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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
WORKING GROUP ON BRIBERY IN INTERNATIONAL BUSINESS TRANSACTIONS**

Cancels & replaces the same document of 19 September 2018

Phase 2 follow-up: additional written report by Latvia

Paris, 9-11 October 2018

JT03438954

Phase 2 follow-up: additional written report by Latvia

Instructions

In October 2017, the Working Group on Bribery decided to ask Latvia to provide a written report in October 2018 on its implementation of Phase 2 Recommendations 3(a)-(b), 8(c)-(e), 10(a), 13(a)-(b) and on all foreign bribery enforcement actions. This document sets out a template for Latvia to provide the written report.

As required under the Working Group Procedure, please submit the completed answers to the Secretariat on or before **11 September 2018**.

Name of country: **Latvia**
Date of approval of Phase 3 evaluation report: **14 October 2015**
Date of information: **19 September 2018**

Recommendations for ensuring effective investigation, prosecution and sanctioning of foreign bribery

Text of recommendation 3(a):

3. Regarding whistleblowing, the Working Group recommends that Latvia:

(a) ensure that appropriate measures are in place to protect from discriminatory or disciplinary action public and private sector employees who report in good faith and on reasonable grounds to the competent authorities suspected acts of foreign bribery (2009 Recommendation III and IX(iii));

Action taken as of the date of the follow-up report to implement this recommendation:

On 7 March 2017, the draft law “Whistleblowers Protection Law” was adopted by the Cabinet of Ministers. The draft was developed by the working group established in 2014 and led by the State Chancellery.

On 8 March 2017, the draft law “Whistleblowers Protection Law” was sent by the Cabinet of Ministers to the Saeima (the Parliament), where it was registered with N° 851/Lp12. On 16 March 2017, the Saeima appointed one of its standing committees – Public Administration and Local Government Committee – as responsible committee for this draft law and handed the draft law to it.

On 9 October 2017, the Saeima together with the State Chancellery, the Corruption Prevention and Combating Bureau (KNAB) and the Latvian School of Public Administration organised an international conference “Effective whistleblowing and whistleblower protection”. Among the speakers of the conference were representatives of responsible authorities in Latvia, the United States of America, the Netherlands, France and Ireland, as well as a speaker from the OECD Anti-Corruption Division. The conference gave an impetus to start looking into the draft law by the Saeima. Furthermore, the conference gave ideas how to improve the envisaged regulation, by including additional whistleblower protection provisions, such as protection of relatives or state legal aid.

The Public Administration and Local Government Committee conveyed its first meeting about the draft law “Whistleblowers Protection Law” on 6 December 2017, where it was decided not to submit the draft law “Whistleblowers Protection Law” to the first reading, but to create a working group, which will develop an alternative draft law of the Committee.

The Committee’s working group was led by MP Astrida Harju and involved the State Chancellery, the Ministry of Justice, TI Latvia, Employers’ Confederation of Latvia, Free Trade Union Confederation of Latvia, Foreign Investors Council of Latvia, Latvian Association of Local and Regional Governments, as well as the Legal Department of the Saeima. The Committee’s working group elaborated an alternative draft law “Whistleblowing Law”, as well as its annotation. The Committee approved this alternative draft law and, on 10 May 2018, submitted it to the Saeima for the first reading (it was registered with N° 1253/Lp12).

On 17 May 2018, the draft law “Whistleblowing Law” was approved by the Saeima in the first reading

(votes: for – 67, against - 0, decided to abstain - 2).

Further, all together 66 proposals were made about the draft law “Whistleblowing Law” in view of second reading. These proposals were reviewed by the Committee’s working group in August.

On 4 September 2018, the Committee met and all the proposals were reviewed by the Committee as well. These proposals supplemented by the Committee’s working groups and Committee’s own opinions about each of them can now be submitted to the Saeima for to the second reading.

In is envisaged that the second reading takes place on 20 September 2018 and also the last, third reading could take place before the new Saeima is conveyed (elections of the Saeima will take place on 6 October 2018).

The draft law “Whistleblowing Law” includes measures to protect public and private sector employees who report on reasonable grounds corruption to the competent authorities from disciplinary or other punishment or taking any other direct or indirect reprisal (causing adverse consequences). The protection measures include: protection of the identify (confidentiality), prohibition of retaliation (prohibition to cause adverse consequences), exemption from payment of expenses for trial, including State fees, interim relief in administrative and civil proceedings, immunity from legal responsibility, adequate compensation for damages, personal harm, including moral harm, advice for whistleblowers suffering due to having made a disclosure.

On 4 September 2018, the Cabinet of Ministers adopted the draft law “Amendments to the Law On Prevention of Conflict of Interest in Activities of Public Officials”, which is now submitted to the Saeima. This draft law includes following two new provisions. First, the duty of public officials to inform about possible corruption cases, including cases of bribery of foreign public officials, the head of their public institution or KNAB (for officials working in security institutions: the head of public institution, KNAB or Prosecutor General). Second, the duty of head of public institution to immediately inform KNAB in cases information is received from the employees about possible corruption cases, including cases of bribery of foreign public official (or in the above mentioned cases the Prosecutor General).

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 3(b):

3. Regarding whistleblowing, the Working Group recommends that Latvia:

(b) take steps to encourage whistleblowing, including by conveying the importance of bona fide whistleblowing as a component of public and private integrity systems, raising awareness of the protections available to private sector whistleblowers, and ensuring that easily accessible channels are available for whistleblowers (2009 Recommendation III, IX(i) and (iii)).

Action taken as of the date of the follow-up report to implement this recommendation:

On 9 October 2017, the Saeima together with the State Chancellery, the Corruption Prevention and Combating Bureau and the Latvian School of Public Administration organised an international conference “Effective whistleblowing and whistleblower protection”. The conference promoted an exchange of experience and good practice on whistleblowing and whistleblower protection, including international standards for efficient whistleblower protection. Among the speakers of the conference were representatives of responsible authorities in Latvia, the United States of America, the Netherlands, France and Ireland, as well as a speaker from the OECD Anti-Corruption Division. The conference helped to raise awareness about whistleblowing and importance of whistleblower protection. The conference was attended by key public bodies, civil society, private sector and academia. There was a live coverage of it and both the live coverage and conference report are available online at <http://www.mk.gov.lv/lv/content/trauksmes-celeji> (only in Latvian).

The importance of bona fide whistleblowing – it is an important topic included in professional development courses provided by the Latvian School of Public Administration. In 2016-2022, the Latvian School of Public Administration is carrying out the EU-funded project "State administration human resource professional capacity building to reduce corruption and combat shadow economy" or the so-called C project (C from “corruption”). A significant goal of this project is to train public officials involved in preventing and combating corruption. KNAB, the Prosecution Office, the State Police, Internal Security Bureau, FCMC, Competition Council, all line ministries and many other responsible public bodies take part in trainings under this project.

For example, in 2018, two training courses include topics related to whistleblowing:

“Public sector work and the rule of law”. Time frame: April – October 2018. Number of attendees: 199. Training topics concerning whistleblowing: procedure for reporting possible wrongdoings, including corruption or criminal offences, protection of confidentiality, possible forms of retaliation.

“Internal control measures in public institutions to prevent corruption”. Time frame: September 2018 – April 2019. Envisaged number of attendees: ~200. Training topics concerning whistleblowing: creating internal control system that is aimed at preventing corruption; determining activities to prevent corruption internally in the institution; internal rules and guidelines for reporting possible wrongdoings; protection of whistleblowers; effective internal communication about corruption risks.

In 2017 and 2018, whistleblowing was a topic discussed in the conversation festival LAMPA, a widely attended annual event bringing together the general public, private and public sectors and including discussions about topics of relevance to the society. At the festival in 2018 both the State Chancellery and TI Latvia participated and both organised also special events on whistleblowing, including the draft law and with participation of responsible MPs.

On 17.10.2017. Regulations of Cabinet of Ministers No.630 defining basic requirements for internal control measures concerning prevention of conflict of interest and corruption were adopted. These regulations foresee to perform detection of risks, analysis and prevention of corruption, stressing particular importance of awareness-raising in this area

and most importantly – stipulating an obligation to ensure safe channels to report corruption cases, including bribery.

In 2016, 2017 and 2018 within seminars, trainings and social activities KNAB constantly educated different groups of society and encouraged them to report on corruption offences. In 2016 KNAB held 115 such seminars for 6 424 participants, in 2017 – 118 seminars for 5 307 participants and in the first half of 2018 – 68 seminars for 3 558 participants. For private sector employees KNAB held 8 seminars in 2016, 14 seminars in 2017 and 7 seminars in the first half of 2018.

KNAB has ensured several easily accessible channels for whistleblowers to report on corruption offences. Person can report in writing, personally, by e-mail, by mobile application or via telephone hotline. Anonymous reports also are accepted and evaluated by employees of KNAB.

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 8(c):

8. With regards to money laundering, the Working Group recommends that Latvia:

(c) enhance the detection of money laundering by (i) ensuring that the FIU has sufficient resources to analyse all STRs and UTRs and forward information related to foreign bribery to KNAB, and (ii) providing additional guidance, typologies and training to regulated entities that specifically address the reporting of money laundering related to corruption and foreign bribery, especially money laundering by non-resident bank clients (Convention Article 7; 2009 Recommendation III(i));

*Action taken as of the date of the follow-up report to implement this recommendation:*Providing the FIU with sufficient resources

In 2017 the capacity of the FIU has been increased by five staff positions: one security specialist and four analysts. On 27.04.2017 Latvian National Money Laundering and Terrorism Financing Risk Assessment Report was finalized (available at <http://kd.gov.lv/index.php/en/useful/national-risk-assessment>) and based on this report the Plan of Measures for Mitigation of the Money Laundering and Terrorism Financing Risks for 2017 - 2019 (the Cabinet of Ministers Order Nr.246, dated 24.05.2017) was developed and agreed upon. In accordance with Section 4.4. of this plan the capacity of the FIU was foreseen to be built by an additional 2 staff positions. Consequently, the capacity of the FIU has been increased by two additional analysts in 2018. Thus, currently the total number of staff positions at the FIU is 38.

Pursuant to the protocol decision of the Cabinet of Ministers session of 08.05.2018 (protocol Nr.23 30.§) with the order of the Cabinet of Ministers Nr.260, dated 11.06.2018 a working group for the change of model of supervision of the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity (FIU) was established. The working group developed a number of proposals including a proposal during the reorganization to increase the staff of the FIU by 16 staff positions already starting from 2019.

Increasing the effectiveness of reporting and information exchange

The Amendments to the Regulations of the Cabinet of Ministers No 1071 (adopted on 22.12.2008) on the list of unusual transaction indications and the procedures for submitting reports on unusual or suspicious transactions were adopted on 06.12.2016. The amendments established a specific feature for reporting on the information from the mass media on possible corruptive activities related to AML.

Amendments to the Cabinet of Ministers Regulation Nr.1071 Regulations Regarding the List of Unusual Transaction Indicators and the Procedures for Submitting Reports on Unusual or Suspicious Transactions adopted on 06.12.2016 added a new indicator 8.2.5. pursuant to which in relation to credit institutions a transaction shall be deemed an unusual transaction if the credit institution within the scope of the customer due diligence has established publicly accessible information of negative nature which attests to a potential relation to proceeds of crime or their laundering or to terrorism or financing thereof regarding a customer or the beneficial owner of the customer and their transaction performed. Indicator 8.2.5. came into force on 01.01.2017; however, already on 29.11.2016 the FIU prepared guidelines Nr.3-8/2031 providing explanations on how this indicator shall be applied and distributed the guidelines in order to ensure unified understanding of the indicator.

During 2016-2017 a comprehensive review of the Cabinet of Ministers Regulation Nr.1071 on the list of unusual transactions and procedure for the unusual and suspicious transactions reporting was carried out in order to enhance effectiveness of the reporting system and to revise the reporting criteria for all subjects of the Regulation. The above-mentioned Regulation has been revised and a new reporting system has been introduced.

The new reporting system consists of two parts: 1) unusual transaction reporting and 2) suspicious transaction reporting. Unusual transaction reporting means mandatory reporting

on all the transactions the indicators of which are exhaustively listed in a relevant normative act.

Suspicious transaction reporting means voluntary reporting on transactions the indicators of which in accordance with international requirements are not listed in any normative acts and thus the range of such indicators is not exhaustive, and therefore, the efficiency of reporting depends on the subject of the Law's ability to identify a suspicious transaction and the quality of its evaluation procedure.

Changes to the reporting system provide for updating the list of unusual transaction indicators including reducing reporting thresholds thus increasing the volume of information in the FIU's database. Therefore, promptly available information will be at the disposal of the FIU which under the circumstances when the speed at which financial funds flow has greatly increased, will be readily available to facilitate activities for prevention and combating of laundering of proceeds derived from criminal activity and terrorism financing (such as providing immediate replies to requests received from law enforcement authorities and other country FIUs, freezing of funds derived from criminal activity etc.).

Not only the amount of provided information but also the speed of information exchange with LEAs and international partners is important. It will increase by application of the nationally developed tool being functionally equivalent to the FIU.net's tool Ma3tch which will provide LEAs with a possibility to check in online mode in a short period of time whether any information on the subject person is available in the database of the FIU, and in case of a match LEAs pursuant to the Law will be able to immediately request the information necessary. The technical developing of the mentioned national tool is completed and information exchange procedures are being prepared. The tool is planned to be operational in December 2018.

Additionally, the amendments have been made to the Section 56 in the Law on the Prevention of Money Laundering and Terrorism Financing speeding up the information exchange between FIU and LEAs. According the new wording of the law now the FIU receives requests for information directly from LEAs without sanction of prosecutor.

Furthermore, the changes to the reporting system contain a requirement for direct or indirect linking of suspicious transactions with a criminal activity; thus, encouraging the subject of the Law to perform the initial analysis and forward to the FIU information of high quality requiring less resources of the FIU. Therefore, the efficiency of suspicious transactions is expected to improve (smaller number of reports without reasonable information). Examples of typologies of suspicious transactions include the following: criminal activity with the involvement of a politically exposed person, criminal activity executed while performing the duties of a state official of the Republic of Latvia, corruptive activities, etc.

The new Cabinet of Ministers Regulation Nr.674 Regulations Regarding the List of Unusual Transaction Indicators and the Procedures for Submitting Reports on Unusual or Suspicious Transactions were adopted on 14.11.2017 and came into force on 01.05.2018.

The FIU in 2017 along with development of the regulations prepared also guidelines that help subjects of the Law pursuant to the requirements of these regulations perform independent evaluation of suspicion and report suspicious transactions established as a result of the analysis. In the mentioned guidelines each typology of suspicion is described and characterized, the specific indicators pointing to it are enumerated along with steps to

be taken when verifying the context of a transaction or a person, as well as the most significant factors to be considered during the evaluation process are provided.

Along with coming into force of the Cabinet of Ministers Regulation Nr.674, dated 14.11.2017 FIU Latvia has switched to receiving reports only in electronic format. For this purpose a new web application has been developed with the website address zinojumi.kd.gov.lv where subjects of the Law can submit their reports at a time and place that is most convenient for them in either Latvian or English. Furthermore, for the convenience of the reporters the application allows submitting a report in two possible ways - by completing an online questionnaire or by uploading an XML file that has been prepared in advance. Electronic reporting has considerably decreased the number of technical and logical errors made in the reports which consequently shortens the time needed for further processing of the report and allows for analytical activities to be initiated immediately. The same Web application ensures also a secure, encrypted channel for sending requests to subjects of the Law and receiving replies from them. This innovation allows for receiving additional information without delay and include it in a case material to be sent to a LEA.

Already before the Regulation was adopted the guidelines were disseminated to all supervisory and control institutions with a request to share them with their respective subjects of the Law (letter Nr.1 10/287, dated 18.09.2017). On 28.05.2018 the FIU organized a training regarding practical application of the mentioned Regulation for the employees of the Financial and Capital Market Commission (FCMC) – the supervisory institution of the largest sector in Latvia – the financial sector. The training was organized for the employees of the FCMC who prepare reports to the FIU. In addition to the above-mentioned the subjects of the Law are regularly on a daily basis consulted via telephone or face-to-face contact concerning both the technical and methodological application of the Regulation.

The new Regulation came into force on 01.05.2018, and at this moment the first conclusions can be drawn concerning the directions in which analytical software should be continued to be developed in order to continue diminishing the amount of the necessary manual labor. For this purpose for the budget request for 2019 an additional 200 000 EUR have been included specifically for development of the software. Purchasing of completely new software in the coming years is currently also under consideration.

In addition it should be mentioned that on 23 August the Moneyval Mutual Evaluation Report of Latvia was published. Latvian authorities have developed an action plan for eliminating the deficiencies detected by the Moneyval which also includes the following actions:

1. Increasing the awareness of the subjects of the AML/CFT Law, ensuring their training and feedback regarding prerequisites of quality reporting, including but not limited to: differentiation between suspicious and unusual transactions, possible negative effects for delayed/defensive reporting, developing red flag indicators in order to improve the quality of suspicious transaction reports, supplementing and regularly updating the FIU's official website with information on suspicious and unusual transactions considering the specifics of each sector of reporting entities.
2. Introducing a section of information accessible only to the registered users on the FIU's E service where information focused on the reporting entities that cannot be published would be posted.

3. Introducing risk profiling of the subjects of the AML/CFT Law as a regular activity. Organizing meetings with the subjects of the Law along with the relevant supervisory authority in accordance with the current results of risk profiling. (Making individual discussions.)
4. Evaluating and (if necessary) changing the procedure for reporting suspicious and unusual transactions by switching to limited reporting on unusual transactions.
5. Evaluating and if necessary introducing additional automated quality control elements for reports within the e-reporting system (e.g. logical verifications).
6. Analyzing the quality and efficiency of use of the received reports on suspicious and unusual transactions on a regular basis. Informing the subjects of the AML/CFT Law, supervisory and control institutions regarding the work of the FIU by providing feedback concerning the quality of reports on a regular basis.
7. Allocating sufficient resources for performing strategic analysis by introducing additional analytical functions in the FIU's database for processing the received reports for the purposes of strategic analysis and by hiring additional staff for performing strategic analysis (including a specialist in cyber-related issues, an IT specialist, and two strategic analysts).
8. Elaborating typologies of bribery offences related to money laundering offence.

Provided guidelines and trainings

In 2015 the FIU compiled 3 methodological materials concerning recognizing foreign corruption and conducted several trainings.

In 2016-2018 the FIU has continued training the subjects of the Law in application of typologies, including typologies concerning corruption with focus to non-resident clients, thereby during this period of time 10 trainings were conducted for 137 representatives of financial sector and 7 trainings for 231 representatives of non-financial sector.

In 2018 the FIU has prepared and disseminated the following methodological materials:

1. Methodological letter on Research of Corruption Cases Around the World (20 pages) on 29.03.2018 was sent to all supervisory and control institutions as well as the Association of Latvian Commercial Banks and KNAB inviting the institutions to share this information with the subjects of the Law.
2. Methodological letter on Characteristic Indicators of Corruption Cases (4 pages) on 27.04.2018 was sent to all supervisory and control institutions as well as the Association of Latvian Commercial Banks and KNAB inviting the institutions to share this information with the subjects of the Law.

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 8(d)(i):

8. With regards to money laundering, the Working Group recommends that Latvia:

(d) take steps to ensure compliance with the AMLTFL by (i) increasing the FCMC's resources.

Action taken as of the date of the follow-up report to implement this recommendation:

In order to increase the supervision capacity and efficiency of its anti-money laundering and counter-terrorist financing (AML/CTF) operations, in 2016 the FCMC has restructured its Financial Integrity Division into a Compliance Control Department consisting of four divisions (Banking supervision, Non-banking supervision, Sanctions and Compliance, Transactions monitoring) and has increased the number of staff employed in the Compliance Control Department to 20 (previously there were only five experts). The aim of this structure is to ensure overall ongoing supervision in AML/CFT area. In order to increase the efficiency of supervisory functions related to AML/CTF operations, the FCMC has undertaken action to improve the IT support relating to the AML/CTF data analysis and transaction monitoring functions.

The department is composed of competent and qualified supervision experts with experience in public as well as private sectors (financial services), which allows for the supervisors to exploit this expertise in the actual conduct of supervision of financial and capital market, hence the ML/TF risks, which are faced by the market participants, are well understood and adequately targeted when conducting supervision (including examinations, participation in the process of validation of institutions for entry into FCMC register and licencing of the market participants (factors analysed are e.g. UBO's, sources of wealth, the adequacy of the internal control system, etc.).

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 8(d)(ii):

8. With regards to money laundering, the Working Group recommends that Latvia:

(d) take steps to ensure compliance with the AMLTFL by (ii) ensuring that on-site inspections of regulated entities, including their overseas offices, are conducted at a frequency that is commensurate with an entity's risk of assisting or facilitating money laundering;

Action taken as of the date of the follow-up report to implement this recommendation:

FCMC organizes AML/CFT supervision of the market participants using risk based approach based on the principles of bank ML/TF risk classification procedure, methodology for bank ML/TF risk exposure assessment and AML/CFT compliance control principles (AML/CFT supervision strategy guidelines), which describes the ML/TF risk profile of the financial services sector, defines AML/CFT priorities, processes and the criteria of effectiveness quality control, defines bank ML/TF risk exposure assessment criteria, the scope of the information subject to analysis, the governance of the decision-making process. The procedures of off-site inspections define the criteria for initiation and conduct of the inspections.

In 2017 21 banks operated in Latvia (incl. 16 banks licenced in Latvia and 5 foreign bank branches). 12 out of 16 banks, which are registered in Latvia, are oriented towards the provision of services to foreign customers; accordingly, as described above, these banks are subject to higher levels of ML/TF risks, if compared to banks, which provide services mainly to local customers. The priority of FCMC in planning the supervisory actions is to ensure the systematic supervision of these banks, by conducting full-scale on-site examinations, on-site targeted examinations, off-site targeted examinations, review of regulatory framework and analysis of reports (regularly or according to special request, depending on the type of the request and the specifics of the institution subject to the requirement to provide information) submitted by the market participants. As indicated above, banks are divided into 2 groups (1st group - banks oriented towards the provision of services to local customers; 2nd group - banks oriented towards the provision of services to foreign customers) due to the different risk factors and levels to which the institutions are exposed. Banks then are further divided into 4-risk categories (critical risk banks, high-risk banks, medium-risk banks, low-risk banks). The criteria guiding the inclusion of a bank in a certain risk category is based on the following factors:

- a. AML audit evaluations conducted by independent auditors;
- b. ML/TF risk exposure thresholds set by the bank in its AML strategy (proportion of turnover of clients subject to EDD, the proportion of credit turnover of clients, which are shell-companies, from total credit turnover);
- c. Bank's risk appetite and actual risk exposure (reported on quarterly basis to FCMC);
- d. Geography of corresponding relations (NOSTRO and LORO), including existence of a USD correspondent account with a U.S. based correspondent bank;
- e. Bank's financial capacity (the ability to withstand losses in the event of business activity downturn (in case of restrictions or loss of business due to problems with corresponding relations); the ability to invest resources in the development of Internal control system);
- f. Bank's ability and readiness to adapt to changing environment and change its business model;
- g. Other factors related to ML/TF risk (results of conducted examinations, negative information in the external resources (media, internet, etc.), lawsuits, etc.).
- h. The level of threat to the reputation of Latvia.

According to the risk category of the bank, the FCMC plans the schedule of examinations of each bank (types, frequency of examinations).

According to the aforementioned practice, the Compliance Control Department (CCD) of the FCMC concentrates primarily on the FI's, which are most exposed to ML/TF risks, however not disregarding the market participants, which are less exposed to mentioned risks – this is confirmed e.g. by the statistics on the examinations of market participants (banks, which are riskier, are supervised with more intensity and increased frequency, however less riskier banks are also examined, but less frequently). E.g. the banks,

which are included in the high-risk category, must undergo a full on-site examination at least once per 18 months; banks, which are included in medium-risk category, must undergo such examination at least once every two years; low-risk category banks – at least once every three years.

	Banks oriented towards the provision of services to local customers	Banks oriented towards the provision of services to foreign customers	Full on-site examinations¹
High ML/TF risk banks ²	0	10	Once per 18 month
Medium ML/TF risk banks	1	3	Once every three years
Low ML/TF risk banks ³	9	0	At least once every four years

The lengths of the examinations differ depending upon the share of the bank in the market, its risk exposure, complexity of cooperate structure, severity of violations identified during on-going supervision, the risks the banks face and other factors. The average length of examination indicated by the FCMC is six – eight weeks. In some cases the examination of the banks takes more than 6 months. The FCMC carries out full scope on-site, targeted on-site and off-site examinations (including the review of technical compliance of bank internal regulations). Banking sector examinations plan is adopted annually based on the assessment of each bank's exposure to the ML risks. Other financial institutions are also subject to on-site examinations and off-site examinations (in the form of review of technical compliance of internal regulations (e.g. procedures)), which are carried out according to the examination plan.

For supervision purposes the FCMC using results of independent audit examination which all credit institutions have to undertake at least once per 18 months according to the AML regulations.

The supervision of banks consists of 6 main directions – on-site examinations, off-site examinations, compliance control, overall risk exposure assessment, the progress of the institution according to the remediation plan of identified failings or shortcomings and the compliance with sanctions requirements.

Bank on-site examinations are conducted by supervision experts from Bank supervision division of CCD. Supervision experts (usually 2 per examination) are authorised to perform their duties according to the power of attorney issued by the FCMC at a specific time according to the examination schedule - visit the bank and request all of the necessary information and documents, including client case files (legal and business transaction documents), account statements, reports and documented analysis of clients produced by the bank. The clients for examination are chosen based on various factors, depending on the purpose and reason of the examination (qualitative, quantitative or common risk factors, incriminating information in the media, reports received from other institutions). The examination initially is conducted on-site (in the premises of the bank), including analysis of client case files, account statements, interviews with the responsible staff members of the bank, assessment of the internal control system and its overall functions, the adequacy and effectiveness of the AML/CFT IT infrastructure of the bank, including STR, transaction monitoring and analysis of client groups and their operations. Based on the evidence documented during

¹ Additionally, when and if necessary, targeted bank examinations in the area of AML/CFT are carried out.

² Bank poses high ML/TF risk and its risk management is weak.

³ Bank poses low ML/TF risk and its risk management is adequate.

the examination and subsequent examination of obtained information and other evidence, the supervision expert/s produce an examination report, which contains main conclusions drawn from the examination, including violations of internal or/and external regulations and observations made during the on-site visit and subsequent discussions with the bank (bank is allowed to comment the findings of the expert and provide explanations, which are taken into account if it is deemed appropriate and necessary by the FCMC).

Off-site examinations are targeted at a specific element of or related to the bank depending on the purpose of the examination (e.g. information obtained on the bank or a particular client of the bank, or its UBO, indicating its possible involvement in ML/TF). In such cases the bank is required to provide all of the necessary information and documents (described/listed in the request, which is sent to the bank) covering the matter under examination – evaluation of banks internal regulations, examination of particular clients, client groups and their transactions. Similarly as with the on-site examination, the supervision expert responsible for the off-site examination, produces an examination report, which contains main conclusions drawn from the examination, including violations of internal or/and external regulations and observations made during the off-site visit and subsequent discussions with the bank (bank is allowed to comment the findings of the experts and provide explanations, which are taken into account if it is deemed appropriate and necessary by the FCMC).

Compliance control includes the review and assessment of bank internal regulations and their compliance with the regulatory requirements. In accordance with the provisions of the Regulations No 154 credit institutions were required to submit to the FCMC ML/TF risk management strategy for the first time by 04.10.2016 the latest. In 2016-2017 the FCMC Compliance Department has analysed ML/TF risk management strategies elaborated by all credit institutions in order to assess compliance with the legal requirements including assessment with regards to established ML/TF risk exposure indicators, measures and tools to mitigate the identified ML/TF risks and existence of criteria for allocating sufficient level of resources. The FCMC has provided on-site feedback with regards to shortcomings in strategies to all credit institutions which have to be incorporated in the document. In line with requirements of the Regulations No 3 (previously 234) credit institutions are required to apply a clearly defined risk-scoring models for customer base. Draft models are presented to the FCMC and all the discussed shortcomings or incompliances have to be incorporated in further development of internal control system of bank including the risk-scoring models. The FCMC launches in-depth analysis of AML/TF related policies and processes with regard to credit institutions subject to the FCMC sanctions. In addition the FCMC supervises implementation of corrective measures determined by the act of imposing sanctions to credit institutions as well as based on recommendation of independent external audit.

FCMC regularly assesses and analyses the overall risk exposure indicators of banks. Clause 19 of the FCMC Regulations No 154 stipulate that the credit institution shall, by the last day of the first month of each calendar quarter, submit a report to the FCMC on the characteristics of the ML/TF risk exposure according to the Annex to the present Regulations in an XML (Extensible Markup Language) file format and in line with the XSD schema (XML Schema Definition) prepared by the FCMC. The first report on risk exposures was submitted to the FCMC by 31.01.2017. This information was analysed in terms of compliance with ML/TF risk management strategy and taking into account the requirement that compliance with the credit institutions shall comply with the admissible ML/TF risk exposure indicators specified in the ML/TF risk management strategy and shall not adjust them to its business objectives or customers' interests. The FCMC prepared feedback on typologies of risk limits which was provided to all the credit institutions.

One of the supervision tools is also monitoring of observance of the EU sanctions and OFAC sanctions. The FCMC updates on regular basis amount of frozen assets in credit institutions as well as the amount of released assets in line with the EU regulations. Information on "cooperation of customers of credit institutions with the OFAC designated entities and persons" is also updated on a regular basis. Although

OFAC sanctions are not directly binding to credit institutions in Latvia, it is highly recommended for credit institutions to conduct comprehensive risk assessment with regard transactions involving OFAC designated entities and persons. The respective provisions are also included in the latest amendments in Latvian Sanction law. The FCMC has also summarised the most characteristic typologies used for circumvention international sanctions and forwarded it supervised entities for practical implementation.

On-site assessment of employees and board members to be assigned as responsible for implementation of requirements for prevention of ML/TF is conducted for all the credit institutions. During the assessment professional qualification and knowledge in the area of AML/TF is assessed and recommendations for training are provided if considered necessary. The stated employees are designated in accordance with provisions of the Art.10 of the AML/TF Law. In total 38 responsible employees and board members have been evaluated by the FCMC since the provision of assigning such employees has taken effect on 01.07.2016 until 06.09.2018.

If an indication of possible violations of AML/CFT requirements or failings is identified by the FCMC, whether during an on-site or off-site examination, or external information source, such indication is promptly examined and, if necessary, verified by additional information, which is requested to the most relevant source (e.g. market participant, FIU, etc.) for further analysis. After the observations and indications of the AML/CFT breaches are verified and documented, the regulator decides on the appropriate remedying measures, which must be undertaken by the market participant, and on the sanctions applicable to the market participant, where appropriate, i.e. if the breaches of the market participant are serious enough and in the view of the regulator the sanctioning is commensurate with the nature and severity of the violations of the AML/CFT requirements. In any case, when breaches of AML/CFT requirements are identified, the regulator, in particular the Sanctions and Compliance Division of the Compliance Control Department, scrupulously monitors and follows the progress of the market participant in remedying the identified failings according to the remediation plan, which is approved by the regulator and which must be implemented by the market participant. The remediation plan is a detailed list of requirements addressed to the market participant, which must be complied with and fulfilled in a timeframe defined by the regulator. The banks report to FCMC on monthly basis on progress in implementation of remediation and corrective measures. Any deviations from respective time schedule are subject to FCMC's consent.

The FCMC also supervises financial institutions, which provide financial services in Latvia based on the principle of freedom to provide services in the European Union. In 2016 the FCMC decided to prohibit Versobank AS from providing financial services in Latvia: including the prohibition to attract new customers in the territory of Latvia as well as the requirement to the bank to terminate contractual relationships, which were established in the territory of Latvia, with current customers. The decision on imposing a ban on provision of any financial services in Latvia was adopted because Versobank AS has substantially violated procedures laid down in the Credit Institution Law under which a credit institution registered in another Member State may launch cross-border activities through opening of a branch in Latvia. Versobank AS has continuously provided financial services through a permanent and unauthorised physical presence in Latvia, as it can be verified by numerous facts and has been identified in the investigation.

Please see on reports on supervisor activities for the period from 2016 till the date of this report (06.09.2018.) structured according to EBA methodology of supervisory activities.

Credit institutions - onsite inspections

	Total number of firms subject to a scheduled onsite inspection	Total number of firms subject to an ad-hoc onsite inspection	Total number of firms subject to an onsite thematic review

Description	It means a comprehensive / full scope onsite review of a firms' AML/CFT systems and controls that is scheduled in line with the risk-based approach. This assessment is likely to include a review of the firm's policies and procedures and an assessment of their implementation through <i>inter alia</i> interviews with key personnel, testing of systems used in the AML/ CFT compliance and a review of risk assessment and customer files.	It means an onsite review, whether comprehensive or focusing on a particular aspect of a firm's AML/CFT policies and procedures, that is triggered by a specific event such as whistleblowing, public allegations of wrongdoing (such as the Panama papers), a new ML/TF typology or findings from another supervisory action such as an assessment of wider internal controls, or findings from an AML/CFT questionnaire.	It means on-site or offsite reviews of a number of firms, often from the same sector, that focus on one specific or very few aspects of these firms' AML/CFT systems and controls, such as transaction monitoring or the treatment of PEPs. Thematic reviews often serve to help supervisors gain a better understanding of the way specific ML/TF risks are managed by a sector, or particular types of firms
Comments	- full on-site inspection -scheduled on-site inspection Motives of inspection: Off-site inspection results; -risks of the subject	Targeted on-site inspection; Motives of inspection: -Public information, -information from LEAs, -Other signals on probable deficiencies	-
2016	3 (+12 banks audited by U.S. companies. Audits were concluded in 2017)	2	0
2017	4	2	0
2018	2	9+4 (planned)	0

Credit institutions - offsite inspections

	Total number of firms subject to a scheduled offsite inspection	Total number of firms subject to an ad-hoc offsite inspection	Total number of firms subject to an offsite thematic review	Total number of firms submitting AML/CFT returns
Description	It means a comprehensive / full scope offsite review of a firms' AML/CFT systems and controls on the basis of written policies and procedures and risk assessments. Offsite inspections are scheduled in line with the risk-based approach and do not normally involve testing the	It means an offsite review, whether comprehensive or focusing on a particular aspect of a firm's AML/CFT policies and procedures, that is triggered by a specific event, such as <u>whistleblowing, public allegations of wrongdoing (such as the Panama papers)</u> , a new ML/TF typology or	It means on-site or offsite reviews of a number of firms, often from the same sector, that focus on one specific or very few aspects of these firms' AML/CFT systems and controls, such as transaction monitoring or the treatment of PEPs. Thematic reviews often serve to help supervisors gain a	It means regular or ad hoc requests to firms for quantitative data relating to key ML/TF risk indicators. AML/CFT returns are different from offsite inspections in that they are frequently automated and often not

	implementation of these policies and procedures.	findings from another supervisory action such as an assessment of wider internal controls, or findings from an AML/CFT questionnaire	better understanding of the way specific ML/TF risks are managed by a sector, or particular types of firms	comprehensive; their aim is often to help supervisors gain a better understanding of the ML/TF risks to which their sector is exposed, rather than to assess the adequacy of a firm's AML/CFT systems and controls.
	Full-scope compliance examination Motives of inspection: -risks of the subject. Off-site examination conducted by auditor (at least once per 18 months)	Off-site targeted examination Motives of inspection: The results of other bank examinations, publicly available information, information from LEAs, other signals, self-assessment questionnaires.	Inquiries sent concerning specific topic/subject (thematic horizontal reviews, compliance with new regulatory standards, innovations, new risks in the market, etc.)	Regular risk reports, submitted by banks (FCMC regulations Nr. 154.)
2016	37+21	15	46	61
2017	75+91	46	253	117
2018	35+40	24	60	180

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 8(d)(iii):

8. With regards to money laundering, the Working Group recommends that Latvia:

(d) take steps to ensure compliance with the AMLTFL by (iii) giving greater priority to inspecting banks that specialise in non-resident deposits;

Action taken as of the date of the follow-up report to implement this recommendation:

In 2016 the FCMC initiated BSA/AML/OFAC independent testing of Latvian non-resident banks where 12 banks were tested against US regulatory standards. External auditor Navigant and combined team of consulting and law firms performed the review on each bank. Based on reviews banks developed remediation plans including steps to be performed, target dates and responsible parties. Banks performed the remediation, validation by an independent third party and FCMC monitored validation at each bank.

As described above (8 d ii)) the FCMC organizes AML/CFT supervision using risk based approach. The criteria guiding the inclusion of a bank in a certain risk category and main supervision directions are also described above. Additionally the FCMC provides basic principles for defining sample of customers files for AML/CTF compliance examination.

1. Customer sampling to be evaluated within the framework of an inspection is determined according to the AML/CTF risk profile and volume of the bank under review. Individual ratings are set:

1.1. They key 4 risk segments:

1.1.1. Customer base, special attention paying to:

1.1.1.1. share of shell companies;

1.1.1.2. share of PNP customers;

1.1.1.3. share of customers – non-banking financial institutions;

1.1.2. geography (specially evaluating customers whose financial flows are affiliated with high risk countries in accordance with paragraph 31 of the FCMC Regulations No 3 (previously 234));

1.1.3. services (in particular by assessing the amount of high-risk services specific for each bank and share of customer base to whom these services are provided to a greater extent);

1.1.4. delivery channels of services (especially evaluating e-commerce).

1.2. Business model of the bank and high risk factors inherent to the AML/CTF ICS, including:

1.2.1. use of agents for customer identification. Should the bank use agents to attract customers, the inspection addresses not only the bank's cooperation with individual agents (contracts, agent training, agent evaluation, etc.), but also examines the files of customers attracted by these agents.

1.2.2. Loro correspondent relations, paying special attention to customers (Loro correspondents) whose countries of registration are countries with increased AML/CTF risk in accordance with paragraph 31 of the FCMC Regulations No 3 (previously 234)).

1.3. Customer base of the bank's foreign units, specially evaluating customers with multiple accounts opened.

1.4. Bank's subsidiary / parent / sister business transactions, with particular emphasis on the impact of geographical risk.

1.5. Effect of concentration risk, in particular by assessing the involvement of related customer groups (including activities of the concealed related group), in particular by assessing the related groups consisting of shell companies and PNP customers or UBOs.

2. In addition to the above-mentioned principles, customers selected as a result of customer file review represent a number of customers from each of these customer groups below:

- Major customers by turnover of the account during a certain period (legal / natural persons, residents / non-residents);
- Major customers by the account balance on a specified date (legal / natural persons, residents / non-residents);
- Customers having the account opened for a certain period (during the last year);
- Customers who have been subject to EDD measures during a given period (during the last year);
- Customers with whom the bank has terminated cooperation within a certain period (during the last year);
- Customers having more than 10 payment cards;
- Customers using Trust Services offered by the Bank;
- Customers who are recognized as PNP;
- Customers stated in requests from correspondent banks received during the last three years;
- Customer groups identified in the bank as groups of interconnected clients;
- Intermediaries whose services are used for customer attraction and opening of accounts;
- Customers - banks having account for their customer transactions (loro accounts)
- Customers - holders of dormant accounts, including those who have resumed their activities after more than six months of "dormant" period.

3. In addition to the above stated, the volume of customers to be inspected includes customers having made transactions with identified features of suspicious / unusual transactions. Methods applied for detecting suspicious / unusual transactions:

- The examination is requested to submit a cash book for a certain period, selected specific days with the highest turnover and requested cash documents (payment documents) for these days. When examining these documents, it is assessed whether the amount of transactions exceeds the threshold stipulated by the Cabinet of Ministers Regulations No. 1071 from 22.12.2008 "Regulations on the list of features of unusual transactions and procedures for reporting unusual or suspicious transactions", and whether the bank has reported the unusual transactions to the FIU.
- Alert register is checked in order to evaluate for alert closing period, whether the alerted payment is properly verified and evaluated or it is closed immediately after receiving an without proper evaluation of the information.
- When examining customer files and identifying features that indicate customer interconnection (interconnected transactions, the same officials, addresses, the same

partners, etc.), it is assessed whether such customers have been identified by the bank and consequently evaluated as interconnected customer group, including a concealed group.

- When assessing customer account statements, the Commission pays particular attention to interconnected transactions, such as transactions where, on the basis of a loan agreement, funds are transferred among a number of bank customers, transactions for "rounded up" amounts or almost "rounded up" amounts (for example, 498 000 USD etc.), transactions based on cession / loan agreements, transactions between offshore companies, in which financial resources are repaid due to unexpected supplies of goods, transactions in which bills of exchange are used for settlements, payments to / from countries with increased risks ML/CTF risks, corruption, sanctions, payments with a purpose mismatching the declared customer business, circular business schemes, large-volume transactions in offshore company accounts immediately after opening account, etc. Suspicious transactions features, having the special attention of the Commission during the inspections are summarized in the Commission Recommendations No 152 from 25.09.2017 "Recommendations for credit institutions to identify suspicious transactions features". In the course of the inspection, identifying any of these characteristics, assessment is conducted whether the Bank has transactions justifying documents, the quality, reliability and adequacy of these documents, as well as whether these transactions are economically and legally justified. It is checked whether there is a public information and what kind of information is publicly available about the customer, customer's UBOs, authorized persons, individual counterparties are found in publicly available information sources.

- Evaluation of minutes of Committees responsible for ML/CTF related issues and board meetings is conducted where decisions concerning on-boarding/termination of cooperation with certain customers have been taken. The Commission also reviews measures taken with regards to customer due diligence and transaction monitoring of the referred to customers that have been stated in the minutes from such meetings.

- The register of unusual and suspicious transactions of the bank is reviewed in order to assess whether the non-reporting decision of the bank is grounded.

- The transactions of persons related to the bank are also being assessed to ensure that proper investigation and supervision of the transactions carried out by such persons is ensured by the bank.

4. Selecting customers for the inspection from the above-mentioned customer groups, targeted selection includes those customers, their UBOs, authorized persons should there be negative information from the public domain at the Commission's possession, that are registered in low tax or duty-free jurisdictions and territories or in other jurisdictions having increased risks of ML/CTF, corruption and similar risks. New customers with a particularly high turnover are selected for the inspection, for example, if the turnover exceeds several millions EUR two months after account opening.⁵ When selecting the customer scope for the inspection, the assigned risk category is taken into account, each of which has defined minimum number of customers for each full inspection. In addition to customers selected according to the criteria mentioned in the previous paragraphs, selection is made following the principle of not less than 0.1% of the total customer number from categories 24.5-24.8 (in accordance with FCMC Regulations No 3 (previously 234)) for a low risk bank, not less than 0.15% of the total customer number from categories 24.5-24.8 (according to FCMC regulation No 3 (previously 234)) for a medium risk bank, not less than 0.2% of the total customer number in categories 24.5-24.8 (according to FCMC regulation No 3 (previously 234)) for a high-risk bank and no less than 0.3% of the total

customer number from categories 24.5-24.8 (according to FCMC regulation No 3 (previously 234) for a bank with critical risk category.

To remediate violations and deficiencies during examinations the following corrective measures are applied in accordance with FCMC guidelines on application of corrective measures:

- Review of customer base and termination of cooperation with customers imposing unacceptable risk;
- limitations set for elevated risk factors (geography, segments of customers, etc.);
- mandatory external audit examinations.

As additional measure to lower risk exposure in banking sector the parliament of Latvia has approved amendments in AML/CFT law which came into force on 09.05.2018. The amendments prohibit to provide services to entities which do not have actual economic activity and the entity is registered in a jurisdiction where companies are not required to submit to the authorities their financial statements.

The FCMC has approved regulation (came into force 02.06.2018) stipulating requirements for establishment of one of the feature (no actual economic activity). Financial institution shall evaluate, inter alia, the following information and documents:

- confirming that the legal person performs tax payments;
- confirming the actual movement of products and services;
- annual financial report, audited by an external auditor;
- confirming that the legal person has attracted other persons (such as employees)

FCMC supervises the process of reducing the shell arrangements in accordance with the requirements of the law, regularly requesting information from banks on the number of shell arrangements, their assets and turnover during the reference period, and also carries out inspections at the banks on the correctness of the classification of shell arrangements, the process of termination of cooperation and the compliance of reinforced supervision of the further operation of shell arrangements.

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 8(d)(iv):

8. With regards to money laundering, the Working Group recommends that Latvia:

(d) take steps to ensure compliance with the AMLTFL by (iv) examining why the FCMC and/or reporting entities failed to detect the instances of alleged money laundering that have been reported in the media and taking appropriate remedial action; and

Action taken as of the date of the follow-up report to implement this recommendation:

Many of the ML cases involving Latvian financial institutions, e.g. which have been discussed in the media, are identified and the FI responsible for its actions is sanctioned considerably later after the violations have been made, indicating that historically it has not been possible to identify such violations in a timely manner – before the violations of AML/CFT regime are made, thus increasing the perception of the country in regard of being regional financial centre with elevated exposure to ML. According to the provisions of the regulation of the FCMC No 197 (came into force in 06.12.2016, credit institution must develop the technical infrastructure to be able to comply with the requirements set out in the regulation not later than by 31.05.2017), credit institutions are subject to requirements to accumulate and record the information on their clients and client transactions and submit this information to the FCMC upon request. The data collected and the use of advanced IT infrastructure to analyse this information, as is expected, will substantially improve the efficiency of data sampling and analysis due to unified data formats of the information submitted by various credit institutions, high technical analytical capacity and ability to identify potential "red flags" in the area of ML/TF for further examinations initiated by the regulator.

To enhance ability of banks to detect suspicious transactions in last years the FCMC has strengthened not only supervision capacity but also tightened legal requirements. In 2016 and 2017 the FCMC has elaborated and approved the following regulations and guidelines:

Regulations

- Regulations on customer EDD and enhanced supervision – 31.12.2015 (Annex 1)
- Regulations on ML/TF risk management of the bank – 03.02.2016 (Annex 2)
- Regulations on using agent services for customer identification – 29.11.2016 (Annex 3)
- Regulations on IT support for AML/CTF – 28.12.2016 (Annex 4)
- Regulations on AML/CTF competence of personnel – 20.12.2016 (Annex 5)
- Regulations on order of electronic submission of of Information on customers and transactions – 29.11.2016 (Annex 6)
- Regulations on due diligence and supervision of customers, who are payment services providers – 22.08.2017 (Annex 7)
- Regulations on establishment and maintenance of corresponding relations – 22.08.2017 (Annex 8)
- Regulations on order of submission of data on transactions performed using correspondent relations – 20.12.2017 (currently not available in English)

Guidelines

- Guidelines on customer on-boarding – 20.12.2017 (currently not available in English)
- Guidelines on identification of suspicious deals and their schemes – 25.09.2017. (Annex 9)

- Guidelines for management of risk in relationship with PEP customers – 02.03.2016 (Annex 10)

The regulations and guidelines are available on the webpage:
<http://www.fktk.lv/en/law/general/legal-acts-in-the-aml-cft-area/6246-legal-acts-in-the-aml-cft-area.html>

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 8(d)(v):

8. With regards to money laundering, the Working Group recommends that Latvia:

(d) take steps to ensure compliance with the AMLTFL by (v) commencing proceedings against the relevant natural and legal persons when breaches of the AMLTFL are detected (Convention Article 7; 2009 Recommendation II);

Action taken as of the date of the follow-up report to implement this recommendation:

Action taken as of the date of the follow-up report to implement this recommendation:

Sanctions imposed by FCMC for AML/CFT regulation violations

Number of banks sanctioned and the amounts of fines imposed (banks, which have been sanctioned multiple times during one year, are indicated only once):

Year	2013	2014	2015	2016	2017
Number of banks sanctioned (incl. issuance of warning)	5	2	4	5	5
Total amount of fines imposed.	Banks: EUR 327,260.00	Banks: EUR 70,000.00	Banks: EUR 2,2 million; Staff: EUR 145,336.00	Banks: EUR 5,9 million; Staff: EUR 25,000.00	Banks: EUR 3,5 million

Total amount of fines imposed during 2018 will be determine after taking decision on all currently initiated examinations (please see table on supervisor activities) till 31.12.2018.

In some cases banks are also required (by the regulator, e.g. part of the administrative agreement) to invest substantial resources in the development of Internal Control System in order to improve the efficiency of AML/CFT function.

The recent enforcement actions taken by the FCMC under the AML/CFT Law evidence that immediate measures are taken enforcing the strengthened rules of the AML/CFT Law. Overall in 2016 the FCMC initiated 8 money-laundering related inspections in the banks, which resulted in revoked license and issued sanctions in 4 cases:

- Repeated inspections in the AS Trasta Komerbanka revealed repeated and continuing breaches of the money-laundering requirement and significant deficiencies in the internal control systems. Considering involvement of the AS Trasta Komerbanka in the case of the Moldincombank, which revealed involvement of the Board in suspicious transactions, on 4 March 2016 the European Central Bank, based on the information provided by the FCMC, took a decision to revoke the license.
- The FCMC inspected the Baltic International Bank in respect of the financial fraud from Ukrainian Delta Bank by using FOREX transaction scheme and detected breach of money-laundering requirements and significant discrepancies in internal control system, as well as involvement of the Chairman of the Board in suspicious transactions. As a result on 9 March 2016 the bank was fined with 1,1 million euro and the Chairman the Board with 25,000 euro.
- On 26 May 2016 the FCMC fined AB.LV with 3,2 million euro and issued warning to the obliged Board member for deficiencies in the internal control system of the bank, which resulted in bank's involvement in massive money-laundering schemes (including the schemes indicated in the report by Kroll).

On 25 July 2016 the FCMC fined Latvijas Pasta banka with 0,305 million euro for deficiencies in the internal control system of the bank, which resulted in bank's involvement in massive money-laundering schemes (including the schemes indicated in the report by Kroll).

On 22 November 2016 a fine of 1 361 954 euro imposed on the "Swedbank" AS for Violations of the Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing and the FCMC's regulatory requirements: deficiencies in the bank's internal control system – insufficient customer due diligence and monitoring of transactions

In 2017 for Violations of the Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing and the FCMC's regulatory requirements: deficiencies in the bank's internal control system – insufficient customer due diligence and monitoring of transactions sanctions were imposed on the following banks Baltikums Bank, PrivatBank, Rietumu Bank, Norvik Bank, Regional Investment Bank.

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 8(e):

8. With regards to money laundering, the Working Group recommends that Latvia:

(e) take immediate steps to increase enforcement of its money laundering offence (Convention Article 7; 2009 Recommendation III(ii)).

Action taken as of the date of the follow-up report to implement this recommendation:

In addition to the already reported immediate steps taken by the Latvian authorities to increase enforcement of its money laundering offence in its Written Follow up Report in 2017 Latvian authorities are making continuous efforts on strengthening investigations of money laundering offence which would correspond better to Latvia's risk profile.

In addition to the measures already reported to the Working Group in 2018 the AML Law was amended in order to establish the Financial Crime Investigation Special Task force, enabling effective cooperation of private and public sector in financial intelligence and investigation of financial crimes, and we expect that it will also further improve effectiveness of investigation of money laundering offence.

The fight against money laundering and asset recovery have been set as priorities in the work plan of State Policy for 2017, as well as for 2018.

An Asset Recovery Office (ARO) has been formed, who is actively engaging in combating money laundering and in the recovery of the proceeds from crime – both in Latvia and other states. A methodology for the recovery of presumed illegally gained property has been developed. Economic Crime Enforcement Department (ENAP) and other departments are initiating criminal proceedings and investigating crimes that are set out in Criminal Law, Article 195 (Laundering of the Proceeds from Crime) and 195.1 (Non-provision of Information and Provision of False Information Regarding Ownership of Resources and the True Beneficiary). There are two main directions in these investigations: persons who open up the bank accounts (“money mules”) and true beneficiaries.

Latvia is putting a special attention the cases of “stand alone” money laundering and at the end of 2017 and the beginning of 2018 the State Police has initiated three criminal cases for alleged “stand alone” money laundering.

Statistics of criminal proceedings initiated by ENAP for money laundering offence:

Year 2017:

Article 195 – 65 criminal proceedings;

Article 195.1 – 7 criminal proceedings;

Year 2018, first 6 months:

Article 195 – 35 criminal proceedings;

Article 195.1 – 5 criminal proceedings.

Statistics of criminal proceedings sent to prosecution:

Year 2017:

Article 195 – 15 criminal proceedings (including 7 that are transferred to foreign states);

Article 195.1 – 4 criminal proceedings.

Year 2018, first 6 months:

Article 195 – 8 criminal proceedings (including 5 that are transferred to foreign states);

Article 195.1 – 4 criminal proceedings.

The Public Prosecution Office laid down effective and efficient prosecution of economic and financial criminal offences as one of the priorities in its Action Strategy for years 2017-2021, adopted by the Prosecutor General's Council decision No. 4 on 5 July 2017. The Action Strategy provides for regular discussion of money laundering cases under investigation and prosecution between involved investigators,

prosecutors and head prosecutors. The Action Strategy provides for meetings between head prosecutors and chiefs of investigative bodies and their structural units to discuss investigation and prosecution of financial and economic crimes, including money laundering.

Since beginning of 2018, 33 prosecutors along with the law enforcement, received training in various aspects of investigation and prosecution of money laundering. Prosecutors, mainly representing divisions responsible for money laundering prosecutions, attended following training events:

- 18 January 2018: training on analysis and investigative technique of financial offences – 5 prosecutors;
- 6-8 February 2018: Master Class on investigation and prosecution of ongoing money laundering cases - 3 prosecutors;
- 10 April, 24 April and 15 May 2018: – virtual currencies and related money laundering – 9 prosecutors
- 15-16 May 2018: training on investigation and prosecution of stand-alone money laundering offence; proving money laundering by indirect evidence – 15 prosecutors;
- 31 May - 1 June 2018: seminar on corruption and organized crime – 10 prosecutors;
- 3-5 July 2018: detection, tracing, arrest, confiscation and recovery of proceeds from crime; transborder confiscation; evidences of money laundering; proving ultimate beneficial ownership of proceeds from crime – 4 prosecutors.
- 12-14 June 2018: training on techniques of detection of corruption in international commerce and tax evasion; detection of beneficial owners of off-shore entities – 6 prosecutors;
- 27-31 August 2018: training on corruption related money laundering; typology of money laundering; tracing, freezing and confiscation of proceeds from crime; cooperation with FIU on detection of money laundering.

Regular trainings of investigators and prosecutors on money laundering led to the first conviction on stand-alone money laundering in 2017, concerning proceeds from unspecified criminality committed abroad. Another 4 court verdicts for stand alone money laundering were achieved in 2018. These decisions illustrate a significant shift in understanding of money laundering offence by the judiciary, prosecution and law enforcement.

The prosecution tends to focus on criminal groups of money launderers. In 2017, 9 cases on money laundering with 48 persons charged were filed with the courts. For comparison, in 2016, the respective figures were 10 cases with only 20 persons charged. In the first eight months of 2018, 11 cases on money laundering with 19 persons charged cases were filed with the courts. Besides, in January 2018, two influential insolvency administrators along with other 4 persons were charged with money laundering in connection with liquidation procedure of a commercial bank and two other companies.

In regard to convictions for money laundering in 2017 there were 5 persons convicted and the conviction has entered into force and 2018 – 7 persons convicted with convictions in force.

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 10(a):

10. With respect to the capacity and independence of KNAB, the Working Group recommends that Latvia:

(a) ensure that personnel issues do not interfere with KNAB's ability to investigate foreign bribery (Convention Article 5 and Commentary 27; 2009 Recommendation II, III(i), V and Annex I.D);

*Action taken as of the date of the follow-up report to implement this recommendation:***Investigation results**

Since adoption of OECD WGB Phase 2 evaluation report, KNAB has opened several criminal proceedings regarding domestic and foreign bribery which affirms ability of KNAB to tackle domestic as well as cross-border and foreign corruption. In 2016 KNAB commenced 19 criminal proceedings, in 2017 – 30 criminal proceedings, and in the first half of 2018 – 19 criminal proceedings. Within this period of time KNAB investigators also opened two criminal cases on foreign bribery and one criminal case on possible money laundering where the predicate offence was foreign bribery.

Investigators of KNAB sent for prosecution 14 criminal proceedings in 2016, 17 criminal proceedings in 2017 and 11 criminal proceedings in the first half of 2018. Within this period KNAB concluded investigation of several high profile corruption criminal cases:

1. Criminal case was sent for prosecution in 2016 against judge of Regional court of Riga and entrepreneur for bribery and misappropriation of bribe. Within investigation evidence were collected that entrepreneur passed bribes in total amount of 45 000 *euro* for influencing court decisions regarding legal proceedings in his favor.
2. Criminal case was sent for prosecution in 2016 against chairman of SOE “Latvian Railway” and Estonian entrepreneur for bribery. Within investigation it was established that Latvian public official and Estonian entrepreneur agreed upon bribe for obtaining a contract in interests of Estonian enterprise and entrepreneur passed bribe in amount of 499 500 *euro* to public official. Proceeding against legal person was commenced as well.
3. Criminal case was sent for prosecution in 2017 against former head of State Emergency Medical Service for abuse of authority, failure to act and tax evasion. Within investigation evidence were collected that the former public official committed crimes by using his position and caused damage to state budget in amount of 1.2 million euros.
4. Criminal case was sent for prosecution in 2018 against governor of Central Bank of Latvia for bribery and entrepreneur for abetting crime. Within investigation it was established that public official holding a responsible position solicited and accepted a bribe from shareholders of a private bank for unlawful assistance in relation to FCMC.

Staff trainings

Significant attention in this time period has been devoted to training investigators and intelligence officers. Training modules under the EU’s funded project “Professional Development of Human Resources in Public Administration for Preventing Corruption and Reducing Shadow Economy” implemented by the School of Public Administration were modified and adjusted to cover both domestic and foreign bribery, as well as related crimes like money laundering and false accounting. Since adoption of OECD WGB Phase 2 report, employees of KNAB had participated in many different trainings:

1. Course “Organized crime and corruption in Baltics” held by the Embassy of the US (May 2016).
2. Course “Prevention of legalization of illegally obtained assets: Deepening of understanding” by FIOD (May, June, July 2017).

3. Course “Prevention of legalization of illegally obtained assets: Asset recovery” by FIOD (June 2017).
4. Course “Prevention of legalization of illegally obtained assets: approach to the investigation of money laundering” by FIOD (June, September 2017).
5. Course “Using the International anti-money laundering (AML) and combating the financing of terrorism (CFT) Standards in Combating Corruption” held by Joint Vienna Institute (July-August 2017).
6. Training on accounting by local experts (September-October 2017).
7. Course “Prevention of legalization of illegally obtained assets: FINTECH” by FIOD (September 2017, April 2018).
8. Course “Prevention of legalization of illegally obtained assets: Digital Technologies” by FIOD (October 2017).
9. Course “Prevention of legalization of illegally obtained assets: Interviewing techniques” by FIOD (November 2017).
10. Course “Prevention of legalization of illegally obtained assets: Financial analysis and investigation techniques” by FIOD (January 2018).
11. Course “Prevention of legalization of illegally obtained assets: Master class” by FIOD (February 2018).
12. Course “Prevention of legalization of illegally obtained assets: Leadership of law enforcement agencies” by FIOD (April 2018).
13. Course “Prevention of legalization of illegally obtained assets: International operations” by FIOD (June 2018).
14. Course “On combatting organized crime and corruption” by DIA (May, June 2018).
15. Course “On transnational crime and international cooperation” (June 2018).
16. Course “Prevention of legalization of illegally obtained assets” (August 2018).

Recruitment and vacancies

Since adoption of OECD WGB Phase 2 evaluation report, four new investigators were recruited for work at KNAB. As of 1 September, 2018 there were four vacancies remaining in the Investigation Division (one of them was deputy head of division). One candidate is currently undergoing the scrutiny procedures by competent authority.

In the fall of 2017 a new unit – Strategic Analysis and Policy Planning Division – was formed. The new division is in charge of providing wide scope of analytical expertise including strategic and tactical analysis. One of the tasks entrusted to this division in cooperation with other units is to intensify analytical as well as operational measures in relation to activities of Latvian companies abroad.

Since 1 August, 2017, salaries were increased for 86% of KNAB employees. Additionally, in line with available financial resources, a special expertise bonus payment was introduced – every three months a committee reviews performance of every employee and pertinent bonus is applied.

Public relations

In February, 2018 KNAB adopted a new public relations strategy focusing on various awareness raising activities, including foreign bribery and social activities in order to increase the reputation in the society and public trust in KNAB as central anti-corruption agency. The strategy defines long and short term goals, target audiences, communication channels and types, specific tasks and measures, as well as expected results.

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 13(a):

13. With respect to the foreign bribery offence, the Working Group recommends that Latvia amend its legislation to ensure that:

(a) the requirement of direct intent as defined in Latvian law is consistent with Article 1 of the Convention (Convention Article 1);

Action taken as of the date of the follow-up report to implement this recommendation:

With a view to implementing the recommendation, the Ministry of Justice has organized various discussions, including the conference on the issues of direct intent for the purpose of amending the legislation to ensure that the requirement of direct intent as defined in Latvian law is consistent with Article 1 of the Convention since the adoption of Phase 2 Report. The discussions were attended by the representatives of the Ministry of Justice, the Prosecutor's General Office, Corruption Prevention and Combating Bureau, judges and representatives of the academia. The discussions were based on the material which was elaborated by the Ministry of Justice on the said subject including the description of 13(a) recommendation, findings of the lead examiners during the on-site visit, conclusions made by the Working Group within the Latvia's Phase 2 Report regarding "direct intent" issue and analysis of the Latvian Criminal Law theory regarding the "intent" issue. The material also included the analysis of the Article 1 of the Convention and respective parts of the OECD Convention on Bribery: A Commentary by Mark Pieth, Lucinda A. Low, Nicola Bonucci and the 9 October 2009 Report by the Working Group's on Bribery on Typologies on the role of intermediaries in international business transactions.

During the discussions, the participants concluded that there are differences in the understanding among academia and practitioners of the requirement of "direct intent" and possibilities to apply indirect intent to bribery as criminal offence with formal composition. Therefore, the Ministry of Justice on 10 February 2016 organized a high level meeting which was attended by the Chair of the Department of Criminal Cases of the Supreme Court of Latvia, the Prosecutor General, Head of the Division of Investigations of the Corruption Prevention and Combating Bureau, Head of Latvian Delegation to the Working Group on Bribery, leading representatives of the academia (Criminal Law professors of the Faculty of Law of University of Latvia), as well as investigators of the Corruption Prevention and Combating Bureau, chief prosecutor and prosecutors of the Prosecutor's General Office, Director of Criminal Law Department of the Ministry of Justice and its legal advisors.

During the high level meeting the issue of the requirement of "direct intent" in bribery was discussed based on the above-mentioned material elaborated by the Ministry of Justice. It was concluded that bribery is a criminal offence with formal composition, which can be committed only with direct intent in accordance to the Section 9 of the Criminal Law. In Latvian Criminal Law theory direct intent refers to those criminal offences which have formal composition (without requirement of material consequences). The intent describes psychological attitude (level of knowledge) of a person regarding actions of such person; and in cases of direct intent a person should have at least some level of knowledge that his/ her actions may involve an illegal act. Therefore, in situations in which a person representing a company transfers money to an intermediary for performing a certain task, it is an action which is performed with direct intent. However, the psychological attitude (level of knowledge) of such person does not need to be concrete and/or specific, and it may cover also presumption or acceptance of illegality of the activities of an intermediary and this can be proved by circumstantial evidence. The participants also discussed the possible amendments of the Section 9(2) of the Criminal Law by ensuring that a criminal offence shall be considered to have been committed with a direct intent if the person at least accepts the harm caused by his or her act or failure to act.

In order to evaluate whether the current requirements of direct intent as defined in the Section 9(2) of the Criminal Law are consistent with the Article 1 of the Convention it was agreed that the summary of the above mentioned discussion will be published in the Latvian leading legal magazine "Jurista Vārds" which will be followed up by a scientific conference on the intent as it is defined in the Criminal Law within which the possible amendments to Section 9(2) of the Criminal Law would be discussed.

Following the above mentioned discussions and recognition that there are differences in the understanding among academia and practitioners of the requirement of "direct intent" and possibilities to apply indirect intent to bribery as criminal offence with formal composition on 10th of March 2016 the Prosecutor's General together with the Minister of Justice and the Director of the Corruption Prevention and Combating Bureau (KNAB) signed the Guidance on the Scope of Direct Intent in Applying the OECD Typology on

the Role of intermediaries in International Business Transactions in order to rectify this situation. The Guidance is intended to ensure that the requirement of direct intent as currently defined in the Criminal Law does not exclude the application of criminal liability in foreign bribery cases which involve intermediaries. The guidance provides the practical examples of foreign bribery with intermediaries and explanations how the concept of direct intent has to be applied in order to successfully prosecute such complex cases. It has been distributed among investigators of KNAB, prosecutors and judges, as well as it was published in the Latvian leading legal magazine “Jurista Vārds”.

On 27 September 2016, the Ministry of Justice organized the conference on the direct intent which was attended by the representative of the WGB Secretariat and one of the lead examiners of Phase 2, as well as investigators of KNAB, prosecutors, judges, lawyers and academia. The objective of the conference was to have an in-depth discussion on the interpretation of a direct intent in the Criminal Law of Latvia, to provide the explanation of the requirements of the Anti-Bribery Convention and to discuss possible amendments to the Criminal Law in order to ensure the compliance with the Anti-Bribery Convention. During the conference it was concluded that there are mixed views on the interpretation of Section 9 (2) of the Criminal Law which defines a direct intent. It was concluded that there is need of more detailed commentaries to the said Section of the Criminal Law with the special emphasis on application of this legal provision in cases of bribery of foreign public official with intermediaries.

On 28 February 2017, Ministry of Justice together with the University of Latvia and the Courthouse Agency organized an event on occasion of publishing a book by professor Uldis Krastiņš “Direct Intent in Criminal Law” (Tieša nodoma tvērums krimināltiesībās). It is an extended commentary to the Section 9(2) of the Criminal Law with theoretical guidelines. It contains a chapter “Theoretical guidelines on form of guilt in bribery with intermediary”. The chapter assesses whether the definition of direct intent given in the Criminal Law includes *dolus eventualis*. It concludes firstly that *dolus eventualis* is not defined in Latvian criminal law theory, nor in Criminal Law and secondly the indirect intent stipulated in Section 9(3) of the Criminal Law is not equivalent to *dolus eventualis*. It clearly stipulates that the word use in the legal provision “knowingly” (in Latvian – apzinoties) covers three levels of knowledge: “zināt” (knowing), “apzināties” (being aware) and pieļaut (assume). Therefore, it is concluded that being aware or assuming something as manifestation of intent’s intellectual side together with a person’s actual actions (action or omission) which always is executed intentionally, indicates that the offence is committed with direct intent. One chapter deals specifically with the scope of direct intent in foreign bribery offences, committed through an intermediary. Uldis Krastins explicitly recognized that the concept of direct intent under the Article 9 of the Criminal Law covers not only knowledge of bribe to be paid, but also awareness of or admitting commission of eventual bribery. Such scope of the direct intent would stand a-one-million-dollar-payment test put before Latvian authorities during the Phase 2 onsite visit.

In 2018 the investigators of the Corruption Prevention and Combating Bureau and prosecutors of the Division for Investigation of Very Important Crimes of the Prosecutor’s General Office were informed of the OECD WGB recommendation on the scope of concept of direct intent under the Article 9 of the Criminal Law and the new legal interpretation of the concept of direct intent by professor Uldis Krastins, and were reminded of the Guidance on the Scope of Direct Intent in Applying the OECD Typology on the Role of intermediaries in International Business Transactions adopted by the Prosecutor’s General Office in cooperation with the Ministry of Justice and the Corruption Prevention and Combating Bureau and published in “Jurista vārds” on 3 May 2016 (available at: <http://www.juristavards.lv/doc/268513-ieteikumi-par-tiesa-nodoma-tverumu-piemerojot-boecdb-darba-grupas-izstradato-tipologiju-par-starpnieku-lomu-starpntautiskajos-biznesa-darījumos/>).

Over the last year, Latvia has not detected a foreign or local bribery offence that would fit in terms of objective and mental elements for application of revised legal interpretation of a direct intent.

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken:

Text of recommendation 13(b):

13. With respect to the foreign bribery offence, the Working Group recommends that Latvia amend its legislation to ensure that:

(b) the offence explicitly covers (i) the promise of a bribe, and (ii) bribery of officials of any organised foreign area or entity, such as an autonomous territory or a separate customs territory (Convention Article 1; 2009 Recommendation III(ii) and V).

Action taken as of the date of the follow-up report to implement this recommendation:

As Latvian authorities already reported to the WGB in October 2017 the necessary amendments to the Criminal Law covering the promise of a bribe (Article 323 (1) of the Criminal Law) and bribery of officials of any organised foreign area or entity, such as an autonomous territory or a separate customs territory (Article 316 (3) of the Criminal Law) were adopted by the Parliament (Saeima) on 10 March 2016. The amendments came into force on 7 April 2016:

Section 316. Concept of a Public Official

(1) Representatives of State authority, as well as every person who permanently or temporarily performs his or her duties in the State or local government service, including in a State or local government capital company, and who has the right to make decisions binding upon other persons, or who has the right to perform any functions regarding supervision, control, investigation, or punishment or to deal with the property or financial resources of a public person or its capital company, shall be considered to be public officials.

(2) The President, members of the Saeima, the Prime Minister and members of the Cabinet as well as officials of State institutions who are elected, appointed or confirmed by the Saeima or the Cabinet, heads of local government, their deputies and executive directors shall be considered to be public officials holding a responsible position.

(3) Officials or agents of international organisations, international parliamentary assemblies and international courts, as well as any person holding a legislative, administrative or judicial office of a foreign state or of any its administrative unit, whether such appointed or elected, as well as any person exercising a public function for a foreign state, including for any of its administrative units or public agency or public enterprise shall also be considered a public official.

(4) Within the meaning of this Section a foreign state is any territory outside the Republic of Latvia.

Section 323. Giving of Bribes

(1) For a person who commits giving or offering or promising if requested of bribes, that is, material values, properties or benefits of other nature in person or through intermediaries to a public official in order that he or she, using his or her official position, performs or fails to perform some act in the interests of the giver or person offering or promising the bribe, or in the interests of other persons, irrespective of whether the bribe promised, offered or given is for this public official or for any other person,

the applicable punishment is the deprivation of liberty for a period of up to five years or temporary deprivation of liberty, or community service, or a fine.

(2) For the commission of the same acts, if they have been committed on a large scale or if they have been committed by a public official, or if they have been committed by a group of persons according to a prior agreement,

the applicable punishment is deprivation of liberty for a period up to eight years, with or without the confiscation of property and with deprivation of the right to engage in specific employment or to take up a specific office for a period up to five years.

(3) For the acts provided for in Paragraph one of this Section, if they have been committed by an organised group,

the applicable punishment is deprivation of liberty for a period of two and up to ten years, with or without confiscation of property, with deprivation of the right to engage in specific employment or to take up a specific office for a period up to five years and with probationary supervision for a period up to three years.

In regard to “promise” it should be noted that in 2002 when amendments to Section 323 of the Criminal Law were made in order to criminalize an offer and a promise of a bribe, “promise” was not included in Section 323 of the Criminal Law as criminal law experts explained that “promise” and “offer” in Latvian language has identical meaning and it covers also situations when a briber commits him/herself to give an undue advantage later or where there is an agreement between the briber and the bribe that the briber will give a bribe later.

Latvian authorities previously have also provided the following examples of case law regarding the bribe promise/offer to the Working Group:

Example:

1) In the case No 11200048114 (judgment entered into force on 6 February 2015) for offering a bribe, where the person was found guilty for committing the criminal offence the liability for which is provided for in Section 323(1) of the Criminal Law. The bribe in amount of 500 EUR was promised to be paid by a car driver to the Traffic Police officers who did not accept the offer.

2) In 2013 KNAB opened investigation concerning an offer of undue advantage based on the report received from the public official who was offered the advantage. The public official worked for the Company Register in a town in Latvia and was offered a bribe (payment in cash) if certain services of the institution would be provided in shorter terms. A person promised to pay a bribe to the public official after the action which was requested by the briber. The public official reported to KNAB and an investigator started criminal proceedings. In 2013 the case was sent for criminal prosecution, however it was terminated by the prosecutor as the defendant changed the testimony during the phase of criminal prosecution.

During the revision of the proposed draft amendments on "promise" of a bribe at the Legal Affairs Committee of the Parliament it was concluded that the only situation in which the Latvian word "offer" does not cover a promise is the situation in which a person promises to pay a bribe that has been requested. Therefore, the Parliament approved the amendments in Section 323 of the Criminal Law including the promise of a bribe if requested.

If no action has been taken to implement this recommendation, please specify in the space below the measures you intend to take to comply with the recommendation and the timing of such measures or the reasons why no action will be taken: