



Financial Intelligence Unit

# Financial Integrity Newsletter

Issue 1, 2023



## FOREWORD

By Arvils Ašeradens,  
Minister of Finance

Latvia recently concluded major financial sector reforms, resulting in one of the best economic and financial crime oversight practices in the European Union.

International organisations and partners alike have praised the ability of Latvia to identify, prevent, and combat illicit finance. This is directly tied to the strong collaboration between Latvia's public - and private - institutions.

Together law enforcement agencies, supervisors, the Financial Intelligence Unit, and anti-money laundering obliged entities have mobilized a tremendous effort to stay ahead of the ever-evolving threat landscape. Latvia has one of the strongest public-private partnership frameworks in the world, and it continues to innovate in many other areas, including cross-institutional collaboration and information exchange.

Yet, there is no time to rest on laurels. This February the Latvian government decided to voluntarily apply to be one of the first countries for Moneyval to evaluate in the next round. Much preparation remains to ensure that our achievements and ongoing efforts are properly communicated during the evaluation process.

This newsletter is, thus, an important part of transparently communicating how Latvia is developing its anti-money laundering and terrorist financing prevention systems and making sure that we remain a trustworthy international business partner.

Read an interview about Latvia's three strategic pillars for the financial sector.

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## SAVE THE DATE

### FIU CONFERENCE ON CRYPTO ASSETS

The FIU Latvia is organising an international conference on Crypto Assets in Riga, Latvia, on the May 18, 2023. The conference will explore the variety of approaches presented globally towards crypto asset regulation and policy. Representatives from numerous jurisdictions will share their experience in developing crypto related national policies. Furthermore, a significant focus will also be placed on the development of the MiCA Regulation by the EU.



In addition to the policy framework, the conference will examine the supervision of crypto asset service providers (CASP) by looking at the best practices and lessons learned from countries all over the world. In order to establish an open discussion, the perspective of the private sector will be included throughout all of our discussions by incorporating the point of view of CASPs, banks and other private sector representatives.

## PAST EVENTS

### FROM GREY TO GREEN: THE SUCCESS STORY OF LATVIA

April 27, 2023, Riga, Latvia

The event, organized by the Finance Latvia Association, brought together prominent opinion leaders and professionals in the financial industry, who shared their experiences and best practices regarding the importance of money laundering prevention and applying sanctions to achieve sustainability goals.

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A number of experts repeatedly acknowledged during the conference that anti-money laundering and sustainability goals had many similarities, and strong policies in one area could significantly contribute to the other. Latvia has done a great job to get from [almost] the grey list to the green list, said Sébastien de Brouwer, Chief Policy Officer at the European Banking Federation.

## IN THE SPOTLIGHT: SANCTIONS

Over the past year, the FIU Latvia has grown its expertise regarding attempts to evade international or national sanctions. This work has exposed various methods used to evade sanctions, including the involvement of countries that have not implemented sanctions against Russia in transaction schemes. To better combat circumvention of sanctions, the FIU established a working group in 2022, comprised of experts from both the public and private sectors. The group aims to establish a unified approach to sanctions, with members working proactively to stay ahead of sanction evaders.

Latvia and other EU member states have remained steadfast in their support for Ukraine and their strong condemnation of Russia's military aggression. The EU has imposed numerous rounds of sanctions, which have been implemented strictly and with unprecedented force. The scale of this process has necessitated a swift reaction from Latvia's international and national sanction system.

In response, FIU Latvia has made the prevention of sanction evasion one of its top priorities. The FIU has developed deep expertise in counter-evasion methods for national and international sanctions. The complexity of the sanction regime has prompted them to form a permanent working group that includes experts from the public and private sector. The group aims to ensure a unified approach towards the sanctions by regularly monitoring and proactively thinking about various aspects and trends in the sanction process.



Sanction enforcement collaboration is also growing at an international level. The FIU is an active member of the Russia-Related Illicit Finance and Sanctions (RRIFS) working group, which exchanges information about the sanctions against Russia. It is also a member of the Europol Financial Intelligence Public-Private Partnership (EFIPPP), which comprises leading financial institutions, financial intelligence units, and law enforcement institutions from EU member states.

The FIU's website provides trustworthy information about people who are subject to sanctions, ensuring that the list is regularly updated and immediately distributed among the relevant institutions.

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## Bank of Latvia Research: the Sanctions Regime One Year After the Russian Invasion of Ukraine

More than a year has passed since the Russian invasion of Ukraine. In this article, experts from the Bank of Latvia analyzed the impact of Russia's invasion of Ukraine and the sanction regime on Latvia's economy. The findings suggest that the war has halved economic growth and led to the highest inflation in decades.

The war was also responsible for the surge in energy prices and a decreased attractiveness of the region in the eyes of investors.

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## GETTING AHEAD OF VIRTUAL ASSET CHALLENGES

The European Parliament has given its final green light to new common rules on the supervision, consumer protection and environmental safeguards of crypto-assets, including crypto-currencies (MiCA – Markets in Crypto Assets). With MiCA, a uniform regulation and licensing system for crypto-asset service providers will be established across the European Union.

In order to ensure the application of the MiCA regulation in Latvia, the Ministry of Finance is currently developing a regulatory framework, determining the national competent authority for the supervision of virtual asset service providers, its powers and the licensing procedure for these service providers.



The draft legislation will be developed and submitted to the Cabinet of Ministers by August 1, 2023.

## PUBLIC SECTOR MERGER LEADS TO EFFICIENCY GAINS

The Latvian Financial and Capital Markets Commission (FCMC) has integrated with the Bank of Latvia (LB) since January, 2023, pursuant to a law approved in parliament at the end of 2022. This legislation enables the LB to take on all responsibilities concerning the oversight and development of the finance and capital markets, becoming the main regulatory institution. This merger has led to the consolidation of competence, infrastructure, and capacity, enabling a more coordinated development of the financial sector. By jointly defining and implementing the LB's strategic priorities, the newly unified team ensures more effective work during upheavals or crisis situations. Additionally, the merger optimizes the use of resources, such as IT, venues, and workforce, and reduces operational costs in the medium term.

Since January 1, 2023, the new law on the Bank of Latvia has replaced the previous law on the Bank of Latvia and the law on the FCMC. Nonetheless, the FCMC rules on financial market participants remain in full force. To ensure the separation of functions, the new law on the Bank of Latvia emphasizes the strict delimitation of monetary policy and financial market oversight.



## LATVIA'S AMLA APPLICATION

Latvia is a contender for the new European Union agency to combat money laundering and financing of terrorism (AMLA). Among the advantages are secure and modern environment in Riga, success in implementation of fundamental reforms to financial sector oversight and high-quality workforce experienced in identifying and preventing crimes.

Latvia has also an innovative local financial ecosystem with an AML Innovation Hub and regulatory sandbox, among other advantages that the country can offer in supporting the EU's efforts in this critical area. With these credentials, Latvia is well-positioned to provide powerful support to the EU in implementing best practices in financial sector oversight and operations.

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## A BURGEONING CAPITAL MARKET



On February 8, 2023 the Latvian Capital Market Forum 2023 "Growth Loves Those Who Dare" organised by Latvijas Banka took place. The aim of the forum – to promote expert discussions and institutional cooperation in order to develop Latvia's capital market and maximise its potential.

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Latvia's efforts to develop its capital market are paying off, as the inflow of local and foreign investments allows businesses to attract financial opportunities while giving investors a chance to invest in the country's economic development. The launch of an IPO fund will provide support to companies that are launching their shares for the first time, enabling local residents to become investors and, in the long term, shareholders in relevant companies. By dividing companies into three groups based on their source of revenues, Latvia aims to incentivize large companies to include goals related to research and development or innovative solutions into their corporate strategies, while also exploring ways to simplify tax calculations and encourage people to participate in the capital market.

# PROJECT "FIDR" THE NEXT LEVEL IN REDUCING INTERNATIONAL CRIME

Latvia's State Police has taken the lead on an exciting project known as "Project FIDR" aimed at strengthening operative cooperation across Europe and the United States to combat drug trafficking, money laundering, and other illegal activities. This ambitious project involves most European countries and law enforcement institutions in the United States.

Using modern technological equipment procured as part of the project, Latvian law enforcement institutions engaged in several important international operations during the latter half of 2022.

**These operations led to the arrest of approximately 100 individuals suspected of involvement in a fraudulent scheme simultaneously in Latvia and Lithuania, showcasing the project's early success.**



"Project FIDR" emerged from a collaboration program known as the "Domestic Security Fund," which ran from 2014 until 2020 and represented a partnership between the State Police and a grant provided by the European Commission. The project itself will continue for three years until 2024, with an anticipated budget of nearly EUR 650,000.

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# THE US TREASURY RECOGNISES LATVIA'S SUSTAINED EFFORTS TO PREVENT MONEY LAUNDERING AND FINANCING OF TERRORISM

On April 14, 2023 the Minister for Finance, Arvils Ašeradens, and officials from the US Treasury discussed the consequences of the Russian war in Ukraine on the global economy, the crisis in the energy and food sectors and the impact on the Latvian economy during the Spring Meetings of the World Bank Group (WBG) and International Monetary Fund (IMF) Trustees. They also discussed the implementation of international sanctions and current events in the financial sector.

The US Treasury officials recognised Latvia's commitment and the progress made so far in preventing money laundering and financing of terrorism (AML/CFT). It was also acknowledged that Latvia has improved its national capacity and capability to detect and prevent the circumvention of sanctions and illegal financial activities.

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## HOW HAS RUSSIA'S INVASION OF UKRAINE AFFECTED LATVIA'S ECONOMY?

On February 24, 2022 Russia began its unjustifiable invasion of Ukraine, triggering one of the bloodiest conflicts in Europe since World War II.

Although the end of the war is still out of sight, it is already clear that the geopolitical situation in the world has changed with all the resulting implications, including the economic ones. Therefore, the time is ripe to look back and try to answer the question: what are the costs incurred by the Latvian economy from Russia's invasion of Ukraine?

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## LATVIA SUCCESSFUL IN COMBATING THE BRIBERY OF FOREIGN PUBLIC OFFICIALS

Latvia is the only European Union (EU) Member State to have improved its performance in combating bribery of foreign public officials, according to Transparency International's report Exporting Corruption 2022. The successful pre-trial investigations carried out by the Corruption Prevention and Combating Bureau of Latvia (KNAB) and the measures taken by Latvia to improve this area have been welcomed and placed on a par with the United Kingdom, Germany, France and Norway.

Transparency International's report notes that although Latvia comprise small share of global exports, it is a relatively recent member of the Organisation for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, so "this progress is encouraging".

The Organisation welcomes the measures taken by KNAB to take a proactive approach to combating bribery of foreign public officials, as well as the improved inter-institutional cooperation with the Financial Intelligence Unit in combating bribery of foreign public officials and money laundering. The Organisation calls for further progress and encourages Latvia to improve the legal framework and provide the competent institutions with the necessary resources.



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## THE ANTI-MONEY LAUNDERING INNOVATION HUB

Financial crime is becoming increasingly complex, and the stakes are only growing. To get ahead of criminals, Latvia's FIU established the **Anti-Money Laundering Innovation Hub (AMLIH)** in early 2022. AMLIH is a permanent initiative that facilitates innovation of FIU processes and products for stronger financial crime detection, prevention, and combating. The initiative sets in place an institutional framework for innovation that propels new approaches to challenges from the idea phase to execution. It is also a channel to actively grow cooperation with other local and international partners from the public, private, and academic sectors. By the first quarter of 2023, AMLIH has launched and finalized several projects:

- An “emerging threats” strategic report was issued on the typologies of non-fungible tokens (NFTs). The report found that NFTs may be susceptible to money laundering risks through exposure to vulnerabilities similar to those of virtual assets and the art market.

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- An “emerging threats” strategic report was issued on the money-laundering risks of central bank digital currencies (CBDC) in the European Union. Focusing on the conceptual digital euro, the CBDC study identifies a variety of vulnerabilities and opportunities, especially tied to the “programmability” of the digital euro.

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- A toolkit for the creation of international financial intelligence taskforces (IFIT) was developed. The taskforce sets out the bases and considerations that FIUs should take into account when planning to establish tactical and operational cooperation with other FIUs. The toolkit draws on FIU Latvia's experience in running an IFIT with 25 different participant FIUs. The IFIT toolkit was disseminated to EGMONT and other FIU partners.
- In late 2022, the FIU launched its **Operational Center (OpCen)**. OpCen premises are located within FIU Latvia that are equipped specifically to ensure the possibility for FIU analysts to collaborate on-site with partners from law enforcement or other institutions. OpCen has been utilized for multiple investigations to ensure safe, efficient, and accessible transfer of information. Currently, cross-institutional discussions are considering establishing more permanent liaison placements in OpCen.

## What is AMLIH working on next?

AMLIH is constantly exploring new venues of innovation and opportunities for collaboration. If you are interested in working with AMLIH, do not hesitate to reach out to [amlih@fid.gov.lv](mailto:amlih@fid.gov.lv).



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