the lists of terrorists on the website:

<http://sankcijas.kd.gov.lv/>

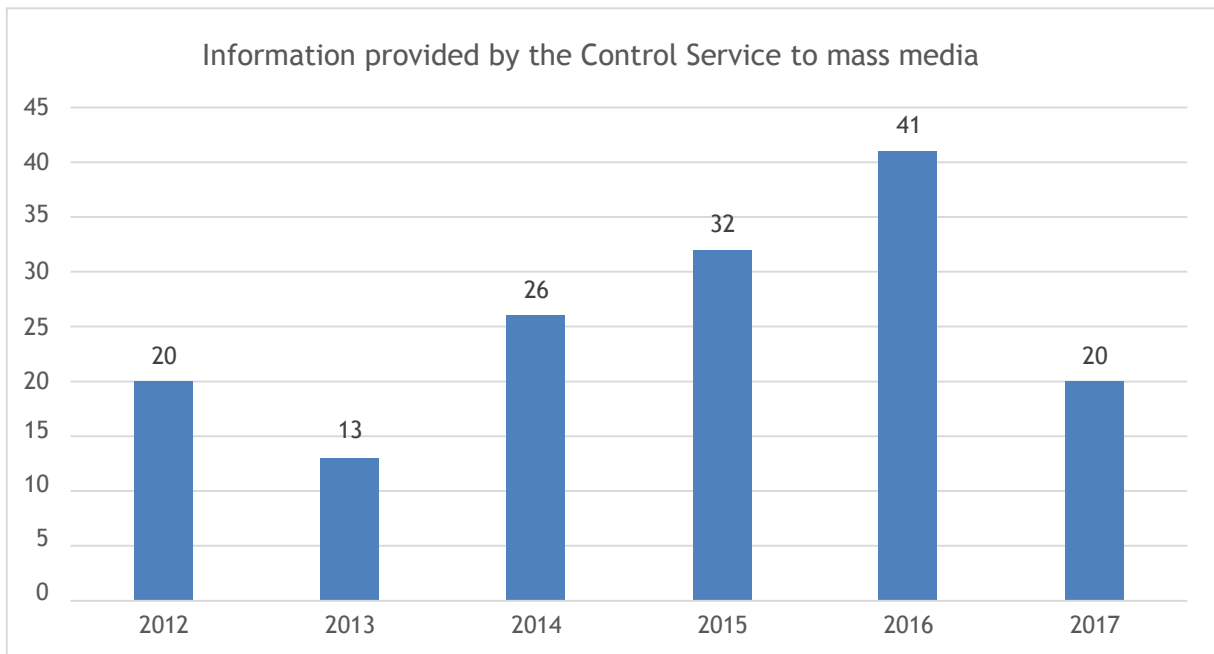
5. Training

In discharging its responsibilities set out in the Law on the Prevention of Money Laundering and Terrorism Financing, the Control Service:

- provides information on most characteristic techniques and locations for generating and laundering of proceeds derived from criminal activity and terrorism financing to ensure that measures are set in place to reduce the possibilities to launder proceeds derived from criminal activity and finance terrorism;
- ensures training on matters related to prevention of money laundering and terrorism financing;
- based on the information at the disposal of the Control Service, provides written recommendations to pre-trial investigative institutions and the Prosecutor's Office in order to prevent money laundering and terrorism financing;
- publishes information on the results of work of the Control Service on a regular basis.
- prepares and maintains methodological materials on prevention of money laundering and terrorism financing on the website of the Control Service:



Since its establishment on 1 June 1998, while executing its above-mentioned duties, the Control Service has organised a total of exactly 442 (42 in 2017) training events for the employees of the subjects of the law, their supervisory and control institutions, as well as law enforcement authorities.



Whereas since the establishment of the Control Service, information to mass media was prepared and provided 352 (20 in 2017) times, including radio and television, regarding various issues of money laundering and terrorism financing.

6. Evaluation of the Latvian Anti-Money Laundering and Counter-Terrorist Financing System

In the plenary meeting held in July 2012 the European Council Moneyval Committee approved the report on compliance of the Latvian anti-money laundering and counter-terrorist financing system with the primary requirements of FATF 40 Recommendations and formulated recommendations to improve the said system.

Since the previous evaluation performed in 2006 the Latvian relevant authorities invested significant efforts in the development of this system, which was the basis for the positive evaluation: if previously there were 5 critical evaluations, currently there is none. Out of 49 items to be evaluated, 13 were assigned a higher rating than the previous time, including 2 more instances when the maximum rating was assigned which made the total number reach 14.

For more detailed information, here is the link to the Moneyval report:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Latvia_en.asp

On 28 March 2013, the Financial Sector Development Council led by the Prime Minister approved „*Action Plan for the Improvement of the Anti-Money Laundering and Counter-Terrorist Financing System*”, which appoints the Control Service as the authority responsible for summarising the results of this plan after 1 February 2014, as Latvia was required to defend its Progress Report on the implementation of the recommended measures and achievements at the plenary meeting of the Moneyval Committee of the European Council held in September 2014.

Moreover, on 10 May 2013 the work group established by the Prime Minister’s order No. 173 “On the work group for preparing a draft law on amendments to the Law “On the Prevention of Money Laundering and Terrorism Financing”” began working on a draft law containing the required amendments in line with the recommendations formulated by the European Council Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (*Moneyval*) and international standards.

The required amendments to the Law on the Prevention of Money Laundering and Terrorism Financing entered into force on 16 September 2014, and Latvian delegation informed Moneyval Committee of the European Council in the plenary meeting held in September 2016 by providing a detailed Progress Report on performed measures, which were positively evaluated after the analysis not only by the Secretariat of the Committee, but also the delegations of the Member States, approving it by their votes.

On 9 November 2017, a broad range of amendments to the Law on the Prevention of Money Laundering and Terrorism Financing became effective, by which Latvia implemented the requirements of the so-called “4th Directive” of the European Union (Directive 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC).

As one of the regional organisations of the international organisation Financial Action

Task Force (FATF) Moneyval Committee of the European Council in January 2017 started evaluation Round 5 of Latvian anti-money laundering and counter-terrorist financing system. Subject-matter of evaluation of this round is not only compliance of the regulatory basis of the state with 40 recommendations of FATF, but also operational efficiency of the anti-money laundering and counter-terrorist financing system.

Joint expert commission of the Moneyval Committee and FATF arrived in work visit to Latvia from 30 October to 10 November 2017.

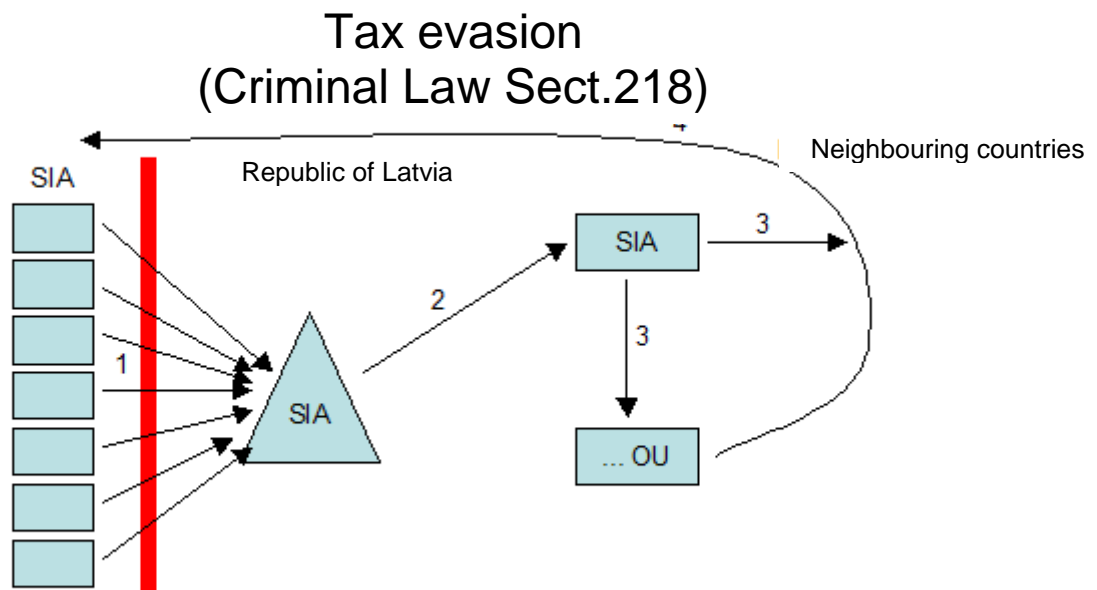
It is planned to examine the report on Latvia at the plenary meeting of the Committee on 2 - 6 July 2018, and afterwards it will be published.

7. Current Typologies of Money Laundering

For the purpose of analysing and studying money laundering or attempts at money laundering and improving the measures for prevention and detection of money laundering, the Control Service accumulates knowledge and experience on current laundering typologies from reports on unusual and suspicious transactions and from information received in cooperation with foreign counterparts (requests for exchange of information, seminars, conferences) and shares this knowledge within training processes.

Taking into account that requirements (Section 51 (1) 15)) of the Law on the Prevention of Money Laundering and Terrorism Financing imposes an obligation to maintain a general information on current typologies of money laundering, terrorism financing and related criminal offences on the website, such information prepared by the Control Service may be found on the website: <http://www.kd.gov.lv/index.php/metodiskie-materiali/zinosanas-sistema>

Of the typologies of criminal activities, in 2017 especially relevant remain those related to tax evasion (VAT schemes) and laundering of funds derived from fraudulent activities abroad in the Republic of Latvia (phishing schemes). According to international practice, such typologies are given names.



- (1) declaration of transaction to the SRS (Crim. Law Sect.218)
- Transactions (2 -4) - reasonable suspicion of money laundering

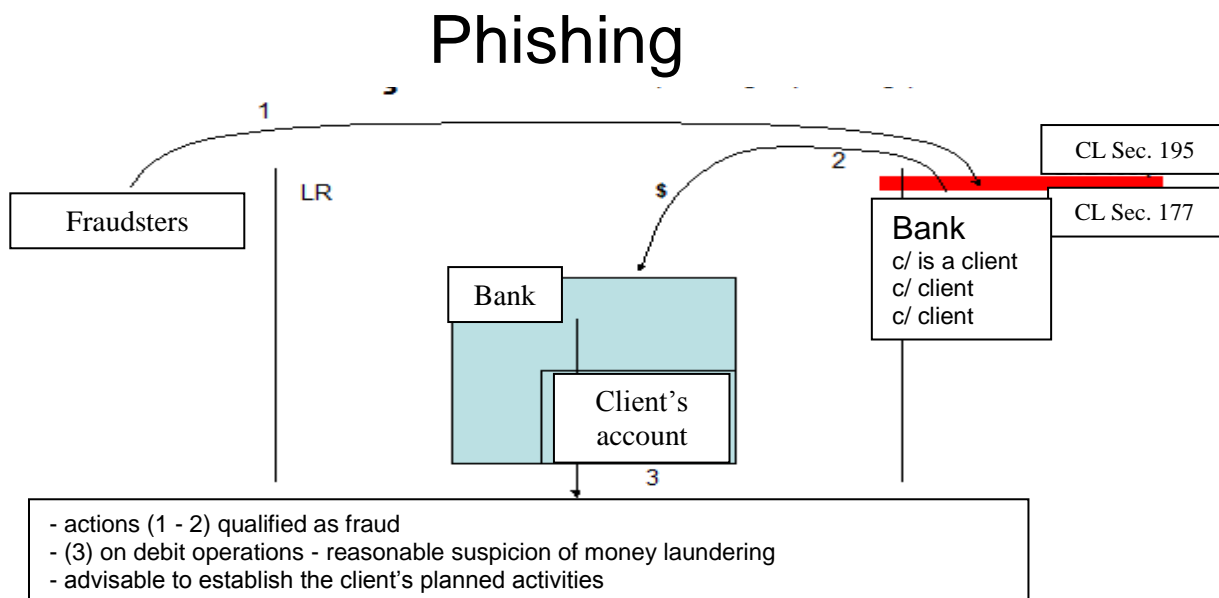
Short description of typology

Specific structuring of transactions in order to evade taxes has been around for many years. The statistics of the past years show that the number of natural and legal persons involved in a transaction scheme may range from 20 to 50 persons, but most often will be below 20 persons. The duration of the scheme is approximately several months and then the organisers would use a part of the persons involved (see group 1 in the scheme) in a different analogous scheme.

The scheme of transactions is depicted only partially and in a simplified manner and the scheme most often operates as follows:

- in order to evade taxes and obtain funds for the so-called “envelope salaries” or similar needs, according to the agreement with the organizers of the scheme legal entities (group 1 in the scheme) transfer money to the above SIA as if for supply of goods or services and declare these financial transactions to the State Revenue Service;
- then the group of legal persons (group 2 in the scheme) transfers this money via accounts with various banks and withdraws in cash outside Latvia (group 3 in the scheme) – most often in Lithuania, Poland or Czech Republic and deliver the money back to the original transferor of funds (group 1 in the scheme);

In 2017, the Control Service forwarded to the Tax and Customs Police Department (formerly Financial Police Department) 74 materials in relation to the mentioned typology, of which orders on freezing of proceeds derived from criminal activity were issued regarding 53 materials, i.e., achieving efficiency of 71.6% in this area.



During the last 6 – 8 years, the world, including Latvia, has seen increasing use of a typology called “phishing” (the name is derived from a criminal activity – theft of personal data, i.e. specifically password theft, where “password harvesting” is abbreviated to “phishing”), an activity aimed to steal money from client accounts often using the clients’ gullibility.

After obtaining client personal data, including their passwords, by various means (using documents prepared by the bank’s clients, by stealing it from the client or the bank

using a special software program), the fraudsters would act like the clients and transfer funds from the victims' accounts (most often from Germany, Canada) to the accounts of their accomplices in Latvia. Then the money is converted and withdrawn in cash.

In practice, it has proven many times that one of the most effective means to combat unlawful actions described in the above typology is that subjects of the law withdraw from transactions that appear connected or are reasonably suspected to be connected with money laundering and the Control Service suspends such transactions.

In June 2011, the Control Service and the employees of the State Police Department for Combating Economic Crimes with the help of mass media prepared an information material to warn society, in particular parents, to prevent children of legal age in Latvia from involving in this type of money laundering schemes (to launder money obtained by fraud from bank accounts abroad). Please refer to this article: <http://www.delfi.lv/archive/print.php?id=39020320>

Due to various measures conducted by the law enforcement authorities the number of cases of such typology rapidly decreases within the last years, as shown by the following statistics: In 2015 – 194 cases, in 2016 – 90 cases, and in 2017 – 69 cases.

At the same time, measures to raise public awareness of operation and danger of this typology of money laundering were continued in 2017. Respective information is regularly provided in various ways both during scheduled training for employees of law enforcement authorities and credit institutions, as well as for other interesting persons on the website of the Control Service, see the informative material on “money mules” on the website: <http://www.kd.gov.lv/index.php/metodiskie-materiali/zinosanas-sistema>