



Finanšu izlūkošanas dienests

Financial Intelligence Unit of Latvia

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Sectoral Money Laundering and Terrorist Financing Risk Assessment Report (2017-2018)

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1. Introduction

The aim of the Latvian government, including by approving "Plan of Anti-Money Laundering and Counter-Terrorism Financing Measures for the Period of Time till 31 December 2019" on 11th of October, 2018 with the Cabinet of Ministers Order No 512, is to strengthen the ability of responsible institutions to fight against ML, TF and PF, to reduce overall ML, TF and PF risks, ensuring compliance with international commitments and standards in the field of AML/CTF and facilitating public safety, competitiveness of the economic environment and trust in Latvian jurisdiction.

International standards in the field of prevention of ML, TF and PF impose that countries shall identify, assess and understand their ML and TF risks, including ML and TF risks in sectors in which obliged entities under the AML/CTF Law operate. In accordance with this risk level assessment, the countries have the possibility to apply a risk-based approach in order to ensure that the measures for risk reduction are proportionate to the importance of identified risks.

The assessment of ML/TF risks in sectors allows to apply a risk-based approach in the supervision and control of obliged entities under the AML/CTF Law, whereas to the obliged entities under the AML/CTF Law working in the private sector such an assessment allows to draw up their internal risk assessments and to improve internal control systems accordingly with the aim to adequately apply a risk-based approach and to timely identify suspicious transaction, in which the involved funds are directly or indirectly derived from criminal activities or are related to TF or PF, or the attempt of such activities.

The first sectoral risk assessment in Latvia was carried out within the framework of National ML/TF risk assessment for the time period from 2013 to 2016. Additionally, in 2019, the supervisory and control institutions under the AML/CTF Law in cooperation with FIU have re-evaluated ML/TF risks of the sectors under their control and developed Sectoral Money Laundering and Terrorist Financing Risk Assessment Report for the period 2017-2018. Overall 10 supervisory and control institutions have carried out ML/TF risk assessments of 28 sectors.

The Report of 2019 demonstrates significant increase of capacity of supervisory and control institutions and understanding about ML, TF, and PF risks.

The method used for assessment of risks in the sectors combined quantitative and qualitative information with the professional knowledge and experience of experts in the sector. Each supervisory and control institution used most suitable data collection method and technique, adjusting the approach to the specifics and size of the analysed sector in order to define final conclusions, international tendencies and observations in the sectors were also examined. If there was a lack of qualitative or quantitative data in order to precisely determine the level of risk, which would prove the validity of a lower risk level, then the risk level was always assessed higher.

In the Report ML threats and vulnerability, ML/TF risk levels of all sectors are summarised, as well as the conditions which have led to such conclusions are presented in a concise form. ML/TF threats, vulnerability and risk level of sectors are arranged using a six point evaluation comparison system - "low", "medium low", "medium", "medium high", "medium high/high", "high". The higher the evaluation the higher the probability to be subjected to ML and TF. If the evaluation is "medium high/high", the overall risk level in the sector is high but at the same time, significant differences between the risk levels of different subjects of the sector are identified, of which individual representatives have a medium or even low risk level.

Considering that in parallel of preparation of this Report, also the first "National Terrorist and Proliferation Financing Risk Assessment Report for 2017-2018" was drawn up, including a first-time assessment of proliferation and PF risks in Latvia, therefore PF threats, vulnerability and risks of sectors are not separately analysed in this Report. PF risks will be assessed in the sectoral risk assessment report of the next period.

Report is publically available and published on the website of FIU www.kd.gov.lv, in the section "Useful – National risk assessment".

2. ML and TF risk assessment of the sectors

Sector	Sectoral assessment 2013 - 2016			Sectoral assessment 2017 - 2018			Level of TF risks
	Threat level	Level of vulnerability	Level of ML risks	Threat level	Level of vulnerability	Level of ML risks	
Financial Sector							
Credit institutions	MH	H	H	MH	MH/H*	MH/H*	M
Payment institutions (PI) and electronic money institutions (EMI)	M	H	MH	MH	MH/H*	MH/H*	M
SJSC LATVIJAS PASTS	L	ML	ML	MH	MH/H*	MH/H*	M
Investment firms (IF) and investment management companies (IMC)	ML	H	M	MH	MH	MH	M
Encashment service providers	L	L	L	MH	M	MH	L
Crediting, including financial leasing, if the provision of service does not require licensing**				M	M	M	L
Currency exchange capital companies	ML	M	M	M	ML	M	L
Non-bank creditors	ML	M	M	ML	M	M	M
Alternative investment fund managers (AIFM)	L	L	L	L	ML	ML	ML
Savings and loan associations (SLA)	L	L	L	L	ML	ML	ML
Life insurance service providers (LISP)	L	ML	ML	L	ML	ML	M
Private pension funds (PPF)	L	L	L	L	L	L	ML
Issuance of guarantees and other binding obligations which create an obligation**				L	L	L	L
Non-financial sector							
Service providers for establishing legal arrangements or legal persons and ensuring their operation**				MH	MH/H*	MH/H*	ML
Tax consultants	ML	MH	M	MH	MH/H*	MH/H*	L
Outsourced accountants	ML	MH	M	MH	MH/H*	MH/H*	L
Independent legal service providers	ML	ML	M	MH	MH/H*	MH/H*	ML
Sworn advocates	ML	M	M	MH	MH/H	MH/H*	ML
Sworn notaries	ML	ML	ML	MH	M	MH	L
Sworn auditors	ML	ML	ML	M	MH	MH	L
Persons acting as agents or brokers in real estate transactions	M	M	M	M	M	M	L
Sale of precious metals, precious stones and their products	ML	M	M	ML	M	M	ML
Operators of lottery and gambling	ML	MH	M	ML	M	M	ML
Extrajudicial debt recovery service providers	L	ML	ML	L	M	ML	L
Sale of vehicles	L	MH	M	L	M	ML	ML
Sale of other goods, as well as intermediation in related transactions**				ML	M	ML	ML
Institutions that provide consultations for clients on financial issues**				ML	ML	ML	L
Persons involved in the movement of art and antique articles	L	L	L	L	L	L	ML

* the overall risk level in the sector is high individual representatives have a medium or even low risk level.

** the sector was not monitored in the last report period

High (H)	Medium-high/High (MH/H)	Medium high (MH)	Medium (M)	Medium-low (ML)	Low (L)
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3. ML and TF risks of the financial sector

3.1. CREDIT INSTITUTIONS

Description of ML risks

Credit institutions are particularly vulnerable and exposed to ML/TF risks, as well as they have the highest ML/TF threat level. The above mentioned may be explained by the wide client base of credit institutions, the high number of transactions and the speed of transactions, as well as the significant volume of financial flows, which based on general understanding and ML practice, may potentially facilitate the execution of illegal transactions.

During the reporting period, the amount of increased risk clients, especially in the non-resident segment, deposits and turnover has significantly decreased. This tendency has become more dynamic because, besides the initial stimulating factors, there are now also stricter requirements for risk level reductions, changes have been initiated for the restructuring of business models of banks that serve foreign clients, as well as the biggest bank serving foreign clients has left the market, losing its licence and starting dissolution process. Measures for further reduction of ML/TF risk level of banks serving foreign clients shall be consequently continued. Although banks in this sector have done a lot of work by improving ICS, their risk level is still high. However, attention and analysis should be drawn to conditions which may indicate possible transformation of ML/TF risk.

There are still risks in the ability of banks to manage and reduce ML/TF risks and circumvention of sanctions with ICS, deficiencies in implementation of CDD, insufficiently checked origins of client's and BO funds and BO welfare, deficiencies in determination and check of related client groups, cases when cooperation with clients who cause unacceptable ML/TF risks is not terminated in time, as well as deficiencies in clients' risk classification. Taking into account that sanctioned persons are informed about their inclusion in sanction lists, they use complex transaction schemes and other possibilities to conceal the real objective of transactions. Therefore it is important that credit institutions continue to improve ICS with the aim to identify their sanction risks and that they carry out necessary measures for adequate management of these risks.

Also, increased attention shall be paid to clients, who are providers of non-bank financial services, especially to those, who are not registered/licensed in Latvia and whose provision of financial services is not related to Latvia. The reduction of impact of this risk factor shall be applied to those credit institutions that focus their financial services on serving such payment institutions and electronic money institutions, as well as investment services and investment funds.

In relation to particular credit institutions, attention shall be paid to the impact of their shareholders. Possible impact of the shareholders of a credit institution on its operational activity and independent decision making, as well as serving of such shareholders in the respective credit institution should be assessed as an additional risk.

Description of TF risks

Credit institutions provide financial services to clients whose activity is related to countries involved in international conflicts and/or hostilities. Also there is a significant amount of PI/EMI and quick money transfer systems from CIS that operate also in countries that are involved in international conflicts and/or hostilities in the client base of credit institutions. In this sector, complicated transactions or clients with complicated owner structure are served, resulting in possible TF concealment. Level of TF risks in credit institutions is assessed as medium.

3.2. PAYMENT INSTITUTIONS (PI) AND ELECTRONIC MONEY INSTITUTIONS (EMI)

Description of ML risks

The role of PI/EMI in the provision of payment services is increasing, often providing services analogue to services provided by credit institutions in the field of payment services, making them particularly unprotected and exposed to ML/TF risks. The use of PI/EMI for the transfer of financial funds is significantly increasing as well as the amount of funds transferred through PI/EMI. The PI/EMI sector is relatively small however the level of ML/TF risks of the client base is different for various PI/EMI - from low exposure to ML/TF risks of those PI/EMI that provide services with a limited, low value to domestic customers, to high exposure to ML/TF risks of those PI/EMI that provide payment, e-money or payment card services for e-commerce mostly to foreign clients, or they provide occasional services, especially international money value transfer services cooperating with quick money transfer systems of third countries when carrying out international money transfers, as well as carry out client identification remotely.

In 2017, a significant part (68%) of client fund turnover of Latvian and foreign PI/EMI, that have open accounts in Latvian credit institutions, form institutions that have BO of Russian and Ukrainian origins. In 2018, the amount of transactions carried out in the accounts of foreign PI/EMI clients have decreased by 23%, as well as a decrease is observed in the scale of activity when serving clients with characteristics of a shell company.

Provision of services to associations or foundations is not distinctive for the PI/EMI segment, however cases have been identified when foreign PI/EMI within the freedom of service provision have carried out money transfers to countries in relation to which restricting measures have been imposed.

PI/EMI risks are increased by the high vulnerability of the sector which is mainly related to insufficient management of ML/TF risks, including insufficient independence ML/TF ICS structures and formal approach to the fulfilment of normative requirements of the AML/CTF Law.

Due to the nature of services offered by PI/EMI, it is possible to use respective subjects in tax fraud schemes. In the process of supervision it was detected that PI/EMI that serve domestic clients, especially offering payment account services, may get involved in ML/TF schemes which are related to tax evasion or tax fraud. Also, involvement in circumvention and/or violation of sanctions is possible.

Description of TF risks

One of the most significant TF risks of PI/EMI is the provision of services to foreign clients, especially shell companies, without adequate or sufficient client verification. Also, TF risk is caused by money remittance, including participation in international money transfer systems because the information obtained during supervision shows that the transaction supervision systems of these institutions are simplified, often limited to only limit control and does not provide sufficient management of risks of the service and its geography. It is important to point out that an inappropriate supervision of ICS money value transfer services creates an increased TF risk for this service. Level of risks in PI/EMI sector is assessed as medium.

3.3. INVESTMENT FIRMS (IF) AND INVESTMENT MANAGEMENT COMPANIES (IMC)

Description of ML risks

In Latvia, there are 5 licensed IF in the IF sector and 1 branch of an IF licensed in a member state of EU. The most significant risks are caused by provision of services to foreign clients, and the increased percentage of the amount of international transactions related to that. Financial instruments may be used for the creation of complex ML transaction schemes that are difficult to trace which burdens the possibility to make sure of the economic and legal base and actual objective of the transactions. Foreign clients generate the majority of portfolio value of IF clientele – financial portfolios of legal persons, that might include shell companies.

There are 11 IMC licensed in Latvia and 9 of them are subsidiaries of Latvian credit institutions. The client base of these IMC mostly correspond to the client base of their parent banks and respectively also to its risks. Increased ML/TF risks in the IMC segment are created by the management of individual investment portfolios of foreign clients. IMC may be subjected to involvement in complex ML transactions schemes with financial instruments.

Those IMC which manage open investment funds are exposed to an additional risk because often IMC does not maintain a register of investment fund investors, therefore there is a burden to clarify the actual clients in the meaning of the AML/CTF Law.

Also, IF and IMC may be involved in establishment of schemes with the aim to conceal corruption cases.

Description of TF risks

Taking into account the nature of services offered by IF and IMC, it is concluded that TF risks may cause provision of services to foreign clients, especially to shell companies, without carrying out a suitable client check, as well as the fact that financial instruments may be used for the creation of a complex, non-transparent, transaction chains which is difficult to trace and creates a burden for the possibility to make sure of the economic and legal base and actual objective of the transactions, including causing an increased TF risk. The overall level of risks in IF and IMC is assessed as medium.

3.4. SJSC LATVIJAS PASTS

Description of ML risks

The base of registered clients of SJSC LATVIJAS PASTS is mainly formed by private persons, legal persons form only 0.1% of the clientele, however some of the services are provided also to occasional clients, therefore the possibility that provided services may be used for the implementation of ML/TF activities and circumvention of sanctions cannot be excluded.

As SJSC LATVIJAS PASTS provides services that are characteristic to payment institutions, risks are mainly related to these services. Consecutively, risks of SJSC Latvijas Pasts shall be assessed similarly as risks of payment institutions. SJSC LATVIJAS PASTS offers cash transfers using "Western Union" and "EuroGiro" transfer systems (the largest amounts of transfers in the report period were transferred to addressees in Russia and Ukraine).

In addition, it shall be noted that starting from 25th of June, 2019, the Ministry of Transport will not be the supervision and control institution of SJSC LATVIJAS PASTS any more. FCMC evaluates the application and documents of SJSC LATVIJAS PASTS to receive a payment institution licence (it is planned that the licence will be issued on 25th of June, 2019 and SJSC LATVIJAS PASTS will be classified as a payment institutions, therefore in the future it will be assessed together with other payment institutions.)

Description of TF risks

Cross-border payments involving countries where international conflicts and hostility are featured might be made through SJSC LATVIJAS PASTS, therefore the level of TF risks of SJSC LATVIJAS PASTS is assessed as medium.

ENCASHMENT SERVICE PROVIDERS

Description of ML risks

The size of encashment service provider sector and its part in the financial sector is rather small because there are only 4 active obliged entities under the AML/CTF Law in Latvia that have been issued with necessary licences. There are efficient and strict control measures for the initiation of activity for encashment service providers which significantly lowers the possibility that criminals or their allies would have the chance to use this service for ML activities.

One of the most significant risk-facilitating factors is the large amount of cash circulation when carrying out encashment activities, therefore there is a possibility to conceal the true cash flow. The nature of provision of encashment services does not exclude the possibility to intentionally accept and transfer proceeds derived from crime, concealing their origin or ownership, as well as to avoid reporting of the existence of such proceeds or indicators causing suspicion.

Description of TF risks

Taking into account the nature of the service, i.e. that the providers of encashment services only transport the funds of other people, the service is not suitable for TF. Therefore, it does not cause a high TF risk and the overall level of TF risks of providers of encashment services is assessed as low.

3.5. CREDITING, INCLUDING FINANCIAL LEASING, IF THE PROVISION OF SERVICE DOES NOT REQUIRE LICENSING

Description of ML risks

Provider of crediting services, including financial leasing, if a licence is not needed for the provision of the services, serves 5 companies on average and the majority of clients are registered in Latvia or in the EU. In this sector, the amount of cash transactions is relatively low. Anonymous use of the product is not possible, however, it is possible to provide the services remotely, including via agents. Client base of crediting service providers is legal persons, often related companies, including companies conducting economic activity abroad, foreign BOs and accounts registered abroad. The most significant ML risks in the sector are in relation with intentional non-registration of obliged entity status under AML/CTF Law, involvement of third parties in the realisation or takeover of fictitious loan commitments, as well as intentional failure to report about suspicious transactions.

Description of TF risks

When assessing TF risk, it is not possible to exclude the possibility that credits are issued in order to finance terrorism, however it shall be assessed as phenomenon in conjunction with circumstances characterising the parties of a transaction, i.e. legal form, jurisdiction, scope of transactions and supporting documents. Connection between creditors and high TF risk jurisdictions has not been identified in the public space, as well as SRS in its inspections has not identified cases when credits are issued to NGOs or legal persons that are incorporated in high TF risk jurisdictions. Therefore the overall level of TF risks in the sector is assessed as low.

3.6. CURRENCY EXCHANGE CAPITAL COMPANIES

Description of ML risks

There are 36 capital companies in the sector of foreign currency exchange and the amount of transactions carried out in Latvia in recent years remains consistent - approximately 300 million euro per year. The percentage of currency exchange capital companies within the overall financial market of Latvia is insignificant.

When carrying out client check, client has the opportunity to withdraw from the transaction, to carry out the transaction in other currency exchange points, by dividing the transaction to avoid client identification. Therefore, a large part of transactions are anonymous occasional transactions with natural persons and the average scope of transaction is 400 euro.

The aim of capital companies to make a profit prevails over the aim to ensure requirements of the AML/CTF Law. Infringements of respective normative acts have been identified, as well as deficiencies in the quality of ICS systems and the efficiency of operation, as well as in the knowledge level of the personnel. Despite the above mentioned, capital companies with the highest amount of transactions have created suitable systems ensuring adequate quality.

Description of TF risks

TF risk in the sector of foreign currency exchange is considered as low. No significant TF risks have been identified in currency exchange sector because *euro* is a widespread currency and therefore it is not necessary to exchange it to other currencies.

3.7. NON-BANK CREDITORS

Description of ML risks

Taking into account the nature of economic activity of non-bank crediting service providers, i.e. provision of crediting services to private persons (mainly Latvian consumers) and legal persons, the sector is exposed to ML/TF risks. Besides, there is no certainty that all capital companies licensed by CRPC, that are obligated to submit information to ER in accordance with the AML/CTF Law, have done it and/or have submitted true information about their BO. In relation to participants of companies (shareholders), verifiable information about participants until natural person is not always available, especially if the participant of a company - legal person - is registered in another country, e.g. Malta, Cyprus. For some companies, based on their previously prepared and analysed amount of transactions in crediting of consumers, the sources of funds that have been channelled to crediting of the commercial/economical activity are incomprehensible.

Consumer crediting service providers have been identified that have issued unsecured loans in big amounts to legal or natural persons for the needs of economical activity, at the same time, large individual transactions in crediting of commercial/economical activities have been identified. Also, a credit is issued to finance the commercial activity but repayment has not been made in the report period or funds for unsecured credit to finance commercial activity have been issued and they have been repaid in full amount within the report period (6 months).

In case of provision of credit card services, ML/TF risk exists if overpayments are made in the credit card account (payment above available credit limit) which later are withdrawn from ATM (worldwide, including high risk countries) or by conducting purchases. The possibility cannot be excluded that the credit card is used by third persons (not the borrower). Besides, funds paid into with a credit card may very quickly be transferred across borders.

Risk is facilitated also by the fact that non-bank creditors lack knowledge of ML/TF issues, resulting in difficulties to identify UTRs and STRs and to report them to the FIU (in 2018, consumer crediting service providers have submitted 3 reports about 12 transactions to the FIU).

Description of TF risks

Taking into account the nature of economic activity of consumer crediting service providers and the people who chose the respective services, and taking into account the low requirements that are imposed for reception of funds, as well as the speed, the TF risk level of the sector is assessed as medium.

3.8. ALTERNATIVE INVESTMENT FUND MANAGERS (AIFM), SAVINGS AND LOAN ASSOCIATIONS (SLA), PRIVATE PENSION FUNDS (PPF), LIFE INSURANCE SERVICE PROVIDERS (LISP)

Description of ML risks

AIFM registered and licensed in Latvia mostly serve clients carrying out their main activity within the Republic of Latvia, and investment funds are closed. AIFM providing services to foreign clients or investing in high risk unregulated assets may be exposed to an increased ML/TF risk however their percentage in the reporting period was insignificant.

The base of SLA is formed by voluntary savings of members - debentures and deposits, later used by SLA to credit members. There are no foreign legal persons in the member base of SLA, and the majority of SLA members are domestic natural persons identified in person. The amounts of accepted deposits and issued credits are usually small, the amounts of cash transactions are minimal.

In Latvia, there are 6 licensed PPF, of which 5 are open pension funds and 1 - closed pension fund. Four of the above mentioned PPF are subsidiaries of credit institutions. There are no foreign legal persons in the customer base of PPF. Financial services provided by PPF are directed towards serving domestic clients - natural persons, the average contribution to supplementary pension capital is small and the period for receiving funds - long. ML risk level may be increased if large contributions are accepted, especially from foreign clients, in a relatively short period from the age limit, without carrying out suitable KYC measures for the identification of the origin of funds and client's activity.

There are 2 insurance companies in Latvia that offer life insurance, and both companies are subsidiaries of Latvian credit institutions, besides 4 branches of life insurance providers of member states have been opened. The majority of client base of life insurance service providers are Latvian residents. Large cash transactions or international transfers are not characteristic for the sector. ML/TF risk level may increase when serving foreign clients and accepting international payments for life insurance for the payment of written gross premium. Also, there is a risk, that insurance policy holder is not the actual beneficial owner, therefore if not applying appropriate KYC measures, the institution may get involved in concealment schemes of ML or corruption.

Description of TF risks

Taking into account the nature of services provided by AIFM, LISP and PPF, no cases have been identified involving Latvian AIFM, LISP or PPF in TF, and their financial services - long-term investment type products - are not easy to use in TF schemes. Furthermore, no cases have been identified in which Latvian SLAs are involved in TF. Taking into account the global nature of TF and little funds necessary for TF, as well as SLA rights to provide payment services besides crediting services, the possibility may increase that SLAs might be used for the movement of necessary funds for TF due to their weaker ICS in the field of ML/TF. TF risk level in the AIFM, PPF, SLA sectors

is assessed as medium low, however taking into account the observations obtained in foreign practice about the use of LISP before carrying out terrorism activities, the TF risk of LISP is assessed as medium.

3.9. ISSUANCE OF GUARANTEES AND OTHER BINDING OBLIGATIONS WHICH CREATE AN OBLIGATION

Description of ML risks

A guarantee is the assuming of obligations, and before assuming, the warrantor's abilities to enter into them are assessed, therefore without creditor's consent they cannot be transferred to a third party. Guarantee service is one of financial services - letter of credit service is provided to the buyer and guarantee insurance or other service, in which one enters into commitment to take responsibility about the person's debt to a specific amount, without exempting the person from it.

If the guarantor is a legal person which assumes obligations - repayment of the credit of another natural or legal person, then it includes ML risk, that proceeds derived from crime are injected. Involvement of third parties in the extinguishment of liabilities cause risks that are related to fictitious loans in which the guarantor is used to create legitimacy to the loan agreement and to divert attention from the actual transfer of funds. Therefore, additional attention shall be paid to the form of loan, security and the origin of funds of the parties.

Although in November 2017, guarantors were identified as obliged entities under the AML/CTF Law, according the definition until 31st of December, 2018, no economic operators has been identified raising suspicion about intentional non-registration of the status as obliged entity under AML/CTF Law.

Description of TF risks

Guarantee service in its nature may be used in fraud or concealed change of ownership, but it requires a relatively long-term involvement in the transaction and it is difficult for the parties of transaction to change the belonging of guarantee subject without traces. Guarantee as a service is more attractive in the money laundering placement phase and is not recognised as efficient TF means because in the case of Latvia there are no internal terrorism threats on the basis of which there would be an interest in a long-term accumulation or placement of funds. Therefore the overall level of TF risk in the sector is assessed as low.

4. ML and TF risks in the non-financial sector

4.1. SERVICE PROVIDERS FOR ESTABLISHING LEGAL ARRANGEMENTS OR LEGAL PERSONS AND ENSURING THEIR OPERATION

Description of ML risks

Assistance in establishment of legal arrangements may be preparation of documents so that the client can register legal person himself or registration of a legal person in the name of the client. Sale of legal arrangements with a commercial character is recognised as assistance in establishing a legal arrangement, regardless of whether the buyer draws up all registration documents himself or the seller of the legal arrangement does it for him. Consecutively, risks related to ML/TF are the establishment of shell companies and complex ownership structures, using different jurisdictions in order to conceal or burden the identification of BO. In addition IT shall be noted that NGOs may also be used for ML or TF. Taking into account that Latvia does not recognise trusts as legal arrangement, there are no risks related to the establishment of trusts in Latvia.

Also the provision of services ensuring operation of legal arrangements have different types. Related risks are the fulfilment of a director's, secretary's or member's obligations of a legal arrangement, as well as the implementation or ensuring of similar obligations, including the use of fictitious directors and fictitious owners in order to conceal BO on the basis of secret agreements. Also the provision of a legal address, postal address, address for the place of transaction, as well as provision of other similar services to legal arrangements may be used for ML/TF purposes, ensuring a fictitious address - an address in which the company is not located. Fulfilment of obligations of a fiduciary in accordance with a direct authorisation or other similar legal document or ensuring when these obligations are fulfilled by another person may cause a risk for the use of services provided by professionals in order to conceal cash flow and to give legitimacy to the transactions as well as their parties, in such way concealing the initial criminal origin of the funds.

In addition it shall be noted that upon occurrence of above-mentioned conditions other obliged entities under the AML/CTF Law such as tax consultants, outsourced accountants, independent legal service providers and real estate agents may be recognised as the respective obliged entities under the AML/CTF Law.

Description of TF risks

After the assessment of TF risks of service providers for establishing legal arrangements and ensuring operation, it shall be noted that TF cases were not identified that would indicate an actual threat for the subjects, however the possibility of its occurrence cannot be excluded. In the assessment of vulnerability factors, TF specificity shall

be taken into account, namely, TF contrary to ML is often carried out in small amount transactions. Taking into account the risks identified in Europe, additional attention shall be paid do the establishment of NGOs which have been used on several occasion in order to collect and transfer funds for TF purposes, as well as for the cooperation with clients from jurisdictions with high terrorism threats. Additionally, attention shall be paid to clients that are related to the turnover of goods of strategic significance and the trade of Middle-Eastern cultural articles. Taking into account the above mentioned, the overall level of TF risk in the sector is assessed as medium low.

4.2. TAX CONSULTANTS

Description of ML risks

When choosing a tax consultant, there is no nationally recognised mechanism for people to determine, whether the tax consultant is reliable and knowledgeable, as well as what are their ethics standards and responsibility mechanism. Taking into account the in-depth knowledge of tax consultants in the legal framework and economics, there is a risk, that the consultations are used for ML, as well as for tax evasion - criminals may use services provided by representatives of the sector to conceal the origin of proceeds derived from crime and/or to launder assets in different ways, e.g. by establishing companies and offshore company structures, by providing fictitious contracts and other transaction documents, annual reports.

ML and TF risks of tax consultants are increased by a critical inability to report or intentional non-reporting on STRs and UTRs to the FIU. Also the fact shall be taken into account that consultations may be given and often are given in a general form, without specifying actual circumstances, involved companies, the scope of services/products. At the same time, there is the possibility to unintentionally use representatives of the sector for ML purposes.

Also, critical is the inability of the supervisory and control institution to fully identify the base of obliged entities under the AML/CTF Law to be supervised because of lacking controls of activity initiation.

Description of TF risks

Taking into account the nature of tax consultant services, they do not create a high TF risk. However, tax or duty evasion draws additional attention from tax administration which is not desirable for structuring of small, seemingly legal payments for a secret objective - TF. There is low probability that tax consultants will be used in order to structure TF with the help of tax payment. Therefore the overall level of TF risk in the sector is assessed as low.

4.3. OUTSOURCED ACCOUNTANTS

Description of ML risks

When choosing an outsourced accountant, there is no nationally recognised mechanism for people to determine, whether the service provider is reliable and knowledgeable, as well as what are their ethics standards and responsibility mechanism. Criminals may use representatives of the sector in order to conceal the origins of proceeds derived from crime and/or to legitimise assets in different ways, e.g. by establishing companies and offshore company structures, by providing fictitious contracts and other transaction documents, annual reports. In the sectoral assessment report period, the inability to report or intentional non-reporting about suspicious/unusual transactions to the FIU was identified. When carrying out on-site supervision measures, it was noted that outsourced accountants create close cooperation with clients which is based on personal contact. Therefore, outsourced accountants have some difficulties to report about their clients' STRs and UTRs, even if they exist.

Risks are created by possible preparation and accounting of fictitious transaction documents. Taking into account the involvement of some outsourced accountants in criminal offences related to ML, there is a risk that the representatives of the sector are not only unintentionally involved in money laundering but that they also intentionally (or unintentionally) carry out actions which help their clients to legalise proceeds derived from crime. Also, critical is the inability of the supervisory and control institution to fully identify the base of obliged entities under the AML/CTF Law to be supervised because of lacking controls of activity initiation.

Description of TF risks

Taking into account the nature of the sector, it can be concluded that this sector is not subject to particularly high TF threats. However, it is important for outsourced accountants to pay attention to clients and transaction from high TF risk jurisdictions, TF risk indicators and the most common ML typologies regarding trade. The overall level of TF risks in the sector is assessed as low.

4.4. INDEPENDENT LEGAL SERVICE PROVIDERS

Description of ML risks

Independent legal service providers may offer and offer clients wide range of services. Legal services may be used both separately by concluding an agreement for legal services and together with accounting and tax consultation services described previously.

The main risks of the sector are caused by intentional structuring of transactions and legal persons in order to conceal cash flow and BO, preparation of fictitious transaction documents (including for tax evasion and creation of legitimacy for criminal activities). Also consultations about ML are possible. Taking into account the knowledge

of professionals in the sector in legal framework and economics, there is a risk, that consultations are intentionally provided or unintentionally used for ML purposes.

At the same time, intentional non-reporting or critical inability to report on STRs and UTRs was identified. Taking into account that rather small amount of reports are received about suspicious transactions in the field of taxes, and no reports are received on STRs and UTRs in the FIU from the respective sector, there is a high risk that some representatives of the industry deliberately chose not to report or might be involved in the planning or support of ML.

The inability of the supervisory and control institution to fully identify the base of obliged entities under the AML/CTF Law to be supervised is critical because of lacking controls of activity initiation.

Description of TF risks

Independent legal service providers may be used to establish legal persons, in order to conceal the change of ownership of funds and to transfer them to TF. Taking into account that NGOs are often used for TF, legal service providers may be used to establish them. In relation to transaction structuring and establishment of shell companies, TF risk indicators of the jurisdiction and the client shall be taken into account. Taking into account the nature of the sector, the overall level of TF risk is assessed as medium low.

4.5. SWORN ADVOCATES

Description of ML risks

Part of services provided by advocates may be attractive to criminals who want to conceal the origin of proceeds derived from crime. There is risk that sworn advocates may be unintentionally involved and/or used in ML, e.g. in the preparation of documents necessary for transactions, establishment of legal structures which allow to conceal the origin of proceeds derived from crime and/ or BO. The possibility that such services are intentionally carried out by unfair professionals cannot be excluded. Also, criminals may use the advantages of sworn advocates' status, by authorising a representative of the profession to act in client's interests, e.g. to purchase real estate. At the same time, sworn advocates may be unintentionally used in fraudulent proceedings (including with the aim to avoid the sworn advocates' obligation to report). In practice, such cases have been identified when the employees of sworn auditor offices provide services of titular holders/management institution members to clients.

Respectively, the attempts of alleged offenders to receive highly qualified legal support from advocates, e.g. in the preparation of documents necessary for transactions, to achieve ML aims shall be recognised as critical; there is risk that advocates may not provide compliance of their activity with the requirements of the AML/CTF Law, in the result of which they may not carry out a suitable client check and identify suspicious transactions.

At the same time, in the reporting period, sworn advocates' inability to report or intentional non-reporting about STRs and UTRs to the FIU was identified. Also, problems with the performance of functions of supervision control implementation were identified, including the fact that lawyers who are obliged entities under the AML/CTF Law under supervision of the SRS are employed in sworn advocates' offices.

Description of TF risks

Sworn advocates may be used to establish legal persons, in order to conceal the change of ownership of funds and to transfer them to TF, similarly as it is in the case of independent legal service providers. Taking into account that NGOs are often used for TF, the assistance of sworn advocates may be used to establish them. In relation to transaction structuring and establishment of shell companies, TF risk indicators of the jurisdiction and the client shall be taken into account. Taking into account the specifics of the sector, the overall level of TF risk is assessed as medium low.

4.6. SWORN NOTARIES

Description of ML risks

Sworn notaries and the services provided by them may be used to certify economically irrational and unjustified transactions, including contracts in transactions that are concluded for a price which obviously does not correspond to the market value (e.g. in cases when cash or funds of unknown origin are paid for real estate), as well as to certify fictitious transactions to create the impression of a justified transaction. There is also the risk that sworn notaries may be used in immovable property fraud schemes or for the certification of fictitious contracts.

At the same time, taking into account the limited supervision possibilities of the people preparing anonymous transaction documents, it shall be concluded that a complete and qualitative supervision of the requirements of AML/CTF Law is not possible without linking the validity of transaction with an obligatory transaction form.

Also, the possibility to unintentionally use representatives of the sector for ML purposes has been observed, due to their vulnerability.

Description of TF risks

TF risks in the respective sector is assessed as low. TF risks are mainly described by a critical lack of information and understanding about TF; client risks which include clients from high-risk third countries, conflict zones, shell

companies and non-profit organisations; suspicious transactions with virtual currency and dual-purpose products (e.g. ships, their equipment). Respectively, the overall level of TF risk in the sector is assessed as low.

4.7. SWORN AUDITORS

Description of ML risks

Sworn auditors, when providing consultations on financial accounting, taxes and commercial activity, or providing practical advice on inventory and transaction consultations, may be used to structure transactions for tax evasion or ML. In addition to the above mentioned, sworn auditors may be used for the preparation of confirmation of transactions that have actually taken place, e.g. product delivery, receipt of services, or for the revision and confirmation of fictitious finance results. Such confirmations are used for example to prove the transaction to SRC. There is a risk that criminals might try to use sworn auditors also for the preparation of confirmations of fictitious transactions.

The lack of knowledge of sworn auditors - the inability to identify STRs and UTRs and to report them - is critical. Also, risks are caused by incomplete recording system of actions carried out as part of the audit services and inappropriate application of normative acts when providing audit services. At the same time, the possibility of unintentional use of representatives of the sector for ML purposes is critical.

Description of TF risks

Revision service is directed towards the audit of historical annual reports and financial reports, not on the inspection of current transaction, therefore audit services are not used in TF schemes. Also, the abilities of sworn auditors to give consultations in the field of taxes is not assessed as a service that may be used for TF purposes. Respectively, the overall level of TF risk in the sector is assessed as low.

4.8. PERSONS ACTING AS AGENTS OR BROKERS IN REAL ESTATE TRANSACTIONS

Description of ML risks

Persons acting as agents or brokers in real estate transactions are obliged entities under the AML/CTF Law when they start their economical activity but other legal and natural persons which are involved in the transactions regarding real estate become obliged entities under the AML/CTF Law if the transaction is made in cash on the amount of 10,000 EUR or more. There are approximately 1600 agents or brokers registered in Latvia participating in real estate transactions.

Main risk factors are related to intentional non-registration of the economical activity and the status of obliged entities under AML/CTF Law, as well as the non-declaration of transactions, non-clarification of the actual owners (actual BOs), involvement of legal persons, in order to conceal actual BOs and to facilitate the transfer of ownership. The non-existence of reports about suspicious transactions indicates deliberate desire of the industry professionals to ignore the indicators of suspicious transactions, as well as the necessity for law enforcement and supervisory institutions to draw additional attention to suspicious transactions with real estate.

Description of TF risks

Real estate is usually used during the placement or integration phase of proceeds derived from crime. Considering the limitations for cash movement in Latvia, the use of real estate in the placement phase is too difficult in order to see it as facilitating or enabling TF, however, in the integration phase, usually legal persons with funds of dubious origins acquired from loans are involved. In addition, it should be noted that real estate is not considered as widespread in the means of TF. It may rather be used as supporting mechanism for radicalised groups. Taking into account that the internal level of terrorism threats in Latvia is low, the overall level of TF risk is assessed as low.

4.9. SALE OF PRECIOUS METALS, PRECIOUS STONES AND THEIR PRODUCTS

Description of ML risks

Requirements for the initiation of sale of precious metals, precious stones and their products is laid down in the legislation. In accordance with the legal framework in the Republic of Latvia, only residents' locations of economic activity for work with precious metals, precious stones and their products are registered.

Main risks are related to the nature of precious metals and precious stones, i.e. the possibility to change their owner without any connection to its initial origin. Therefore, transactions with clients and products that do not correspond to their profile, local specificity or common commercial practice shall be seen as risky.

The low number of reports which the FIU has received from the subjects of this sector (in 2017, FIU did not receive any reports, but in 2018 two reports were received) indicates low level of understanding about ML/TF risks and therefore intentional (or unintentional) non-reporting about unusual or suspicious transactions.

Description of TF risks

Taking into account the overall TF risk level in Latvia, and additional risk in the sale of precious metals and precious stones may cause buying of these products if the acquired funds are further used for TF. In addition, it shall be stressed that TF in other jurisdictions with precious metals is not the most efficient way, because cash is more widely applicable and cashless money is much more efficiently transferable. Therefore the biggest TF risk

in the sector is related to concealing the origin and ownership of funds. Taking into account that it is not possible to foresee further use of funds at the moment of buying precious stones, features of cultural precious metal products and client's characteristics may act as risk indicators. The overall TF risk in the sector is assessed as medium low.

4.10. OPERATORS OF LOTTERY AND GAMBLING

Description of ML risks

Nowadays, the services offered by operators of lottery and gambling start to resemble the services provided by financial institutions, therefore obliged entities under the AML/CTF Law become more attractive to criminals with ML/TF purposes. Some operators of lottery and gambling provide services 24 hours a day with an intense number, speed and amount of transaction, the majority of which are cash transactions - they are an increasingly attractive aim for persons with ML/TF aims. Organisers of lottery and gambling may be used in order to exchange cash (e.g. small denomination against large denomination banknotes) without noticing. The services offered by the respective obliged entities under the AML/CTF Law may be used as cover for ML/TF activities, persons may use products and services for storage and movement of proceeds derived from crime, and in some places it is possible to receive the services remotely. Also, there is the possibility that politically significant persons are not fully identified, therefore causing the risk that proceeds derived from corruption may be laundered using services provided by organisers of lottery and gambling.

Description of TF risks

There is large volume of cash in the sector and it can be used to conceal the origin of funds or to burden discovery of TF. It is important to note that lottery and gambling services may be provided online. The overall TF risk in the respective sector is assessed as medium low.

4.11. EXTRAJUDICIAL DEBT RECOVERY SERVICE PROVIDERS

Description of ML risks

Considering the nature of extrajudicial debt recovery service providers, i.e. the provider of debt recovery services is entitled to recover debt from natural persons (consumers) if it has received specialised permit (license) in accordance with the requirements of normative acts, including also when receiving payments that are further transferred to the creditor, the industry is subjected to risks that are related to ML.

CRPC issues, re-registers, ceases and annuls specialised permits (licences) for the provision of debt recovery services, however risks are caused by the fact that no supervisory and control institution in the field of AML/CTF is laid down in the legal framework for unlicensed debt recovery service providers that recover debts only from legal persons.

The existing regulation is relatively new therefore the representatives of this sector significantly lack knowledge in ML/TF issues, in the result of which there are difficulties to identify UTRs and STRs and to report them to the FIU (none of the licensed debt recovery service providers has submitted a report to the FIU about STRs and UTRs within the last 3 years).

Description of TF risks

Debt recovery service providers recover debts in the name of creditor within the scope of their economical activity; they may also receive payments from debtors which they transfer further to the creditor. Therefore, as the funds are channelled to creditor for the provided but not repaid services to the debtor, the TF risks level of the sector is assessed as low.

4.12. SALE OF VEHICLES

Description of ML risks

In total, the identified size of the sale of vehicles sector is small and its percentage in economic is low, but it is important to note that vehicle sale-purchase transactions are carried out also between private persons, therefore it shall be taken into account that also the sales of unregistered cars exist, which is difficult to identify and therefore there is a possibility to use respective sector to carry out ML/TF activities which is facilitated by the possibilities of cash payment structuring, non-declaration and third party involvement. Taking into account the restrictions of use of cash, the risk of ML when buying an expensive car has reduced but it is still significant.

The identified client base of providers of vehicle sale services mostly consists of Latvian residents, a small percentage are Lithuanian and Estonian operators and private persons, and even less clients outside of the EU. Additional attention shall be paid to a client's profile and the origin of funds in cases when an expensive car is given for sale or changed to another, cheaper car.

Higher risks are caused by car sales to legal persons with indications of shell companies and transaction structuring in order to reduce the amount of taxes to be paid. Main risks are related to intentional use of legal persons in order to conceal origins of funds involved in the transaction and the actual BO of the transaction.

Description of TF risks

Considering the nature of the sector and the specifics of provided services, the probability that vehicle sellers might be used for the concealment of TF or funds intended for TF is low. Therefore the overall TF risk in the sector is assessed as medium low.

4.13. SALE OF OTHER GOODS, AS WELL AS INTERMEDIATION IN RELATED TRANSACTIONS

Description of ML risks

Mostly, this type of activity is not registered as the only type of activity of obliged entities listed under the AML/CTF Law - more often it is registered indirectly through other types of activity, e.g. sale of precious metals, and there is a risk that the type of economical activity is not registered intentionally in order to avoid the status of obliged entity under the AML/CTF Law.

The risks of the industry are increased by the situation when a client of obliged entity under the AML/CTF Law pays for a product or service the amount of 10 000 EUR or more in cash, but the payment for the product or service is made in several smaller payments which does not exceed 10 000 EUR, therefore avoiding the application of requirements for client identification. Such situations are easy to recognise but it is difficult to prove the connection between transactions and clients. Therefore, possible structuring of transactions in order to avoid the necessity to submit cash declaration is identified as one of the main risks. However, in cases when the value of a product or service significantly exceeds 10 000 EUR, the main risk is caused by the reduction of transaction amount by offering to pay the price difference in cash, but the remaining amount - using cashless money. Such transactions are recognised as ML typology in the whole world, therefore each case when a client wants to divide payment, reduce the amount of payment to be paid cashless or offers other types of transaction structuring in which third parties are involved in the transaction payment and cash in the amount up to 7200 EUR shall be assessed critically.

Description of TF risks

The biggest TF threat in the sector is caused by cross-border cash flow which is used to carry out transactions. Taking into account conflict zones, e.g. Syria, Iraq, Afghanistan, also Crimea region etc., additional attention shall be paid to transactions in which countries bordering the respective countries are featured (including transactions of foreign students who come from high-risk countries). Respectively, the TF risk is assessed as medium low.

4.14. INSTITUTIONS THAT PROVIDE CONSULTATIONS FOR CLIENTS ON FINANCIAL ISSUES

Description of ML risks

Taking into account the knowledge of professionals in the sector of financial service providers in normative acts and economics, there is a risk, that they will be used in ML, including unintentionally. It is difficult to identify service providers of the respective sector and there is a possibility that the consultations provided are used for tax evasion. Often consultations are given in a general form, without specifying actual circumstances, involved companies, the scope of services/products. For example, secret agreements are concluded with other subjects of the sector, structures and intermediaries which enable ML are created, fictitious contracts and transaction documents are issued, there is practically no control for initiation of operation.

Complex transactions are often used to conceal the origin of funds or change of ownership. The offering of such services or products that are difficult to trace cause an additional risk, unless these actions have an evident economic benefit. A high initial risk have also new, innovative financial services, because they do not always fulfil necessary requirements for the prevention of ML.

Persons that cooperate with non-residents, companies registered in low tax countries, clients with a high percentage of cash transaction or bank accounts registered in different jurisdictions, companies with a complex owner structure or societies have higher risk. A significant risk in the operation of financial consultation service providers is caused by the possibility to provide services to anonymous clients, as well as the possibility to provide services remotely.

In the respective sector, among registered subjects under the supervision of SRC are only 34 legal persons and 6 natural persons engaged in the economic activity, consecutively the number of subjects is relatively low. Also, critical is the inability of the supervisory institution to fully identify the base of obliged entities under the AML/CTF Law to be supervised because of lacking controls of activity initiation.

Description of TF risks

It is important to note that in this sector there is a risk that financial consultations may be used in order to help structure transactions and conceal BO and/or fund receivers in order to carry out TF related activities, however, taking into account the overall Latvian level of TF risk and the relatively low internal radicalisation risk, the overall TF risk in the sector is assessed as low.

4.15. PERSONS INVOLVED IN THE MOVEMENT OF ART AND ANTIQUE ARTICLES

Description of ML risks

Transactions with state-protected cultural monuments which are recognised as cultural value for the society as a whole and are included in the list of state-protected cultural monuments, are supervised and controlled by the National Cultural Heritage Administration.

Although such transactions are supervised and managed in accordance with the procedure laid down in the legal framework, there is the risk that ML/TF activities are carried out in transactions with cultural monuments included in the list of state-protected cultural monuments. A particularly high ML/TF risk is in transactions which are made in cash, in such way laundering money, as well as if the transaction value does not correspond to the average market value (there is a risk that the value of the property is gradually increased and that both the initial and end owner are interconnected), or the client or its BO is related to an increased risk jurisdiction or is a NGO. There is a possibility that transactions with immovable cultural monuments are carried out with the aim to get funds for terrorism activities or proliferation.

Description of TF risks

Movement of art and antique articles is related to countries with the highest threat level, current conflict zones, e.g. Syria, Iraq, Afghanistan, also Crimea region, etc. Sale of antiques takes place in online shopping sites (including illegal). Also, it is important to note that art dealers that are involved in transactions as intermediaries, do not have their own ICS in order to check the origin of the articles. The TF risk in the sector is assessed as medium low.

5. Proliferation and PF risks

The first Latvian “National Terrorism Financing and Proliferation Financing Risk Assessment Report 2017 – 2018” was concluded in 2019, which provides an informative summary and analysis of TF and PF threats in Latvia, vulnerability and resulting risks.

The Latvian national PF threats and threats of circumventing aimed financial sanctions, and vulnerability, and therefore the overall PF risk in the report is assessed as medium high.

The most significant national threats are caused by:

1. Geographic location of Latvia because it is located on the transit road from east to west and is the external border of the EU. A probability exists that goods of strategic significance may be transported in transit through Latvia to the countries of terrorism risk or to the countries against which sanctions have been imposed.
2. PF might be exercised by persons or organisations that are not included in the lists of sanctions when conducting transactions on behalf of another person which is included in the list of sanctions.

The most significant national vulnerability is caused by:

1. Insufficient knowledge of financial sector and poor knowledge of the private sector in the area of PF and enforcement of targeted financial sanctions.
2. Insufficient CDD and supervision of transactions creates a possibility that PF may be concealed under complex transactions and complex structures of owners.
3. Opening of accounts of the Latvian capital companies abroad without registering these with the SRS create precedents when Latvian capital companies might be used for conducting fictitious transactions, including their use in activities of PF and circumvention of sanctions.

Identified national PF risks and risks of aimed circumventing of financial sanctions are the following:

1. A risk that Latvia may be used as a transit country for delivery of goods of strategic significance to countries against which sanctions have been imposed, countries with terrorism risk or terrorist groups.
2. Use of the Latvian financial system for making suspicious transfers as a stage of complex transaction chains for circumvention of the international sanctions.

6. List of abbreviations

AIFM	Managers of alternative investment funds
AML/CTF	Anti-Money Laundering/Combating the Financing of Terrorism
AML/CTF Law	Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing of the Republic of Latvia
BO	Beneficial owner
CDD	Customer due diligence
CIS	Commonwealth of Independent States
CRPC	Consumer Rights Protection Centre
EMI	Electronic money institution(s)
ER	Enterprise register
EU	European Union
FCMC	Financial and Capital Market Commission
FIU	Financial Intelligence Unit of Latvia
IBSP	Investment banking service providers
ICS	Internal control system
IF	Investment firms
IMC	Investment management companies
KYC	Know Your Customer
LISP	Life insurance service providers
ML	Money laundering
NGOs	Non-governmental organisations
PF	Proliferation financing
PI	Payment institution(s)
PPF	Private pension funds
Report	Sectoral Money Laundering and Terrorist Financing Risk Assessment Report (2017-2018)
SJSC	State joint-stock company
SLA	Savings and loan associations
SRS	State Revenue Service
STRs	Suspicious transaction reports
TF	Terrorism financing
UTRs	Unusual transaction reports