

**Republic of Latvia: Report on the Observance of Standards and Codes on
Anti-Money Laundering and Combating the Financing of Terrorism**

This Report on the Observance of Standards and Codes on Anti-Money Laundering and Combating the Financing of Terrorism for the Republic of Latvia was prepared by a staff team of the International Monetary Fund using the assessment methodology endorsed by the Financial Action Task Force in February 2004 and endorsed by the Executive Board of the IMF on March 15, 2007. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of the Republic of Latvia or the Executive Board of the IMF.

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LATVIA

**Report on Observance of Standards and Codes (ROSC)—
FATF Recommendations for Anti-Money Laundering and Combating the Financing of
Terrorism**

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May 15, 2007

GLOSSARY

AML/CFT	-	Anti-Money Laundering and Combating the Financing of Terrorism
BoL	-	Bank of Latvia
CDD	-	Customer Due Diligence
CIS	-	Commonwealth of Independent States
Control Service	-	Latvia's FIU
DNFBP	-	Designated Non-Financial Businesses and Professions
FATF	-	Financial Action Task Force
FCMC	-	Financial and Capital Market Commission
FIU	-	Financial Intelligence Unit
FT	-	Financing of terrorism
LEA	-	Law enforcement agency
ML	-	Money laundering
MLA	-	Mutual legal assistance
MoJ	-	Ministry of Justice
MONEYVAL	-	Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (FATF-style regional body)
NATO	-	North Atlantic Treaty Organization
NPO	-	Nonprofit organization
OECD	-	Organization for Economic Cooperation and Development
PEP	-	Politically-exposed person
ROSC	-	Report on Observance of Standards and Codes
SRO	-	Self-regulatory organization
STR	-	Suspicious Transaction Report
UN	-	United Nations Organization
UNSCR	-	United Nations Security Council Resolution

A. Introduction

1. This Report on the Observance of Standards and Codes for the FATF 40 Recommendations for Anti-Money Laundering (AML) and 9 Special Recommendations for Combating the Financing of Terrorism (CFT) was prepared by staff of the IMF.¹ The report provides a summary of the AML/CFT measures in place in Latvia and of the level of compliance with the FATF 40+9 Recommendations, and contains recommendations on how the AML/CFT system could be strengthened. The assessment is based on the information available at the time it was completed on March 24, 2006 and was conducted using the 2004 Assessment Methodology. The views expressed in the Detailed Assessment Report on which this document is based have been approved at a MONEYVAL plenary and agreed with the Latvian authorities. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Latvia or the Executive Board of the IMF.

B. Executive Summary

2. Latvia is a regional financial center of some significance and acts as an important trade and financial gateway between CIS and Western countries. Latvia has taken strong measures in recent years, through legislative amendments and improvements in implementation, to address deficiencies in its AML/CFT framework and move closer to compliance with the FATF Recommendations. Most of the necessary AML/CFT institutions and legal framework are now in place, although coverage of some designated nonfinancial businesses and professions (DNFBPs) is not yet complete—matter that is being addressed by the authorities. While the enhanced legislative framework is welcome, some of the provisions are less than coherent and many are not sufficiently detailed or explicit to meet the international standard. The strengthened implementation of preventive measures for banks need to be sustained and extended effectively to all entities subject to the AML Law. Latvia needs to consolidate and sustain the progress achieved, with continuing focus on the high-risk elements of the services offered by Latvian financial institutions to nonresident clients.

3. Latvia recognizes the need for strong coordination of AML/CFT measures. An AML Council, chaired by the Prime Minister, coordinates legislative and administrative initiatives.

4. While the AML/CFT legal framework has been strengthened and expanded over recent years, the amendments appear to have been made in a piecemeal fashion and the current provisions need further improvement to achieve full compliance with the standard. For example, definitions of key terminology for the terrorist financing offenses are absent and an explicit reporting requirement for suspicious transactions relating to terrorist financing is needed. The scope of confiscation powers also needs to be clarified. Other issues include the authorities' view that a conviction for money laundering requires a conviction for

¹ The evaluation team consisted of: Terence Donovan, Cecilia Marian, Nadine Schwarz, and Fitz-Roy Drayton, IMF Legal Department, and John Abbott, consultant.

a predicate offense. With regard to preventive measures, the AML Law is supplemented by a detailed Regulation of May 2006 issued by the Financial and Capital Market Commission (FCMC). However, amendments—albeit often technical or minor—are needed in the AML Law to achieve full compliance with the FATF Recommendations, including as regards customer due diligence, higher-risk customers, wire transfers, and correspondent banking. There is a need to clarify requirements for suspicious transaction reporting, to place more emphasis on real suspicions, with less reliance on criteria-based reporting. DNFBPs are not yet adequately covered by the law and differences in legal requirements gives rise to confusion as to their obligations. The authorities plan amendments to implement fully the EU Third Money Laundering Directive which presents an opportunity to address these issues.

5. The recorded crime rate in Latvia is relatively low. However, aspects of Latvia's financial services market increase the vulnerability of use for money laundering. Risks include the level of transactions flowing through the Latvian banking system on behalf of nonresident corporate clients, with their accounts typically operated for tax purposes in the names of offshore companies. Bearer shares can again be issued in Latvia, increasing the risk of misuse, and the registration system for legal persons needs to be strengthened. Overall, Latvia seems to be vulnerable to the layering and integration stages of money laundering, with limited evidence of being used in the placement stage. The financing of terrorism has not been identified as a significant concern in Latvia.

6. Investigative, tracing, and seizing powers were enhanced by the new Criminal Procedure Law, 2005, resulting in a welcome increase in investigations, seizures, and prosecutions for purposes of AML/CFT. Improvements in the effectiveness of the Prosecutor's Office and law enforcement agencies have been achieved only recently and there is a need to build on this progress, including through the provision of further training.

7. The effectiveness of the Control Service as Latvia's financial intelligence unit (FIU) continues to improve. It is currently adequately structured and organized and its staff are competent. The FIU receives, mainly from banks, substantial numbers of unusual and suspicious transaction reports, the latter being mainly guided by criteria for suspicion issued by the authorities. An amendment to the AML Law is needed to eliminate the potential confusion resulting from two apparently contradictory provisions that appear to provide for both direct and indirect dissemination of reports by the FIU to law enforcement.

8. Latvia's 23 banks represent more than 90 percent of the total assets of the financial system, with nonresident business representing close to 50 percent of banks' total assets. Most banks appear to be well advanced in improving AML/CFT internal control systems and customer due diligence, particularly in meeting the legal requirement to identify beneficial owners. Some smaller banks are still in the process of implementation. The FCMC conducted detailed AML/CFT on-site inspections and applied sanctions to noncompliant banks. At one point, 13 of Latvia's 23 banks were subject to intensified supervision for AML/CFT deficiencies, almost all of which were well on the way to being addressed by end-2005.

9. While progress is evident, there are still significant gaps in the legal framework for DNFBPs. The regime for monitoring and ensuring compliance by DNFBPs with their AML/CFT requirements is not yet well structured. Money laundering vulnerabilities are particularly evident in real estate transactions and in the use of corporate entities.

C. Legal Systems and Related Institutional Measures

10. Latvia has a population of close to 2.3 million and has land borders with Russia, Belarus, Lithuania, and Estonia. Latvia reestablished its independence in 1991 following the break-up of the Soviet Union. It joined both NATO and the European Union (EU) in 2004. It is a parliamentary democracy, with a unicameral Parliament (Saeima). Latvia has one of the highest economic growth rates in the EU, with average GDP growth of more than 7 percent per annum over the period 2002–2005. The EU is Latvia’s main trading partner, accounting for more than 70 percent of imports and exports.

11. Latvia is a regional financial center and acts as an important trade and financial gateway between CIS countries (mainly Russia) and Western countries. The high volume of throughput of transactions in accounts in Latvian banks reflects, in part, the financing of trade, but also capital flows and transactions designed to minimize the impact of tax and currency control requirements in the originating countries.

12. The recorded crime rate in Latvia is relatively low with 22,193 serious criminal cases recorded in 2004, of which approximately 40 percent were solved. The major criminal activities identified by the authorities as predicate offenses for money laundering are drug trafficking, trafficking in human beings, tax evasion, VAT fraud, and illegal logging, as well as internet crimes such as phishing. Most drug trafficking transshipment in Latvia appears to be destined for Western European markets. There are ongoing allegations of corruption in the public sector. The financing of terrorism has not been identified as a significant concern in Latvia and, to date, no listed terrorist has been identified as having assets in Latvia.

13. ML is criminalized, using an all-crimes approach, under the Criminal Law which covers all of the predicate crimes required by the international standard. The mens rea of the offense is the intent to conceal or disguise the criminal origin of financial resources or other property. The standard of proof is knowledge and this can be inferred from objective factual circumstances. Criminal liability extends to legal persons. Although prosecution for self-laundering is not excluded, this seems to be limited by the authorities’ view that a prior conviction for the predicate offense is needed to pursue a prosecution for money laundering.

14. While FT is criminalized under the Criminal Law, the definition of the offense needs to be amended so that it fully covers all elements under the International Convention for the Suppression of the Financing of Terrorism, including that the definition of financial resources should include all forms of “funds”.

15. A number of measures in the Latvian legislation provide for confiscation of property after conviction. The Criminal Procedure Law includes protection for bona fide third parties

and also allows for the reversal of the burden of proof. Though implementation is evidenced by examples of successful seizures, the current confiscation regime has definitional and other limitations. The system could be more effective if the authorities address these issues. The Criminal Procedure Law, 2005, has greatly extended the ability of the prosecution authorities to conduct investigations as well as to seize and freeze assets. This has led to a large increase in the number of cases under investigation including, at the time of the assessment, 70 suspected money laundering cases. However, the structures are relatively new and have not been established long enough to fully assess their effectiveness. There is a need for additional training in law enforcement aspects of the AML/CFT framework.

16. Although there is a comprehensive system in Latvia for dealing with the freezing of terrorist funds, including a dedicated unit within the FIU, a number of definitional and practical issues remain to be addressed to make the system more flexible and effective. For example, there is a need to provide for release of funds to cover basic living expenses and legal costs of terrorist suspects and to extend the scope of the current procedure so as to provide for the possibility of delisting of all suspects who have been cleared.

17. The Latvian FIU, also referred to as the Control Service, is established within the Prosecutor's Office system. The FIU is the national central authority in Latvia with the necessary powers to receive, analyze and disseminate information provided by the reporting entities listed in the AML Law on suspicious and unusual transactions. The FIU is a legal entity monitored by the Prosecutor General but is operationally independent. The information of the FIU is securely protected and the staff is subject to confidentiality requirements. The FIU has access to all the necessary databases and is adequately equipped to perform its analysis functions. While the FIU appeared to operate in an effective way, some shortcomings were identified. In particular, the two provisions in the AML Law that deal with the dissemination of information by the FIU (one via the Office of the General Prosecutor, the other directly to law enforcement) could be seen as in conflict, although the authorities interpret the provisions as complimentary. Refocusing the legal requirements and FIU guidance on the importance of reporting genuinely suspicious transactions (rather than reporting based mainly on the basis of criteria specified by the authorities), would enable the FIU to concentrate on cases that really are suspicious and thereby enhance its operational effectiveness.

18. At the time of the assessment, Latvia had not yet implemented measures to detect physical cross-border transportation of cash and other bearer negotiable instruments. However, the Law on Cash Declaration at the Border, which came into force on July 1, 2006, provides for an obligation to declare to the State Revenue Service of Latvia all physical transportation, out of or into Latvia, of cash and other financial instruments in an amount equivalent to or exceeding EUR10,000.

D. Preventive Measures – Financial Institutions

19. Latvia has not adopted an overall risk-based approach to the application of AML/CFT requirements, though the FCMC Regulation includes some references to high-risk customers.

In practice, risk characteristics are taken into account in determining the depth and frequency of supervisory attention given to individual financial institutions. The Latvian AML Law does not provide for the application of reduced AML/CFT measures to low-risk categories of business. However, it has gone further in certain cases by completely exempting specified categories of business or client (for example, business with correspondent banks in OECD countries) from the scope of the AML/CFT requirements in a way that is inconsistent with the FATF Recommendations.

20. The AML/CFT preventive measures are set out in the AML Law and the FCMC Regulation. While the AML Law addresses many aspects of the international standard, in several instances the current wording raised questions as to the mandatory or discretionary character of some provisions. The authorities should amend the AML Law to introduce clearer, unambiguous language, in particular when seeking to set mandatory obligations.

21. Amendments in the AML Law—albeit in some cases technical or minor corrections—are needed to achieve full compliance with the FATF Recommendations. As the authorities plan to amend the AML Law to implement the EU Third Money Laundering Directive, this provides an opportunity to address the outstanding issues. Examples of areas where improved drafting is needed include the current complicated and sometimes contradictory provisions for customer identification and lack of clarity with respect to the timing and verification of identification. Requirements are needed to address the AML/CFT risks arising from business using new technologies. While the current requirements for correspondent banking address most of the main points in the FATF Recommendation, they fall short of the detail required. There is a need to clarify the requirements for reporting of suspicious transactions (as distinct from transactions identified by reference to a set of indicators), and the timeframe for reporting of such ‘real’ suspicious transactions needs to be conveyed more clearly and firmly to reporting institutions. Wire transfer provisions lack a requirement to include originator data with the transfer. Measures to address politically-exposed persons do not fully meet the international standard; in particular, there are no requirements to obtain senior management approval to establish the business relationship. Unless it could be substantiated by a risk assessment as permitted by the FATF Recommendations, the exemption from AML/CFT requirements for dealings with correspondent banks from OECD countries should be removed. Record-keeping provisions lack the detail and clarity to oblige all financial institutions to be able to reconstruct individual transaction data.

22. Most reporting to the FIU comes from the banks, although the FIU is having increasing success in obtaining reports from other reporting entities, including some DNFBPs. However, most of the reports relate not to suspicious transactions per se but to transactions meeting indicative criteria for unusual and suspicious transactions listed respectively in the Cabinet of Ministers’ Regulation and FIU guidance. Additional focus is needed on improving STR reporting. Also, the legal requirement for reporting of suspicious transactions related to terrorist financing is not fully consistent with the standard.

23. Most, though not all, types of reporting institution are required to have a comprehensive set of internal controls for AML/CFT, including review by independent audit. A compliance function is mandated, but there is no specific requirement for the compliance officer to be at management level. An employee screening requirement is also needed. In practice, financial institutions interviewed maintained that they had addressed these points in their internal control procedures.

24. There is no indication that a shell bank could be established in Latvia in practice, but the current measures should be made more explicit to exclude any such possibility.

25. All categories of financial institutions in Latvia, with the exception of exchange offices and the Latvian Post Office, are authorized and supervised by the FCMC and are obliged to meet the requirements of the Latvian AML Law and FCMC Regulation. The exchange offices are authorized and supervised by the Bank of Latvia. There is no supervision for AML/CFT purposes of the Latvian Post Office, including as regards its money transfer business. Remittance services are generally adequately monitored and supervised when they are provided by banks and electronic money institutions. Although not explicitly addressed by the FATF Recommendations, the assessors are of the view that the Latvian authorities should also assess the AML/CFT risks of unregulated domestic reinsurance business and introduce appropriate risk-based measures to supervise the sector.

26. To encourage Latvian banks to strengthen their due diligence, the FCMC conducted an extensive range of thorough AML/CFT on-site inspections over the past three years (including repeat inspections), and applied a range of monetary and other sanctions to banks that did not fully comply with the AML/CFT requirements. At one point, 13 of Latvia's 23 banks were subject to intensified supervision² for AML/CFT deficiencies. Almost all of the deficiencies identified during these inspections were well on the way to being resolved by end-2005.

27. Responding to improvements introduced into the AML Law in June 2005, and beginning with the higher-risk accounts (which typically include nonresident accounts), banks acted on a large scale to re-identify clients and request documentary evidence to support transactions. They have taken steps to ensure that they have documentation to establish as far as practicable the ultimate beneficial owner—as required by law—of their corporate accounts (including offshore companies) and any cases of accounts being operated by third parties. Where customers were unwilling or unable to provide the requested information, or did not respond in time, the accounts were closed.

E. Preventive Measures—Designated Non-Financial Businesses and Professions

28. There are significant gaps in the legal framework for DNFBPs, with the categories subject to the AML Law's requirements for preventive measures being too narrow, leaving

² A status provided by the law which is a precursor to a variety of available serious sanctions.

out some parties who should be covered and restricting the circumstances in which the requirements apply to others. For example, many independent lawyers and independent accountants are outside the scope of the oversight regime for DNFBPs. Several of the specific CDD provisions of the FATF Recommendations are missing or apply at too high a threshold for DNFBPs. Requirements for politically-exposed persons (PEPs) are missing and many of the specific internal control and reporting requirements called for in the FATF Recommendations are absent or not legally binding on DNFBPs. Transactions monitoring required of financial institutions does not apply to DNFBPs and essential elements of internal controls have been spelled out only in guidelines.

29. Various organizations in the DNFBP sector have been mobilized to raise awareness of AML/CFT obligations and to promote compliance and some have issued guidelines or regulations covering AML/CFT preventive measures requirements. While the volume of such issuances is substantial, the quality is uneven and most of the guidelines are advisory only, because the legal authority for AML/CFT compliance has not been clarified. The regime for monitoring and ensuring compliance by DNFBPs with their AML/CFT requirements is not well structured. While numerous government agencies, self-regulatory organizations (SROs), and trade associations are involved, in most cases the authority and capacity of these groups to ensure compliance is inadequate.

F. Legal Persons and Arrangements & Nonprofit Organizations

30. The legal framework applicable to nonprofit organizations (NPOs) has recently been amended. All NPOs are required to re-register in a new associations and foundations register. As of March 2006, 10,097 NPOs were registered. Religious organizations are recorded separately by the Agency of Religious Issues. Drawing on a wide variety of information systems, the State Revenue Service monitors the financial assets of NPOs.

31. Legal persons are subject to a registration system that needs to be strengthened. The arrangements to verify registration details are weak as the Registrar relies on notaries to perform the verification, while the notaries only conduct a pro-forma review in determining whether or not the required legal documents are produced. There is no requirement for the disclosure of beneficial owners as part of the registration process.

32. Prior to 2004, the dematerialization of bearer shares was required. Amendments to the Commercial Law in 2004 have allowed for shares to be issued in bearer form again, thus increasing the risk of misuse by money launderers. No information was provided on the volume of bearer shares issued. Latvia should revert to dematerializing bearer shares.

G. National and International Cooperation

33. Latvia is able to provide mutual legal assistance (MLA) in criminal matters on the basis of international, bilateral or multilateral agreements to which Latvia is a party. Where there is no agreement on MLA, the Criminal Procedure Law establishes the legislative framework for providing assistance on the basis of reciprocity. The competent authority for

international cooperation is the Ministry of Justice or the Prosecutor's Office depending on whether requests relate to pre-trial investigations or criminal proceedings.

34. Money laundering and terrorist financing are extraditable offenses in Latvia. Extradition is possible on the basis of treaties and dual criminality is generally required.

35. While there are provisions in place for the FIU to exchange information with foreign FIUs and noncounterparts, the FIU could benefit from clear provisions in the AML Law that would allow it to exchange information with non-FIU foreign agencies, upon request or on its own initiative, including the power to request and obtain information from the relevant entities and to access its databases.

36. With regard to supervisory cooperation, the FCMC is empowered to cooperate with foreign financial and capital market supervision authorities and to participate in relevant international organizations. As there is significant foreign ownership among the financial institutions in Latvia, the FCMC has developed a basis for cooperation with the appropriate home supervisory authorities. Latvia's membership of the EU results in its participation in a range of committees and structures that provide a firm basis for supervisor to supervisor cooperation.

37. Cooperation between domestic authorities on AML/CFT is well developed in Latvia. The main responsibility for the coordination of Latvia's anti-money laundering efforts rests with the AML Council, chaired by the Prime Minister. The AML Law also provides for an Advisory Board of the FIU, which is active in coordinating domestic cooperation, including between the authorities and the financial sector.

Summary Table of Observance and Key Recommendations

Forty Recommendations	Degree of Observance	Summary of factors underlying assessment	Key recommendations
Legal systems			
1. ML offence	LC	Effectiveness limited by the authorities' view that conviction for a predicate offence is needed before a money laundering charge; also applied to predicate offences committed abroad.	Take appropriate measures to ensure that prosecutions can be commenced without the need for a prior conviction for a predicate offence.
2. ML offence-mental element and corporate liability	C		
3. Confiscation and provisional measures	LC	Property is not defined for purposes of Criminal Law / Criminal Procedure Law. Definition of proceeds of crime needs to include indirect holdings of property. Forfeiture does not include all property intended for use in committing the offence. No measures that allow for voiding of contracts or actions.	Extend forfeiture to property that is intended for use in the commission of a criminal offence. Define "property" and "assets" for the purposes of the Criminal Law and Criminal Procedure Law in compliance with the Vienna and Palermo Conventions.
Preventive measures			
4. Secrecy laws consistent with the Recommendations	C		
5. Customer due diligence	PC	Not all CDD adequately covered. Explicit requirements missing when establishing a business relationship (other than opening account); to verify the customer's identity; as regards the timing of verification; for legal entities that may issue bearer shares; to identify the customer when suspicion of terrorist financing; to keep CDD up-to-date	Amend the AML Law to introduce clearer, unambiguous language, in particular when seeking to set mandatory obligations. Provide explicitly and in detail for all CDD measures listed as factors underlying the rating. Remove from the AML Law the automatic exemption from CDD requirements provided

			and relevant and to conduct reviews of existing records, in particular for higher risk customers; for bureaux de change and Latvian Post Office to perform enhanced due diligence. Exemptions to the identification requirement conflict with standard.	under Article 9.
6. Politically exposed persons	PC	No PEP requirements for bureaux de change and Latvian Post Office. No requirements for senior management approval for new PEPs.	Apply PEP requirements to bureaux de change and Latvian Post Office. Require senior management approval for new PEPs.	
7. Correspondent banking	NC	Article 5 ¹ of the AML Law unduly provides a blanket exemption from applying AML/CFT measures in respect of OECD correspondent banks. No legal obligation for senior management approval and other operational points for new correspondent banking relationships.	Remove exemption from applying AML/CFT measures in respect of correspondent banks from OECD countries. Apply full CDD requirements under R.7 for correspondent banks.	
8. New technologies & non face-to-face business	PC	No supplementary requirements for additional risk from new or developing technologies.	Address additional risks from new and developing technologies.	
9. Third parties and introducers	N/A	Financial institutions do not rely on third party intermediaries. Pursuant to Article 26 of the FCMC Regulation, customer identification may only be conducted by the financial institution itself or an agent.		
10. Record keeping	PC	Detail and clarity lacking for individual transaction reconstruction. Nothing explicit on maintaining records of account files and correspondence.	Require institutions to keep records of the account files and business correspondence. Allow for extension beyond five years.	
11. Unusual transactions	LC	AML Law seems to limit access to information to supervisory authorities.	Require information to be made available to all AML/CFT authorities.	

12. DNFBP-R.5, 6, 8-11	PC	Incomplete coverage of DNFBPs. Some CDD coverage and steps missing.	Broaden coverage of preventive measures requirements.
13. Suspicious transaction reporting	LC	Additional focus needed to encourage reporting of suspicious transactions. Reporting requirement inadequate for suspicions of terrorist financing.	Increase emphasis on prompt STR reporting to FIU. Explicitly address suspicions of FT.
14. Protection & no tipping-off	C		
15. Internal controls, compliance & audit	LC	Requirement re independent audit does not cover all financial institutions. No explicit requirement for compliance officer at management level. Only bureaux de change required to screen employees.	Require independent audit role in all cases, compliance officer at management level and screening of new employees.
16. DNFBP-R.13-15 & 21	NC	Suspicious reporting scope too narrow for DNFBPs. Compliance required only by guidance. Weak monitoring of compliance. Many independent lawyers and independent accountants are outside the oversight regime for DNFBPs.	Revise the legal framework to cover all DNFBPs. Specify internal controls in law, regulation, or other enforceable means. A supervisory and control authority should be designated for each DNFBP sector.
17. Sanctions	PC	Many DNFBPs not subject to sanctioning.	Provide for sanctioning of all DNFBPs.
18. Shell banks	LC	Measures not sufficiently explicit to prohibit establishment of shell banks. No specific requirement that foreign respondents are not used by shell banks.	Make more explicit the current measures to prevent establishment of shell banks.
19. Other forms of reporting	C		
20. Other NFBP & secure transaction techniques	C		
21. Special attention for higher risk countries	PC	No requirements for countries which do not or insufficiently apply the FATF standard or to apply counter-measures.	Provide for measures, including counter-measures, to apply where countries do not or insufficiently apply FATF standard.
22. Foreign branches & subsidiaries	PC	No specific requirements for branches or subsidiaries in countries that do not or insufficiently apply the FATF standard.	Provide for measures for branches or subsidiaries in countries that do not or insufficiently apply FATF standard.

23. Regulation, supervision and monitoring	LC	Latvian Post Office is not subject to adequate supervision for AML/CFT purposes	Supervise Latvian Post Office for AML/CFT purposes.
24. DNFBP - regulation, supervision and monitoring	PC	Supervision only for casinos and some other DNFBPs. Ineffective for most types.	Designate supervisory authority for each category of DNFBP.
25. Guidelines & Feedback	PC	Most guidelines in issue not enforceable.	Designate supervisory authority for each category of DNFBP.
Institutional and other measures			
26. The FIU	LC	Effectiveness could be enhanced through additional focus on STRs. The AML Law contains two provisions for FIU dissemination - potential conflict.	Address the contradiction in the AML Law regarding dissemination. Increase emphasis on STR reporting. Consider publishing FIU annual report.
27. Law enforcement authorities	C		
28. Powers of competent authorities	C		
29. Supervisors	LC	Latvian Post Office not supervised for AML/CFT.	Supervise Latvian Post Office for AML/CFT
30. Resources, integrity and training	LC	More staff and budget for FIU. Training needed for law enforcement	Provide resources to FIU and training for law enforcement
31. National co-operation	LC	Complex FIU-LEA information exchange	Simplify FIU-LEA information exchange.
32. Statistics	LC	No statistics kept on MLA requests refused. Statistics of MLA by MoJ not easily available. Statistics on international cooperation available only for FIU. No BoL statistics for bureaux de change. No consolidated extradition statistics.	Address statistical deficiencies
33. Legal persons-beneficial owners	NC	Poor access to beneficial ownership and control information, in particular where bearer shares have been issued. Information to Registrar of Enterprises might not be current and adequate.	Amend the law to ensure that information on the ownership of all bearer shares is available. Require legal persons to collect and keep information on beneficial ownership. Enhance powers to investigate and monitor compliance

34. Legal arrangements – beneficial owners	N/A			
International Cooperation				
35. Conventions	LC		Property not defined for Criminal Law and Criminal Procedure Law. Property obtained indirectly not in definition of proceeds of crime. Forfeiture does not include property intended for use in the commission of an offence.	Define property to comply fully with the Vienna and Palermo Conventions. Include indirect property in definition. Expand forfeiture.
36. Mutual legal assistance (MLA)	C			
37. Dual criminality	C			
38. MLA on confiscation and freezing	PC		Unclear if confiscation requests can cover enforcement of confiscation of all proceeds of crime, intended instrumentalities and terrorist property. No provision for identification of property and enforcement following foreign request.	Include in the Criminal Procedure Law grounds for enforcement of foreign requests. Expand confiscation to include confiscation of all proceeds of crime, intended instrumentalities and terrorist property.
39. Extradition	C			
40. Other forms of co-operation	LC		Lack of statistics on cooperation undermines the assessment of effectiveness	Provide that FIU can request information from reporting institutions to respond to requests from foreign FIUs.
Nine Special Recommendations				
SR.I Implement UN instruments	LC		Definition of funds does not correspond fully with the International Convention for Suppression of Financing of Terrorism	Amend definition of funds to include legal documents or instruments in any form such as electronic or digital, and evidencing title to, or interest in, such assets.
SR.II Criminalize terrorist financing	PC		“Financial resources” not defined as in Terrorist Financing Convention. No prosecution for terrorism financing.	Define “financial resources” in accordance with the Terrorist Financing Convention.
SR.III Freeze and confiscate terrorist assets	PC		As SR II. For UNSCR 1373, no national mechanism to consider freezing requests	As SR II. Introduce mechanisms for nonEU requests for

			from nonEU countries or for EU internals. No clear means of de-listing except for EU List. No access to funds for basic living expenses and legal costs.	freezing and for nonEU delisting. Provide access to funds for basic living expenses and legal costs.
SR.IV	Suspicious transaction reporting	PC	FT reporting requirements in place are not sufficiently explicit, direct, and complete. Not enough focus on reporting suspicious transactions.	Require reporting of FT suspicions even where no designation of terrorist suspect by list.
SR.V	International cooperation	PC	Enforcement of foreign confiscation orders only available if confiscation is a penalty for the same offence in Latvia. No asset sharing mechanism or asset forfeiture fund. Lack of statistics on international cooperation	Expand confiscation provisions. Mechanism for asset forfeiture fund and sharing of confiscated assets should be considered. Maintain statistics on international cooperation.
SR.VI	AML/CFT requirements for money/value transfer services	PC	Latvian Post Office is not supervised for AML/CFT compliance of its money transfer business.	Supervise Latvian Post Office for AML/CFT purposes
SR.VII	Wire transfer rules	NC	Inadequate wire transfer requirements	Require originator information to be maintained with funds transfers.
SR.VIII	Nonprofit organizations	C		
SR.IX	Cross-border declaration & disclosure	NC	No measures were in place at the time of the assessment: Law on Cash Declaration at the Border came into force since	Ensure the effective implementation of the new Law on Cash Declaration at the Border

Compliant (C): the Recommendation is fully observed with respect to all essential criteria. **Largely compliant (LC):** there are only minor shortcomings, with a large majority of the essential criteria being fully met. **Partially compliant (PC):** the country has taken some substantive action and complies with some of the essential criteria. **Non-compliant (NC):** there are major shortcomings, with a large majority of the essential criteria not being met. **Not applicable (NA):** a requirement or part of a requirement does not apply, due to the structural, legal or institutional features of a country e.g. a particular type of financial institution does not exist in that country.

H. Authorities' Response

38. The Latvian authorities have reviewed the ROSC and confirmed their agreement with all of the assessment findings. The authorities indicated that the report's recommendations have already been put into an action plan in order to implement appropriate corrective measures.

39. The Latvian authorities would like to pay special attention to the instances where the opinions of the authorities and the assessors diverged. We note that out of 49 FATF recommendations, 5 were rated as non-compliant – namely Recommendations 7, 16 and 33, Special Recommendations VII and IX.

40. We appreciate the recognition of the assessment team that, subsequent to the on-site assessment visit and prior to the publication of the report, Latvia brought into force legislation to address FATF Special Recommendation IX on Cash Border Declarations, effective July 1, 2006. We regret that this could not have been reflected fully in the evaluation due to interpretations of evaluation methodology.

41. We understand that the opinion of the authorities and opinion of the assessment team differed on the approach taken by the Latvian authorities to exempt banks from the obligation to carry out due diligence on credit institutions from OECD countries. We understand that this exemption has been the main reason for ranking Latvia as non-compliant with Recommendation 7. While the Latvian authorities wish to reiterate that the main risks to its financial system are not posed by correspondent relationships with financial institutions from developed financial markets in OECD countries, the authorities will ensure that the exemption will no longer be available after implementation of the EU Directive 2005/60/EC.

42. Notwithstanding the divergence of opinions about this particular exemption, we fully agree with the coverage in the Detailed Assessment Report (points 7.1.-7.4. of Recommendation 7) of the extensive due diligence efforts that are being put in practice by the banks in Latvia on their correspondent banks.