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

Latvia Phase 3 – Two Year Written Follow-Up Report

Summary and Conclusions of the Working Group

11-15 October 2021

The Working Group adopted the Summary and Conclusions on 15 October 2021.

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Summary and Conclusions

Summary of findings¹

1. In June 2021, Latvia submitted its Phase 3 written follow-up report to the OECD Working Group on Bribery (WGB or the Working Group). The report outlined Latvia's efforts to implement the 44 recommendations and to address the follow-up issues identified during its Phase 3 evaluation in October 2019². In light of the information provided, the Working Group concludes that Latvia fully implemented 16 recommendations, partially implemented 19 recommendations, and did not implement 9 recommendations.
2. The Working Group congratulates Latvia for successfully concluding its first foreign bribery case and bringing a second one to trial, and encourages Latvia to pursue its efforts to ensure that enforcement is commensurate with the country's exposure to foreign bribery and subsequent money laundering risks. In particular, there has been no progress in the three Phase 3 cases where Latvian banks or other corporate entities were used by non-Latvian companies to channel bribe payments and subsequently launder them. In one case, the scope of the investigation has remained limited to money laundering, and the investigation was closed in the other two cases. Nonetheless, the opening in the last two years of three investigations against legal persons for both money laundering and committing or facilitating bribery is very encouraging. The Working Group also welcomes the increased cooperation between the Corruption Prevention and Combating Bureau (KNAB) and the Financial Intelligence Unit (FIU), and will follow up on how recent institutional reforms promote a strategic approach towards the investigation and prosecution of foreign bribery and related money laundering offences.
3. The Working Group regrets that Latvia took limited steps to bring its legal framework in full compliance with the Anti-Bribery Convention. In particular, Latvia did not adopt rules to ensure that the requirement of direct intent in the foreign bribery offence in Latvian law is consistent with Article 1, and that the offence explicitly covers the promise of a bribe. Similarly, Latvia failed to clarify that proceedings for the application of a coercive measure to a legal person can be initiated even when the related natural person was acquitted abroad.
4. Latvia made considerable efforts to enhance the prevention and detection of money laundering, including through institutional reforms, the increase of FIU staff, the expanding of reporting requirements to new entities, and regular updates of money laundering risk criteria. The Working Group also welcomes the steady increase of money laundering investigations and convictions since Phase 3. However, the fact that no financial institution has been held criminally liable in Latvia for money laundering to date is highly concerning, and the Working Group regrets the persisting lack of money laundering convictions predicated on foreign bribery. The Working Group will monitor progress of the three new cases under investigation, as well as the criminal proceedings and one trial currently ongoing against three financial institutions in high-profile cases.

¹ The evaluation team for this Phase 3 two-year written follow-up evaluation of Latvia was composed of lead examiners from the **Czech Republic** (*Mrs. Kristína Král*, Senior Ministerial Counsellor, Ministry of Justice), and **Mexico** (*Mrs. Cindy Mendoza*, Director of International Affairs, Ministry of Finance and Public Credit, *Mr. Alejandro Ibarra Pena*, Head of Department of International Affairs, Financial Intelligence Unit, *Mr. Ricardo Andres Cacho Garcia*, Director of Procedural Control, Secretariat of Finance and Public Credit, *Mr. José Manuel del Rosal Guerreño*, Director of Investigations of the General Directorate of Procedural Control, Fiscal Federal Prosecutors Office, *Mr. Luis Enrique Pereda Trejo*, Director General of International Perception of Corruption, Ministry of Public Administration and *Mrs. Valentina Valdez Jasso*, Director of Anti-corruption Conventions and Mechanisms, Ministry of Public Administration) as well as members of the **OECD Anti-Corruption Division** (*Ms. Elisabeth Danon*, *Mr. Andrii Kukharuk* and *Ms. Maria Xernou*, Legal Analysts).

² <https://www.oecd.org/corruption/anti-bribery/OECD-Latvia-Phase-3-Report-ENG.pdf>

5. Since Phase 3, the status of foreign bribery enforcement is as follows:

- Out of the five ongoing investigations at the time of Phase 3:
 - One foreign bribery case against one legal person has been concluded through a non-trial resolution, resulting in a fine of EUR 77 400;
 - One formal investigation against one legal person for foreign bribery on a large scale and tax evasion proceeded to trial;
 - Two investigations were closed based on the *non bis in idem* principle, although non conviction-based confiscation was applied in one of these cases; and
 - One investigation for money laundering remains ongoing.
- Five new investigations were opened.

6. The Working Group's Summary and Conclusions on Latvia's implementation of the Phase 3 recommendations are presented below. They should be read in conjunction with the report prepared by Latvia.

Regarding the foreign bribery offence:

- ◆ *Recommendation 1 (a) – Not implemented.* Latvia has developed a legislative amendment that may address concerns expressed in Phase 2 and Phase 3 regarding the element of intent in the foreign bribery offence, in particular in the situation where bribery is committed through an intermediary. However, as is customary in the WGB monitoring process, this development cannot be accounted for until the amendment is adopted.
- ◆ *Recommendation 1 (b) – Not implemented.* Latvia did not amend its legislation to ensure that the foreign bribery offence explicitly covers the promise of a bribe. The Ministry of Justice (MOJ) analysed case law predating the Phase 3 Report and concluded that the promise of a bribe not requested by an official is covered by the offer of a bribe, and further legislative amendments would be redundant. No new arguments or recent case law substantiating Latvia's position regarding the interpretation of the promise of a bribe in its criminal law practice were provided.

Regarding the criminal liability of legal persons:

- ◆ *Recommendation 2 (a) – Partially implemented.* The amended Section 439(31) provides that proceedings can be engaged against a legal person even in cases where the offence has been committed outside of Latvia, in the interest, for the benefit of or as a result of insufficient control from a legal person. The amendment does not on its face address the WGB recommendation. At the time of Phase 3, the amendment had already been drafted and Latvia argued that it would cover the situation where proceedings against legal persons cannot be initiated because the natural person who committed a criminal offence in the interest of that legal person is prosecuted abroad and no final conviction has been reached yet. The amendment has now been adopted but in the absence of case law, Latvia's statement cannot be verified. In addition, even if case law were to confirm Latvia's position, the amendment would still likely be incomplete as it does not expressly cover cases where the natural person was acquitted.
- ◆ *Recommendation 2 (b) – Not implemented.* The letter disseminated by the MOJ to relevant law enforcement authorities and the information published on the Ministry's website do not address the recommendation. The sections of the letter which, according to Latvia, are relevant for the recommendation, provide background information on the amendment of Section 439 of the Criminal Procedure Law (CPL) that entered into force on 6 July 2020. However, they do not clarify that the liability of legal persons is not restricted to cases where the natural person(s) who perpetrated the offence are prosecuted or convicted.

Regarding sanctions and confiscation:

- ◆ *Recommendation 3 (a) – Partially implemented.* The new restriction on the applicability of suspended sanctions against natural persons for further aggravated forms of bribery and money laundering is a positive development, though not yet tested in practice. The single foreign bribery case concluded through a plea agreement is insufficient to conclude that sanctions in foreign bribery and related money laundering are effective, proportionate, and dissuasive.
- ◆ *Recommendation 3 (b) – Partially implemented.* Latvia's efforts to provide guidance and training to practitioners on the practical application of its seizure and confiscation tools are commendable. Such efforts have already translated into a higher confiscation rate in money laundering cases, including two predicated on foreign bribery. However, confiscation of bribe proceeds was not applied in the single resolved foreign bribery case, and is not being sought in the case currently undergoing trial. More advanced guidance and training support may be needed in order to enhance understanding of the concept of proceeds of bribery by law enforcement and ensure timely seizure of such proceeds as practice develops.

Regarding the detection of foreign bribery:

- ◆ *Recommendation 4 (a) – Fully implemented.* KNAB adopted a more proactive approach to detecting foreign bribery. The Working Group welcomes this development, along with the recruitment of five additional analysts in the KNAB team tasked with detecting corruption offences. Additional resources were also allocated to the purchase of technical equipment to collect, store and process criminal intelligence. Two of the five foreign bribery related investigations opened since Phase 3 were commenced based on information received by KNAB. However, these investigations were launched following the related convictions of natural persons in other jurisdictions, which suggests that KNAB should further develop its own detection capacities.
- ◆ *Recommendation 4 (b) – Partially implemented.* Interagency cooperation between KNAB and the FIU in the area of detecting foreign bribery and related money laundering has improved. In practice, in three new cases detected by the FIU, investigations were opened against legal persons suspected of both money laundering and bribery or bribery facilitation. Latvia also reports awareness raising and capacity development efforts to enhance detection by other governmental agencies. However, the result of these efforts remains unclear and further steps, such as awareness raising, training, and guidelines, may be necessary for this recommendation to be considered fully implemented.

Regarding cooperation, resources, and specialisation in foreign bribery cases:

- ◆ *Recommendation 5 (a) – Fully implemented.* All foreign bribery and related money laundering cases launched after Phase 3 are being investigated by KNAB. In addition, the Criminal Justice Department of the Prosecutor General's Office of Latvia issued an official letter on 26 August 2021 clarifying that all foreign bribery and related money laundering cases, including stand-alone money laundering potentially predicated on foreign bribery, should fall under the jurisdiction of KNAB. The Working Group welcomes this step and encourages Latvia to ensure full compliance with the instruction in practice.
- ◆ *Recommendation 5 (b) – Fully implemented.* Several new mechanisms and processes were developed to strengthen interagency cooperation and coordination between law enforcement bodies at the institutional level. This reportedly allowed to develop a common understanding by

different bodies of their role and jurisdiction over foreign bribery and related offences, and facilitated the exchange of information.

- ◆ *Recommendation 5 (c) – Fully implemented.* The Latvian Government assigned additional human resources to KNAB (19 positions) and SP (23 positions), and increased KNAB’s funding. Although not all of the new positions are actually filled, these developments are commendable.
- ◆ *Recommendation 5 (d) – Partially implemented.* The numerous structural changes within the Prosecution Service have led to an increase in the number of prosecutors working on corruption cases, including foreign bribery. However, a newly created Prosecution Office for Investigation of Criminal Offences Committed in State Authority Service, which will potentially manage some foreign bribery and related money laundering cases, does not appear to have sufficient professional expertise to successfully perform this task at the moment. At the same time, with the establishment of the Division for Coordination of the Fight against Corruption that replaces the previously existing Division for Investigation of Especially Serious Cases, the responsibilities of experienced prosecutors of the Prosecutor General’s Office (PGO) were diluted as their role shifted to coordination and training. Following these substantial structural changes, a clarification of the competence of newly created branches of the Prosecutor’s Office over foreign bribery and related money laundering offences would enhance efficiency and help prevent confusion in practice.

Regarding the investigation and prosecution of foreign bribery:

- ◆ *Recommendation 6 (a) – Partially implemented.* KNAB’s internal Order No. 1.20-1/28 on the prioritization of investigation of foreign bribery and money laundering (“the 2020 Order”) sets a seven-day deadline for the evaluation of information received on a potential offence. Although it remains to be seen if the investigation must be launched within the same timeframe, the 2020 Order could significantly contribute to ensuring that foreign bribery cases are promptly and proactively investigated. The Division for Coordinating the Fight against Corruption and the newly-created Division for Coordinating the Fight against Money Laundering within the Prosecutor’s Office could be relevant to address the second part of the recommendation, which calls for Latvia to “adopt a strategic approach towards the investigation and prosecution of foreign bribery and related money laundering offences”, although it is too early to tell. The WGB also welcomes the FIU’s coordination role, including through the Cooperation Coordination Group, the discussions of which have generated relevant input for KNAB on the three new investigations.
- ◆ *Recommendation 6 (b) – Partially implemented.* The Working Group welcomes KNAB’s efforts to organise and participate in training and awareness raising activities focusing on investigations of corruption and money laundering. The training on corruption and money laundering investigations delivered by KNAB was a meaningful step, in particular as it included case studies on the identification of shell companies and their involvement in corrupt transactions. In order to ensure that KNAB routinely considers the involvement of Latvian financial institutions, shell companies and other corporate structures in foreign bribery schemes, Latvia should ensure that similar trainings are delivered on a regular basis to the relevant authorities. Two of the three new investigations reported by Latvia are encouraging. In the first one, a foreign company operating in the health sector allegedly bribed public officials with the help of a Latvian company. In the second one, Latvian bank accounts allegedly served to channel bribe payments and launder them. In both cases, KNAB initiated an investigation for bribery (or abetting in bribery) and money laundering against the Latvian entity.
- ◆ *Recommendation 6 (c) – Partially implemented.* The progression of two cases detected through mutual legal assistance (MLA) and informal international cooperation respectively, although positive, does not address the Working Group’s concerns on the length of evaluation of

information and investigation, since in both cases, the investigation was already open at the time of the Phase 3 report. Latvia reports that the KNAB's 2020 Order to evaluate information and launch an investigation within a certain timeframe covers information disclosed in international cooperation. However, the 2020 Order does not refer explicitly to information received through MLA. Rather, it refers to assessing "the need to contact foreign partner institutions" and making use of relevant international networks. Additional measures are thus necessary to ensure that the Latvian authorities do not request and await permission from foreign authorities to use information provided in the context of MLA before launching their own investigation.

- ◆ *Recommendation 6 (d) – Fully implemented.* The Working Group commends the Latvian authorities for the additional investigative steps taken in the Law Enforcement Agency case, the Belarus Software case and the Information from Media case, including forensic audits and cooperation by companies in two cases. Latvia also reports additional investigative steps (although no special investigative techniques) in two investigations (Vimpelcom case and Transport Logistics International case). Overall, Latvia reports investigative steps taken since Phase 3 in five out of then seven open investigations. The specific reference in the KNAB's 2020 Order to the extensive use of investigative techniques, including special investigative actions, is also a positive development.
- ◆ *Recommendation 6 (e) – Partially implemented.* The Working Group welcomes Latvia's significant training efforts, with strong participation from judicial authorities and relevant law enforcement officials (KNAB, SP, FIU, SRP, and PPO). Relevant training activities include a webinar focusing on foreign bribery and international corruption, as well as several training sessions organised by PGO and KNAB on issues arising in financial crime cases. Although the training activities cover several topics included in recommendation 6(e), Latvia still needs to ensure that specific foreign bribery-related issues are addressed in training activities, including complicity to commit foreign bribery under Article 1(2) of the Convention and effectiveness of sanctions for foreign bribery.
- ◆ *Recommendation 6 (f) – Not implemented.* Latvia did not take concrete steps to ensure that false accounting related to foreign bribery is fully investigated and prosecuted, where appropriate. The 2020 Order requests KNAB investigators to compile information on "the appointment of an accounts appraisal". While this requirement might call for investigators to review a company's books and records, it does not necessarily lead to an investigation and prosecution for false accounting. Moreover, additional steps are necessary to ensure that investigators and prosecutors are aware of and apply the false accounting offence under Section 217 of the Criminal Law (CC).

Regarding jurisdiction:

- ◆ *Recommendation 7 (a) – Partially implemented.* Latvia reports that the letter sent by the MOJ to relevant enforcement authorities clarifies that liability of legal persons is not restricted to cases where the natural person(s) who perpetrated the offence are prosecuted or convicted, which is not relevant to this recommendation. However, KNAB is currently investigating two cases in which Latvian companies may have facilitated the commission of foreign bribery, which is very encouraging. In one of those cases, a Latvian financial institution that was allegedly used to channel bribe payments from a foreign individual to a public official in a foreign country is being investigated under the "intermediation in bribery" offence.
- ◆ *Recommendation 7 (b) – Partially implemented.* The letter sent by the MOJ to relevant enforcement authorities refers to the rules of national jurisdiction in relation to legal persons and "draw[s] attention to the fact that Article 4 (1) of the Convention [...] oblige[s] Member States to establish their jurisdiction if the offense is committed in whole or in part within their territory".

However, the letter does not provide further explanation regarding the rules of territorial jurisdiction in Latvia, and does not call for the recipients to “explore all jurisdictional bases when foreign bribery offences take place”. Nonetheless, the reported progress in the Belarus Software Case and the new investigations against Latvian companies are encouraging.

Regarding investigative and prosecutorial independence:

- ◆ *Recommendation 8 (a) – Not implemented.* Latvia initially reported that an information note was being drafted for the purpose of addressing this recommendation. The week before the adoption of this report, Latvia informed the evaluation team that it intended to include these issues in the code of ethics and conduct for political officials, rather than disseminating information notes to Cabinet members. However, as the code of ethics has yet to be revised, the recommendation remains not implemented.
- ◆ *Recommendation 8 (b) – Not implemented.* As the code of ethics has yet to be revised, Latvia did not take concrete steps to comply with and raise awareness of Article 5 of the Convention among relevant government officials.

Regarding mutual legal assistance:

- ◆ *Recommendation 9 – Fully implemented.* Since Phase 3, Latvia continued to provide effective and timely assistance, to routinely seek MLA in foreign bribery cases, and to provide bank information on requests from other jurisdictions, which is commendable. While most of outgoing MLA requests in foreign bribery or related cases were executed, one request was declined, and two MLA requests and one European Investigation Order are currently pending. It should also be noted that Latvia did not provide sufficient information on MLA-related areas subject to a follow-up in Phase 3, namely: 1. the execution of MLA requests on confiscation in foreign bribery cases, especially when requested by non-EU members and when related to non-aggravated foreign bribery cases; and 2. the legislative provisions allowing declining MLA and extradition requests if they may harm Latvia’s sovereignty, security, social order and “other substantial interests”. Therefore, the Working Group will examine these issues in future evaluations.

Regarding money laundering:

- ◆ *Recommendation 10 (a) – Partially implemented.* The Working Group welcomes the updated 2019 Guidelines for Prioritisation of Money Laundering cases, the adoption of a Directive by the PGO in July 2020 on prioritisation of money laundering cases and the establishment of a new Division for Coordinating the Fight against Money Laundering in January 2021. The new Division is mandated to supervise serious stand-alone money laundering cases and to coordinate other money laundering proceedings by providing methodological support, handling complaints, organising meetings to discuss progress, and compiling statistics. These tasks are currently performed by five prosecutors only. The results of these measures on the prioritisation of money laundering investigations remain to be seen. In terms of enforcement, Latvia reports an overall increase in the number of money laundering prosecutions and convictions since Phase 3. The number of natural persons convicted for money laundering has increased, while the number of legal persons has decreased sharply. Despite the launch of three investigations by KNAB for foreign bribery and money laundering, Latvia still reports no convictions of money laundering predicated on foreign bribery. Although two criminal proceedings and one trial are ongoing against three financial institutions in high-profile cases, no financial institution has been held criminally liable in Latvia for money laundering to date.

- ◆ *Recommendation 10 (b) – Fully implemented.* The Working Group welcomes the measures taken by the Financial and Capital Market Commission (FCMC) to update the minimum enhanced due diligence (EDD) requirements through FCMC Regulation 135 in 2020, and FCMC Regulation 5 in 2021. The latest National Risk Assessment report was taken into account to update the list of entities with a high exposure to money laundering risks. The annex to FCMC Regulation 5 provides money laundering risk increasing and decreasing factors that trigger the EDD process
- ◆ *Recommendation 10 (c) – Fully implemented.* With the adoption of FCMC Regulation 5, a broader range of financial entities are now required to apply EDD requirements and other additional anti-money laundering measures in cases of high corruption-related money laundering risks. In particular, FCMC Regulation 5 covers insurance undertakings and intermediaries, and imposes similar requirements on payment institutions and electronic money (PI/EMIs) and other institutions. Regarding non-financial entities, training and awareness raising activities on risk assessment as well as inspections of supervised entities by the State Revenue Service (SRS), the Collegium of Sworn Advocates of Latvia (LCSA) and the Council of Sworn Notaries of Latvia (LCSN) are positive developments. Moreover, Section 22 of the Prevention of Money Laundering and Terrorism Financing Law (AMLTFLL) as amended in June 2019 covers non-financial entities.
- ◆ *Recommendation 10 (d) – Partially implemented.* Latvia reports positive developments regarding the FCMC's resources since Phase 3, including the increase of the Money Laundering Prevention and Sanctions Department's staff from 20 to 28. Latvia also monitors the FCMC's application of sanctions in cases of violations of anti-money laundering requirements by legal and natural persons. The total amount of fines imposed on banks by the FCMC nearly doubled from 2016-2018 to 2018-2020 (EUR 11.5 million and EUR 6.6 million respectively). However, the FCMC did not review its criteria for the application of available sanctions. The Working Group welcomes measures taken by Latvia to adjust the scope of on-site inspections. Nonetheless, additional measures are necessary to review the criteria for application of sanctions.. The FCMC's Guidelines already existed at the time of adoption of the Phase 3 report.
- ◆ *Recommendation 10 (e) – Fully implemented.* The Working Group welcomes the FCMC's and other supervisory entities' efforts to set a risk-based approach and maintain a stable number of on-site visits to control compliance with the AMLTFLL. The decision made by the Latvian authorities to categorise banks into risk groups according to an updated risk assessment methodology is another positive development.
- ◆ *Recommendation 10 (f) – Fully implemented.* The WGB commends Latvia for the FIU's sharp staff increase from 38 in 2017 to 68 in 2021. Latvia reports three awareness-raising and training activities for FIU officials on detection of bribery-related money laundering cases in 2021. Latvia does not report awareness-raising activities in 2019-2020, and participation of FIU staff in activities on corruption detection was limited, with only one webinar focused specifically on foreign bribery. However, the awareness-raising activities brought results in the form of the detection of three money laundering cases predicated on foreign bribery by the FIU.
- ◆ *Recommendation 10 (g) – Fully implemented.* The Working Group welcomes the FIU's efforts to foster cooperation and coordination with law enforcement authorities, including through the adoption in September 2020 of Guidelines on the cooperation of the FIU with operational bodies and the continuous operation of the Cooperation Coordination Group (see also Latvia's report on Phase 3 follow-up issue 16(h)). These efforts have resulted in tangible results in the detection of corruption and foreign bribery-related STRs, as well as their dissemination to KNAB. The percentage of corruption-related STRs out of the relevant STRs received rose from 5% in 2015-2018 to 14% in 2019 and 38% in 2020.

Regarding accounting and auditing requirements:

- ◆ *Recommendation 11 (a) – Not implemented.* No legislative amendment was initiated to compel non-listed companies to conduct internal investigations in response to reports from sworn auditors. Nevertheless, Latvia reported the matter to be under consideration. Additionally, no concrete efforts were made to incentivise companies to conduct independent internal investigations and report suspected foreign bribery to competent authorities.
- ◆ *Recommendation 11 (b) – Partially implemented.* Several training activities were organised by KNAB and the Latvian Association of Sworn Auditors to raise awareness of sworn auditors' role in detecting foreign bribery. Several other training events covered that topic, although none of them were specifically devoted to the subject. To date, these efforts have not translated into any detection of foreign bribery by sworn auditors. Further and more targeted awareness raising efforts might be necessary for this recommendation to be considered fully implemented.
- ◆ *Recommendation 11 (c) – Fully implemented.* The amendment to CPL Section 121 enables investigators and prosecutors at the pre-trial stage to request sworn auditors to provide information or documents at their disposal due to performing professional duties, to carry out an inspection, and to be interrogated. However, confidential information at the disposal of credit or other financial institutions, including bank information, may not be provided upon such request. The request for such information should be approved by the investigative judge and submitted to a respective credit or financial institution directly.

Regarding tax-related measures:

- ◆ *Recommendation 12 (a) – Fully implemented.* The 2020 Order instructing KNAB investigators to assess the need for an appraisal of tax losses by the State Revenue Service (SRS) in foreign bribery investigations could lead to the reopening of tax statements of companies under investigation. The Belarus Software case is a compelling example. Additionally, as part of the additional material sent on 6 September, Latvia shared a letter dated 27 August 2021 and sent to all prosecutors, which provides that “in all foreign officials bribery criminal cases Prosecutors shall send the gathered risk information in respect of a taxpayer, for example, regarding the improper revenues or expenditure, to the State Revenue Service for review and conduction of possible control measures”. These two measures should ensure that law enforcement authorities routinely share information with the SRS on foreign bribery investigations.
- ◆ *Recommendation 12 (b) – Partially implemented.* The development of new training programmes is positive, although it is unclear how these programmes will specifically help detection of foreign bribery by tax inspectors. Additionally, one of these trainings is still being developed, and the other one has been administered to a limited number of experts to date. It remains to be seen if the new trainings will lead to concrete results. Finally, Latvia does not report new guidance, as recommended by the WGB. To date the SRS has yet to detect a foreign bribery case through tax audits.
- ◆ *Recommendation 12 (c) – Partially implemented.* The update of Latvia's risk assessment system to include indicators from the “OECD Bribery Awareness Handbook for Tax Examiners”, in December 2020 addresses the second part of the recommendation, and will hopefully garner results in practice. Further efforts are needed for Latvia to address the first part of the recommendation, i.e. to “strengthen its system of risk-based tax audits to more adequately take into account the risk of foreign bribery when deciding which companies to audit”.

- ◆ *Recommendation 12 (d) – Not implemented.* In 2020, no cases of foreign bribery were detected through the SRS. The internal competence centre established in the SRS in June 2020 can provide initial consultations on corruption issues to SRS officials, but was not tasked to assess whether bribes to foreign public officials are effectively detected by tax authorities.
- ◆ *Recommendation 12 (e) – Fully implemented.* The 2020 Order requests KNAB officials “where information on alleged bribery of foreign public officials has been received from other institutions, to ensure that the information provider receives an answer within the scope of the Bureau’s competence”. This measure implements the recommendation, as it would include feedback to KNAB following a referral of foreign bribery suspicion.

Regarding corporate compliance, internal controls and ethics:

- ◆ *Recommendation 13 – Fully implemented.* Latvia reports several measures that appear relevant to encourage companies, including SMEs and SOEs, to adopt effective internal controls, ethics and compliance measures designed to prevent and detect foreign bribery.

Regarding awareness-raising and the reporting of foreign bribery:

- ◆ *Recommendation 14 (a) – Partially implemented.* Latvia demonstrated limited efforts to raise awareness of the foreign bribery offence among its officials who are in a position to detect it. While some awareness raising activities were organised for diplomatic staff, no other officials in this position took part in similar actions. In addition, Latvia undertook a number of activities to promote whistleblower reporting in the public and private sectors, even though not explicitly focused on detecting foreign bribery. Since Phase 3, neither members of Latvia’s diplomatic missions nor other officials reported foreign bribery.
- ◆ *Recommendation 14 (b) – Fully implemented.* The amendments to the Law on Prevention of Conflict of Interest in Activities of Public Officials, which entered into force on 3 February 2021, require public officials to report situations of conflict of interests or possible cases of corruption to the head of the authority, KNAB or the Prosecutor General. However, it should be noted that no such reports have led to the detection of foreign bribery to date.

Regarding public advantages:

- ◆ *Recommendation 15 (a) – Not implemented.* The proposed amendment does not address the recommendation, as it extends the persons and entities that can be excluded from public contracting, as well as the grounds for exclusion, but it neither calls for procuring authorities to routinely check debarment lists of multilateral development banks nor to conduct comprehensive due diligence before granting a procurement contract. Latvia explained that once the amendment is adopted, guidance on its implementation may be released and call for procuring agents to check debarment lists of multilateral development banks before granting a procurement contract.
- ◆ *Recommendation 15 (b) – Partially implemented.* Since 2020, the Ministry of Foreign Affairs (MOFA) has introduced screening of ODA project applicants and their partners in the debarment lists of the World Bank and the European Bank for Reconstruction and Development (EBRD) and the national and international sanctions lists, which is positive. The amendments to the Law on International Assistance, which were announced in February 2021, would provide access for the MOFA to screen the project applicants and their partners in the Register of Punishment. This is also positive, but the amendments have yet to be adopted. Regarding due diligence, the corruption risk assessment procedure for applicants is a welcome development but Latvia does not provide

information regarding the verification of the information provided by applicants, which is what prompted the WGB recommendation.

- ◆ *Recommendation 15 (c) – Partially implemented.* Internal rules adopted a few days before the discussion of this report call for Altum to request exporters to present a statement from the Punishment Register in all foreign public procurement transactions, or when Altum has received information that applicants have been involved in criminal proceedings or convicted of economic crimes. Under these new rules, where the applicant fails to submit a statement from the Punishment Register, the export credit guarantee request is to be declined. These new rules address the first part of the recommendation. Regarding the second part of the recommendation, Latvia reports several developments to ensure that appropriate due diligence is carried out before granting support, including the strengthening of internal procedures. Finally, on the third part of the recommendation, Latvia reports an additional e-training on “Basic Issues in the Prevention of Corruption”, delivered to all employees at the end of 2020. While this is positive, this appears to be an isolated event covering basic principles. It is thus unlikely that this would contribute to reports of alleged foreign bribery being made to KNAB.

Dissemination of the Phase 3 report

The Ministry of Justice published a press release to announce the adoption of the Phase 3 Report on its website. The press release contains the key points of the Report in Latvian and a link to its full version in English. In addition, the Ministry sent a brief summary of the Report and its key messages to the government, along with a proposed action plan assigning tasks to relevant stakeholders to implement the Report’s recommendations. The adoption of the action plan by the Cabinet of Ministers was reported on the website of the Ministry of Justice and in the media. Both the action plan and the summary of the Report are available on the government website in Latvian.

Conclusions of the Working Group on Bribery

Based on these findings, the Working Group concludes that recommendations 4(a), 5(a) to (c), 6(d), 9, 10(b), (c), (e), (f) and (g), 11(c), 12(a) and (e), 13 and 14(b) have been fully implemented; recommendations 2(a), 3(a) and (b), 4(b), 5 (d), 6(a) to (c), 6(e), 7(a) and (b), 10 (a), and (d), 11(b), 12(b) and (c), 14(a) and 15(b) and (c) have been partially implemented; and recommendations 1(a) and (b), 2(b), 6(f), 8(a) and (b), 11(a), 12(d), and 15(a) have not been implemented. The Working Group invites Latvia to report back in writing within two years (i.e. by October 2023) on outstanding recommendations 1(a) and (b), 2(a) and (b), 6(a)-(c), 10(a), and 11(a), as well as on the status of foreign bribery enforcement. Latvia may also ask for additional recommendations to be re-assessed at that time. The Working Group will continue to monitor follow-up issues as case law and practice develop. Latvia will also report to the Working Group on its foreign bribery enforcement actions in the context of its annual update.

Written Follow-Up Report by Latvia

PHASE 3 EVALUATION OF LATVIA: TWO-YEAR WRITTEN FOLLOW-UP REPORT

Instructions

*This document seeks to obtain information on the progress each participating country has made in implementing the recommendations of its Phase 3 evaluation report. Countries are asked to answer all recommendations as completely as possible. Further details concerning the written follow-up process is in the [Phase 3 Monitoring Information Resources](#) (paragraphs 55-67).**

*Please submit completed answers to the Secretariat on or before **21 June 2021**.*

Name of country:	LATVIA
Date of approval of Phase 3 evaluation report:	10 October 2019
Date of information:	21 June 2021, with additional information provided on 9 and 22 July, as well as 6 September 2021.

PART I: RECOMMENDATIONS FOR ACTION

Regarding Part I, responses to the first question should reflect the current situation in your country, not any future or desired situation or a situation based on conditions which have not yet been met. For each recommendation, separate space has been allocated for describing future situations or policy intentions.

Text of recommendation 1(a):

1. Regarding 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; Phase 2 recommendation 13(a)];

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

In order to implement the recommendation and to ensure that the requirement of direct intent is consistent with Article 1 of the Convention, the following amendment to the Law On the Procedures for the Coming into Force and Application of the Criminal Law has been drafted and it adds a new Section 19.³ in the following wording:

“For the purposes of Section 323 of the Criminal Law, such acts shall also be regarded as giving of bribes through intermediaries, where the giver of a bribe, by entrusting the intermediary with material

*As agreed, the evaluation schedule is based on the Phase 4 Two-Year Written Follow-Up Report Timetable set out in Annex 1 to the [Phase 4 Monitoring Guide](#). The evaluation team exceptionally accepted updates and new material submitted by Latvia up until Monday 6 September.

values, properties or benefits of other nature, has deliberately assumed that the intermediary will commit bribery. In such a case, it does not matter whether a specific official has been named to the intermediary for whom the bribe is intended, as well as the circumstances under which and in what amount the bribe is to be transferred.”.

The amendment is planned to be submitted to the Cabinet of Ministers (the Government) for approval in August 2021. After the Government approves the amendment, it will be forwarded to the Parliament for final approval.

The amendment was elaborated by the Working Group on the Criminal Law and it was decided that the best approach is to include such provision in the Law On the Procedures for the Coming into Force and Application of the Criminal Law. It is a usual practise to provide the necessary clarifications for the Criminal Law provisions in the said Law. It is believed that the proposed amendment will provide the interpretation of the provisions of the Criminal Law in regard to bribery and direct intent in conformity with Article 1 of the Anti-Bribery Convention.

It should be noted that in regard to term “giving of bribes” the reference in the drafted proposal is made to Section 323 “Giving of Bribes” of the Criminal Law and this term covers offering and promising of a bribe:

Section 323. Giving of Bribes

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

[Additional Information]

<https://likumi.lv/ta/en/en/id/50539-on-the-procedures-for-the-coming-into-force-and-application-of-the-criminal-law>

If no action has been taken to implement recommendation 1(a), 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 1(b):

1. Regarding the foreign bribery offence, the Working Group recommends that Latvia amend its legislation to ensure that:

b) The offence explicitly covers the promise of a bribe [Convention Article 1; 2009 Recommendation III(ii) and V; Phase 2 recommendation 13(b)(i)].

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

The amendment to Section 323 of the Criminal Law introducing a promise of a bribe if requested entered into force on 7 April 2016. The amendment to expressly cover the promise of a bribe was elaborated and proposed to the Parliament based on the conclusion of the WGB within Latvia's Phase 2 Report in 2015 (199. *Latvia's foreign bribery offence does not expressly cover the "promise" of a bribe. CL Section 323 only refers to the "handing over or offering" of bribes. However, Latvian authorities stated that the term "offering" includes a "promise" since the two words have the same meaning in the Latvian language. They also referred to one case in which an individual was convicted of offering a bribe. The individual had offered to pay part of the bribe before the public official performed the requested act and promised to pay the second part after. The official did not accept the briber's proposition.*

200. *Concerns remain about cases of solicitation, however. Private sector lawyers at the on-site visit stated that a person who accepts a bribe solicitation by a public official is only guilty of attempted bribery and not the full offence. The actual delivery of the bribe to the official is necessary to complete the offence in CL Section 323. This would be inconsistent with Article 1 of the Convention. In response, Latvia states that CL Section 323 was amended in 2013 to delete the requirement that bribery is an offence only if a briber's offer to pay the bribe is accepted by the official. This amendment, however, does not concern a bribe solicited by an official. The Ministry of Justice These being the circumstances, it is unlikely that a legislative project reassessing the system will take place any time soon. However, when such an assessment will take place in the future, the issue will be given consideration."*

During the review of the amendment, the Parliament came to conclusion that the wording of "offer" overlaps the promise of a bribe where the briber commits him/herself to give an undue advantage later, e.g. after the public official has performed the act requested by the briber, which is also reflected in the case law³ and the only situation which is not covered by the offer of a bribe is the promise of a bribe if solicited/requested which concur with the observations made by the WGB in Phase 2 Report. Therefore, the Parliament adopted the amendment introducing the promise of a bribe if requested.

The Ministry of Justice following the WGB recommendation reviewed the case of law of application of Section 323 regarding the promise/offer of a bribe. In a course of this review the Ministry of Justice came to conclusion that in cases where a person has expressed its readiness to pay a bribe (including cases where a person commits him/herself to give an undue advantage later, e.g. after the public official has performed the act requested by the briber) and there is no proof that such request has been expressed on the part of a public official this is considered as an offer of a bribe.

Moreover, it should be noted that on 21 February 2019 the Constitutional Court in the case No 2018-10-0103 stated that Article 90 of the Constitution includes, inter alia, the quality criteria of the legal norms, according to which every provision of law must be sufficiently clear. The clarity of the legal provision should be assessed on the basis of the interpretation of this provision. In particular, a legal

³ In the case No 13870001105 (judgment entered into force as of 22 August 2008) as a bribe a number of positions were promised: the position in the Board of Directors at the Bulduri Hospital and the position of the Vice-Mayor of Jurmala City Council after the person would vote for the candidate of mayor of Jurmala. In the case No 11310001412 (judgement by the Ogre District Court on 14 August 2014) a person offered to pay a part of a bribe immediately but the rest of the amount promised to pay after the public official has performed the act requested by the briber. These cases were described in Latvia's Reply to Phase 2 questionnaire.

provision should be considered unclear only then if it is not possible to clarify its true meaning by means of methods of interpretation. Only in such cases amendments to a norm should be necessary.

Bearing in mind that the Convention seeks to assure a functional equivalence among the measures taken by the Parties to sanction bribery of foreign public officials, without requiring uniformity, as well as all aspects reflected above regarding case law, Latvia considers that further amendments regarding the promise of a bribe would create confusion what kind of actions are covered by the promise and the offer of a bribe, as there would be an overlap in case of a promise of a bribe where the briber commits him/herself to give an undue advantage later with the offer of a bribe.

[Additional information]

Currently, there are no judgements issued after the adoption of the Phase 3 Report in regard to a promise/offer of a bribe.

If no action has been taken to implement recommendation 1 (b), 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 2(a):

2. Regarding the criminal liability of legal persons, the Working Group recommends that Latvia:

a) Promptly adopt legislation to ensure that proceedings for the application of a coercive measure to a legal person can always be initiated, including when the related natural person is subject to ongoing prosecution or was acquitted abroad [(Convention Articles 2 and 3; 2009 Recommendation III(ii) and Annex I.B)];

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

On 11 June 2020 the Parliament (Saeima) adopted the amendment to Section 439 of the Criminal Procedure Law which entered into force on 6 July 2020. The amendment expressed Paragraph 3¹ in a new wording:

“(3¹) A procedurally authorised official may also initiate proceedings for the application of a coercive measure to a legal person in cases where the grounds for initiating the proceedings against a legal person laid down in Paragraph one of this Section have been ascertained and one of the following conditions exists:

1) it has been refused to initiate criminal proceedings or they have been terminated on the basis of non-exonerating circumstances;

2) the actual possibility exists that a criminal offence has been committed outside the territory of Latvia in the interests of the legal person registered in the Republic of Latvia, for the benefit of the person or as a result of insufficient supervision or control.”.

If no action has been taken to implement recommendation 2 (a), 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 2(b):

2. Regarding the criminal liability of legal persons, the Working Group recommends that Latvia:

b) Clarify that the liability of legal persons is not restricted to cases where the natural person(s) who perpetrated the offence are prosecuted or convicted, in Latvia or abroad and that proceedings against legal persons may be commenced in the absence of criminal charges against a natural person [Convention Articles 2 and 3; 2009 Recommendation III(ii) and Annex I.B].

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

In order to address this recommendation the Ministry of Justice has disseminated the informative letter to all practitioners (courts, the Supreme Court, prosecutors, investigators of KNAB and the State Police) clarifying that the legal norms stipulating that liability of legal persons is not restricted to cases where the natural person(s) who perpetrated the offence are prosecuted or convicted, in Latvia or abroad and that proceedings against legal persons may be commenced in the absence of criminal charges against a natural person.

The information was also published at the website of the Ministry and is available here: <https://www.tm.gov.lv/lv/skaidrojumi>

[Additional information]

Yes, in all three recommendations the reference is made to the same letter which is also published at the following address: <https://www.tm.gov.lv/lv/skaidrojumi>.

Below the copy of the letter is provided, however, it should be noted that the part of the letter which does not address the recommendations have not been provided in the attached copy.

[Document provided by Latvia]

Yes, the title of the publication is ““Piespiedu ietekmēšanas līdzekļu piemērošana juridiskajām personām””.

2b: pages 1 and 2

7a: pages 2 and 3

7b: pages 2 and 3

If no action has been taken to implement recommendation 2 (b), 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(a):

3. Regarding sanctions and confiscation, the Working Group recommends that Latvia:

a) Take steps to ensure that sanctions imposed by the courts in foreign bribery and related money laundering cases are effective, proportionate and dissuasive. [Convention Articles 3(1) and 7];

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

In order to ensure that sanctions imposed by the courts are effective, proportionate and dissuasive the Parliament adopted the amendment to Section 55 of the Criminal Law which provides for a new threshold for the admissibility of conditional sentencing, namely 3 years instead of previous 5 years thus excluding the possibility to apply conditional sentencing for especially serious crimes, i.e. in cases if bribery is committed by an organised group (an association formed by more than two persons which has been created for the purpose of jointly committing one or several crimes and the participants of which in accordance with previous agreement have divided responsibilities) or in cases if money laundering is committed on a large scale (i.e. involving at least 50 minimum monthly wages specified in the Republic

of Latvia (25,000 EUR) or by an organised group. The new provision is in force since 6 July 2020.

The Prosecutor General has issued an order entitled “On the Performance of the Tasks Specified in the Plan for Combating Shadow Economy, Money Laundering and Terrorism Financing Measures”, whereby all chief prosecutors have been tasked with increased control of the actions of prosecutors in relation to expressing an opinion regarding the punishment in court, as well as the punishment chosen in the process of a plea agreement, and on submission of appeal in criminal cases related to financial and economic crimes with large-scale damage to the State or local government, including money laundering and corruption-related crimes.

[Additional Information]

[Document provided by Latvia]

Up to now, there is only one case of foreign bribery in which sanctions have been imposed. The imposed sanction on a legal person was a fine of EUR 77 400. In addition, according to Section 42 of the Public Procurement Law the company will not be able to participate in public procurement for three years since the date when the decision was adopted.

In regard to money laundering cases – it should be noted that Latvia does not require to establish the predicate offence in order to convict for money laundering, therefore, Latvia cannot provide statistics on sanctions imposed specifically in cases of money laundering predicated on foreign bribery.

If no action has been taken to implement recommendation 3 (a), 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 sanctions and confiscation, the Working Group recommends that Latvia:

b) Make effective use of its confiscation regimes and provide regular training to investigators, prosecutors and judges specifically on methods for quantifying proceeds of foreign bribery [Convention Article 3(3)].

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

In regard to recommendation on effective use of Latvia’s confiscation regimes it should be noted that on 23 December 2019 the Government approved the AML/CFT/CFP Action Plan for the period 2020 – 2022 addressing also the effectiveness of Latvian confiscation regime. The Action Plan was updated and approved by 23 September 2020 the Government’s Order No 576, taking into account the results of the international evaluations. The Action Plan under the chapter “Confiscation” stipulates several tasks such as to update the Guidelines on Confiscation, to provide the necessary training to investigators, prosecutors and judges on confiscation, as well as to collect and analyse systematically the confiscation data and practice.

KNAB has set as one of the main priorities in its Operational Strategy for 2020-2022 to conduct parallel financial investigations in all criminal proceedings in order to identify, seize and confiscate proceeds of crime. Full text of the Strategy:

https://www.knab.gov.lv/upload/2020/operational_strategy_2020-2022_eng.pdf. It should be noted that according to the AML/CFT/CFP Action Plan for the period 2020 – 2022 each law enforcement agency should strengthen its capacity to ensure systematic parallel financial investigations.

Implementing the Action Plan various Latvian authorities have organised trainings in regard to confiscation to practitioners: investigators, prosecutors and judges, including on methods for quantifying proceeds of foreign bribery.

During the reporting period the Prosecutor General's Office of the Republic of Latvia both independently and in cooperation with other institutions has organized various training events aimed at ensuring the efficient practical application of the confiscation regulation. During that training the special attention was paid to the issues related with identification of the illegally acquired assets, imposing the arrests to the assets, as well as to amendments to the legal framework of 2017 regarding the application of the extended assets confiscation and proving of the assets criminality by means of the circumstantial evidence. For example, on 28 April 2021 within the framework of the European Commission project "Improvement of competences of justice professionals in investigating and prosecuting of economic and financial crimes in the Baltic States" the Prosecutor General's Office of the Republic of Latvia together with the Prosecutor General's Office of the Republic of Lithuania and the Prosecutor General's Office of the Republic of Estonia organized the international conference devoted to the asset recovery problems, including the assets confiscation case-law. National and well-known international experts gave their presentations during this conference. The training organized by the Prosecutor General's Office was attended by more than 250 employees of the law enforcement authorities (judges, assistants to judges, head prosecutors, direct superiors of investigators and investigators).

On 29 and 30 October 2020 FIU Latvia in cooperation with the Latvian Judicial Training Centre organized online training for law enforcement officials, prosecutors and judges regarding matters relating to ML and confiscation issues. In total, more than 330 participants attended the training, incl. representatives from the Prosecutors Office, the State Police, KNAB, FCMC, FIU Latvia, University of Latvia and 24 judges.

The Court Administration within its EU funded project "Justice for Growth" and in cooperation with the European Rights Academy (ERA) organised several trainings related to confiscation issues, including on methods for quantifying proceeds of foreign bribery:

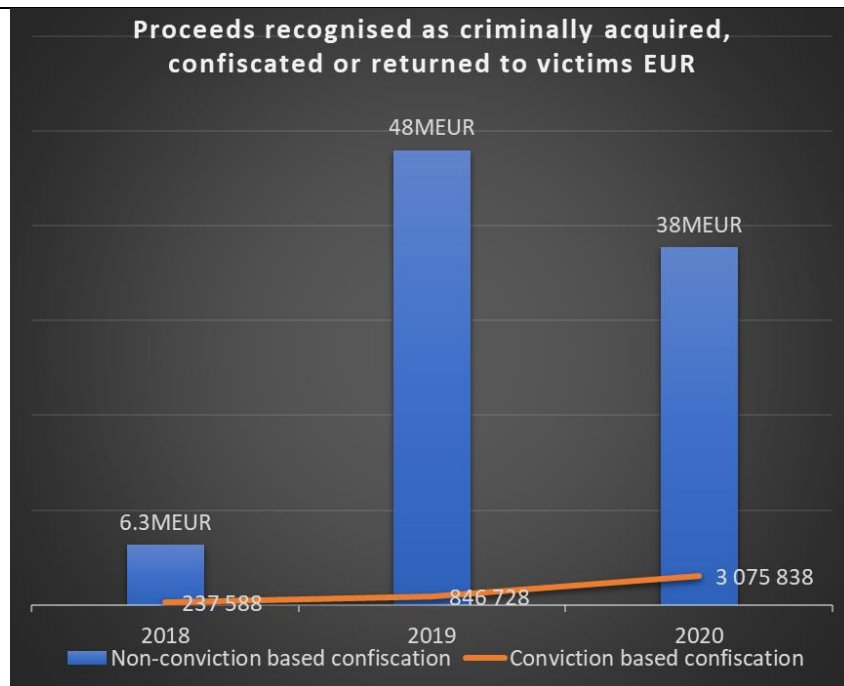
- Conducting effective financial crime investigations in the EU in January 2021 (agenda attached in Annex, *file: 021LV07e prog EN*);
- Conducting investigations into and adjudicating on financial crimes in the EU in March 2020 (agenda attached in Annex, *file: 020LV04 prog EN*);

On 27 October 2020 the Latvian Judicial Training Centre in cooperation with the U.S. Department of Justice (DOJ) Office of Overseas Prosecutorial Development, Assistance, and Training organised training on financial crimes and confiscation measures which was attended by 65 participants: 41 judges and 24 assistants to judges.

On June 29-30, 2021 Latvian authorities in cooperation with the U.S. Department of Justice (DOJ) Office of Overseas Prosecutorial Development, Assistance, and Training, will organise the Illicit Asset Recovery Seminar for prosecutors, law enforcement investigators, financial intelligence unit representatives, and justice-sector officials from Estonia, Latvia, and Lithuania. The seminar will be part of a series of programs dedicated to illicit asset recovery, also referred to as confiscation and forfeiture. This program will provide an overview about ways to identify, trace, seize, and confiscate illicit assets from various perspectives, as well as to identify opportunities for enhanced in international cooperation.

In 2021 KNAB organised several training programmes aimed at improving confiscation of corrupt proceeds (on 11 and 19 May "Financial investigation" and on 25-26 May "Financial analysis"). Please see the relevant information on training provided in Annex (Annex 1, 2, 3, 4).

As the result of comprehensive trainings and steps taken in order to increase the effectiveness of Latvian confiscation regimes Latvia has achieved considerable increase in confiscation results:



In 2020 nine criminal proceedings of alleged money laundering related to corruption crimes have been initiated by KNAB seizing more than 22 million EUR and 13 real-estate properties.

In regard to concerns expressed in Phase 3 over Latvia's ability to seize and confiscate proceeds, in a context where crime proceeds in Latvia largely derive from offences committed abroad and only money flows transit through Latvia before the assets are deposited in another jurisdiction it should also be noted that in one *Case* Latvia has confiscated 13 830 34,92 MEUR as criminally acquired proceeds.

In the case against IT company (Case#1 in the 3rd Phase Report) within the criminal proceedings it was established that the IT company concluded fictitious agreements, enabling the company to transfer bribes to the public official of Belarus. The fictitious agreements allowed the legal person registered in Latvia to evade the payment of corporate income tax, causing 512 741.64 EUR losses to the State. The case is submitted to the court for adjudication and the court will have to decide on the confiscation of the said amount and returning it to the State as a victim.

[Additional Information]

1. As to seizure confiscation measures applied in foreign bribery cases and related money laundering cases since the adoption of the Phase 3 Report KNAB has reported that in 2020 nine criminal proceedings of alleged money laundering related to corruption crimes have been initiated by KNAB seizing more than 22 million EUR and 13 real-estate properties.

In one case Latvia has confiscated 13 830 34,92 MEUR as criminally acquired proceeds.

In the foreign bribery case within the criminal proceedings, it was established that the IT company concluded fictitious agreements, enabling the company to transfer bribes to the public official of Belarus. The fictitious agreements allowed the legal person registered in Latvia to evade the payment of corporate income tax, causing 512 741.64 EUR losses to the State. The case is submitted to the court for adjudication and the court will have to decide on the confiscation of the said amount and returning it to the State as a victim.

Concerning seizures and confiscation in cases of money laundering related to foreign bribery, it should be noted that Latvia can provide the overall statistics on seizure and confiscation measures in money laundering cases, but there are no statistics specifically on money laundering cases predicated on foreign bribery as most such cases in Latvia are enforced as stand-alone money laundering cases without

establishing a predicate offence. Please see below the statistics provided on amounts seized and confiscated in money laundering cases.

[Document with data on seizure and confiscation provided by Latvia]

2.The Guidelines on Confiscation have been updated by adding the methodological recommendations regarding extended confiscation. These recommendations include recommendations on how to identify the property subject to extended confiscation, seizure procedures, procedures for non-conviction based confiscation. The copy in Latvian of the recommendations is provided below.

[Document provided by Latvia]

3.As to the further training activities in regard to confiscation measures it should be mentioned that currently the Division for Coordination the Combatting with Money Laundering of the Prosecutor General's Office in cooperation with the U.S. Department of Justice Office of Overseas Prosecutorial Development, Assistance, and Training prepare the training materials for a special training course on money laundering and confiscation measures, as well as conduct training "train the trainers" for those who will conduct this course in the future. It is foreseen that the training course will start in autumn and will be included in the training plans of the Prosecutor's Office. The training will be provided not only for prosecutors but also for investigators.

In addition, it should be mentioned that in June 2021 another course took place in cooperation with the U.S. Department of Justice Office of Overseas Prosecutorial Development, Assistance, and Training related to confiscation measures: on 29-30 June 2021, the "Baltic regional seminar on the Asset Recovery" took place.

It is the first seminar of this kind on the recovery of proceeds of crime covering topics such as the identification, tracing and seizure of criminal property and addressed opportunities for further enhancement of international cooperation.

Experts from Latvia, Lithuania, Estonia and the United States participated in the seminar.

The seminar addressed the following topics:

- Methods for concealing illegal property
- Strategic planning before carrying out a property seizure
- Report on the confiscation system of criminally acquired property in Latvia
- Challenges for property recovery investigation in Estonia
- Report on the recovery of property in Lithuania.
- International cooperation in the process of property recovery
- Recovery of the property from the investigator's perspective.

Approximately 69 participants participated in the workshop, of which around 30 were representatives of the Latvian law enforcement authorities, ministries and the Prosecutor's Office of the Republic of Latvia.

Currently, the following training activities are envisaged in cooperation with the US within the OPDAT programme related to confiscation measures:

- Aug/Sep (TBC) Proactive Investigation and Prosecution of Financial Crime Part 3: Task Force Development and Management. Primary audience prosecutors and investigators. Focus on financial crimes, including corruption and money laundering.
- Aug/Sep (TBC) Proactive Investigation and Prosecution of Financial Crime Part 4: Trial Presentation Skills and Visualizing Complex Evidence To be announced. Primary audience

prosecutors, with some investigators. Focus on financial crimes, including corruption and money laundering.

- October (TBC) Interactive Training Program: Complex Case Management and Evaluating Evidence. The target audience will be Economic Affairs Court Judges. Focus on complex case management, evaluating indirect evidence in financial crimes.

There are also further training activities planned in cooperation with European Rights Academy (ERA).

In cooperation with ERA there are plans to conduct the following training in regard to confiscation:

1. Effective financial and economic crimes investigation – two workshops which would follow up on the training conducted in March “Investigation and prosecution of Financial crimes in EU”, as well as it is planned to cover such topics as circumstantial evidences, case law, seizure and confiscation measures, fight against money laundering. One of them is planned in September. Please see below the draft agenda.

[Document with draft agenda provided by Latvia]

2. Cross boarder cooperation in criminal cases – two workshops focusing on case law in regard to confiscation of illegal proceeds, seizure measures to secure confiscation.
3. e-evidence (mobile devices, cloud computing).

Moreover, it should be noted that on 1-2 July there was a meeting with the ERA on future cooperation in providing training to Latvian authorities and the topic of confiscation has been included for future topics of the training.

Please see below the agenda of the said meeting:

[Document with agenda provided by Latvia]

Additionally, it should be noted that Latvian Police College is providing regular training on confiscation issues (training programme “Confiscation measures in criminal proceedings regarding fraud and money laundering” for law enforcement officers. Thus in 2020, there was training provided on 28.01.2020., 12.03.2020., 09.06.2020., 21.08.2020., 17.09.2020., 28.09.2020., 24.11.2020. and 16.12.2020. More than 100 police officers were trained. This training programme has been included in the training plans for 2021/2022. It is envisaged that the training would take place 5 times.

According to the information provided by the LSPA the following training activities are planned within the European Social Fund Project No. 3.4.2.0/15/I/002 "Professional development of human resources in public administration in the field of prevention of corruption and the reduction of the shadow economy (project K):

1. from December 2021 to February 2022 it is planned to conduct the training on investigation of foreign bribery for several groups;
2. In October 2021 the training seminar on financial investigations;
3. In September 2021 the training on how to identify cryptocurrencies during the investigation of criminal offences, how to trace them, seize and confiscate.

We were informed that the planning process of further activities is still in process and these are only those which are planned until the end of this year.

In the meantime KNAB provided information on planned activities within the EEA/Norway funded project in cooperation with KNAB:

1. In September – December 2021 on financial investigations which would be the continuation of the training conducted in May 2021. The training is envisaged to be conducted in cooperation with the State Revenue Service, the State Police, the FIU, Prosecutor’s General Office and the Internal

Security Bureau.

2. January – March 2022 on detection and investigation of foreign bribery in cooperation with the State Revenue Service, the State Police, the FIU and Prosecutor’s General Office.

In both training activities the exchange of experience visits to Norway are planned.

If no action has been taken to implement recommendation 3 (b), 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 4(a):

4. Regarding the detection of foreign bribery, the Working Group recommends that Latvia:

- a) Ensure that adequate resources are allocated to KNAB’s detection functions and that KNAB give sufficient priority to detecting foreign bribery cases [Convention Article 5 and Commentary 27; 2009 Recommendation II and Annex I.D];

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

In order to ensure that KNAB gives sufficient priority to detecting foreign bribery cases on June 16, 2020 the Order No.1.20-1/28 was issued. The said Order prioritizes the detection of bribery of foreign public officials, inter alia fostering effective cooperation and information exchange with other national institutions and law-enforcement agencies, as well as partner institutions abroad, as well as the Order sets an obligation to officials of the First Division (Strategic Analysis) of the First Department of the KNAB to proactively analyze publicly available sources in order to identify information about possible bribery of foreign public officials. The translation of the Order is provided attached in Annex 5.

On 29 September, 2020 the Government adopted Order No. 576 “Action Plan for the Prevention of Money Laundering and Terrorism and Proliferation Financing” by which KNAB has been allocated resources for additional 19 posts: 9 posts in 2021 (total of 161 posts), and 10 posts in 2022 (total of 171 posts). Thus, in order to improve detection function at KNAB four of these additional posts have been filled in by analysts. In accordance to internal reorganisation of KNAB the total number of analysts was increased by four posts.

These additional analysts will allow KNAB to increase its detection capacities. Moreover in 2020 KNAB received more than EUR 214 000 from the Confiscation Fund for technical equipment to collect, store and process electronic information for criminal intelligence.

In addition it should be mentioned that in 2021 and 2022 KNAB is implementing the project “Support for the establishment of a whistle-blowing system in Latvia” co-funded by the European Economic Area (EEA) grant. The overall goal of the project is to promote public involvement in reporting corruption and other latent crimes, while simultaneously providing the public with a safe and convenient reporting channel, as well as improving the KNAB competence in detecting and investigating corruptive criminal offences.

According to the current project implementation schedule, the online reporting platform is planned to be made available to the public by the end of 2021. The main difference from existing reporting platforms is that the information provider will be able to follow the progress of their report, including in cases where the information will have been provided anonymously.

More info at: https://www.knab.gov.lv/en/knab/news/551798-knab_shall_improve_anti-corruption_mechanisms.html

In addition it should be mentioned that in 2021 Working Group on Preventing and Combating Corruption was established and led by the FIU. The Working Group was established in the framework of Cooperation Coordination Group (CCG) meetings in the meaning of Article 55(2) of the AML/CFT/CFP Law (Latvian AML/CFT/CFP public-private partnership forum) and is composed of representatives of 4 Latvian credit institutions, FIU, KNAB and Prosecutor General's Office. The main objective of the Working Group is to develop methodological material with typologies / scenarios that would primarily be used by banks, but also by the FIU and LEAs, to help identify patterns that indicate possible corruption-related crime, including foreign bribery. The aim of the Working Group is to also promote a common understanding at all stages of the AML stakeholders, from reporting a suspicious transaction to the conviction, in order to fully understand the elements and circumstances that can facilitate a positive outcome at each stage.

[Additional Information]

There have been 4 new cases opened since the adoption of Phase 3 report.

Three of these cases were opened based on reports of the Financial Intelligence Unit.

One of the cases was opened based on a KNAB internal report. A Lithuanian citizen directly offered and agreed to give a bribe (EUR 90 000) to a Lithuanian public official for ensuring favourable conditions in public procurement to the company (registered in Latvia) unofficially represented by the Lithuanian citizen. (the case is already included in Matrix).

If no action has been taken to implement recommendation 4 (a), 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 4(b):

4. Regarding the detection of foreign bribery, the Working Group recommends that Latvia:

b) Further mobilise government agencies with particular potential for detecting foreign bribery committed by Latvian companies operating abroad, including the SRS and the FIU [Convention Article 5 and Commentary 27; 2009 Recommendation II].

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

In order to implement this recommendation on 25 March 2021 KNAB sent an official letter to the Ministry of Foreign Affairs in order to raise awareness of the foreign bribery offence and risks among Latvian diplomats likely to detect and report foreign bribery in contact with Latvian businesses operating abroad. It was also noted that KNAB considers important to continue to include the topic of the foreign officials' bribery in the annual training of Latvian diplomats based in embassies.

On 16 June 2020 KNAB provided training for diplomats before departure to embassies abroad regarding conflict-of-interest issues and OECD Anti-Bribery Convention (in total 47 persons).

On 15 April 2021 KNAB provided training to consular officials as well as diplomats before departure to embassies abroad regarding conflict-of-interest issues and OECD Anti-Bribery Convention (In total 143 persons).

On 16 April 2021, a letter, signed by the State Secretary of the Ministry of Foreign Affairs, was circulated to the Latvian representations abroad reminding of and clarifying the Ministry's responsibility and tasks in the effective implementation of the OECD Anti-Bribery Convention. The letter inter alia instructs the diplomatic officers to alert the KNAB when they come across information in the residence country's media regarding suspicious business transactions conducted by Latvian companies.

The SRS in order to implement this recommendation has updated its internal regulations "*Procedures on Actions taken by the State Revenue Service Officials when Identifying the Risk of Bribery Cases*" (28.12.2020. No. 59), expanding the circle of structural units of the SRS that within the competence of taken measures may identify funds that possibly were used to bribe public officials, persons of other countries who are officials in companies registered in Latvia with the participation of the state or local governments, as well as for bribes for foreign officials in international transactions, and by establishing common procedures for reporting cases and entering information in the SRS Tax Information System (translation of the internal regulation is provided in Annex, file: *internal regulation SRS bribery risks*).

In addition, the SRS Anti-Money Laundering department during on-site controls of its supervised entities conducts detailed analysis of client transactions and supporting documents. If any indicators of potential crime (including foreign bribery) are identified they are followed upon and if suspicious activity corresponds with crime and has no other reasonable explanation, a report with all relevant materials is forwarded to law enforcement agencies.

In order to increase the efficiency of the SRS detection of foreign bribery the SRS officials have also participated at the extensive training devoted to foreign bribery provided by the Latvian School of Public Administration (LSPA) (for more detailed information please see the table in Annex, file: *LSPA_training*).

In regard to the actions taken by the Financial Intelligence Unit of Latvia (FIU) in order to further increase the potential for detecting foreign bribery committed by Latvian companies operating abroad, it should be noted that in 2020 FIU in cooperation with the Office of the Prosecutor developed methodological material "Money laundering typologies and "red flag" indicators".⁴ The methodological material has been developed to promote a common understanding of suspicious transactions and signs of criminal activity, with a view to using it as a legitimate, full-fledged and valid source of circumstantial evidence. Increased emphasis is applied on money laundering (ML) typologies that are characteristic to ML schemes implemented in Latvia (or using the Latvian financial system), i.e. typologies of corruption-related transactions, as well as stand-alone or autonomous ML typologies and laundromat typologies. Obligated entities (under the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing - AML/CFT/CFP Law) are encouraged to refer to typologies and "red flag" indicators included in the material when reporting suspicious transactions to the FIU. In addition, the FIU may refer to the same typologies upon disseminating information to law enforcement authorities (LEAs). Material was distributed to the concerned institutions, incl. obliged entities, and also published on the web page of the FIU.

Typologies Nr. 13, 14, 15, 17, 18 and 19 in the methodological material are characteristic to ML schemes linked with corruption, including foreign bribery committed by Latvian companies operating abroad.

Additionally, based on the initiative of the FIU the Working Group on Preventing and Combating Corruption was established in 2021 (Working Group). The respective Working Group was established in the framework of Cooperation Coordination Group (CCG) meetings in the meaning of Article 55(2) of the AML/CFT/CFP Law (Latvian AML/CFT/CFP public-private partnership forum) and is composed of representatives of 4 Latvian credit institutions, FIU, KNAB and Prosecutor General's Office. Until June 2021 already 3 Working Group meetings have been convened.

The main objective of the Working Group is to develop methodological material with typologies/scenarios that would primarily be used by banks, but also by the FIU and LEAs, to help identify patterns that indicate possible corruption-related crime, including foreign bribery. The aim of the Working Group is to also promote a common understanding at all stages of the AML stakeholders, from reporting a suspicious transaction to the conviction, in order to fully understand the elements and circumstances that can facilitate a positive outcome at each stage.

⁴ Methodological material "ML typologies and "red flag" indicators" (available in Latvian). Available: https://www.fid.gov.lv/images/Articles/2020/NILL_tipolo%C4%A3ijas_un_paz%C4%ABmes.pdf

Moreover, it should be noted that under the leadership of the FIU in close cooperation with the competent authorities drafting of the National Money-Laundering, Terrorism and Proliferation Financing Risk Assessment for the period of 2017-2019 (NRA) was finalized by the end of 2020.⁵ The NRA, inter alia, defines issues relevant to the recommendation, namely, the findings of the NRA confirm the identified duality of Latvia's risk profile and defines the role of corruption in both of the risk profiles:

4. firstly, risks inherent to regional financial centres that mainly concerns predicate offence committed abroad with funds predominantly transiting Latvian financial system and thus damaging the integrity, stability and reputation of the international financial markets (e.g. foreign bribery).
5. secondly, risks resulting from domestic predicate offences committed in Latvia or other jurisdictions in the EU that threaten the internal market of the EU. The main identified predicate offences posing ML threats in Latvia are corruption and bribery, tax crimes, illegal trafficking of excisable goods and drugs, and crimes against property.

Although in the past, Latvia positioned itself as a regional financial center, in the beginning of 2019 the Latvian Government announced that it does not aim to continue this way forward. The conclusions of the NRA recognize that despite the fact that the risks inherent to financial center decrease, they remain relevant.

Following discussions with the KNAB and the State Police and the Prosecutor General's Office (PGO), from February 2020 all ML cases, where FIU detects foreign bribery as possible predicate offence, are disseminated to the KNAB. In 2019 the cooperation between the FIU and the KNAB was already enhanced resulting in increased number of disseminations, particularly, disseminations linked with foreign bribery. In 2020 the increased cooperation continued, resulting in further 10 reports disseminated by the FIU in 2020 as well as 29 risk information report disseminations to the KNAB.⁶ Below are the number of FIU disseminations to the KNAB as well as an example of a ML case where foreign corruption committed by Latvian companies operating abroad is the detected predicate offense.

Table 1 – FIU reports disseminated to the KNAB

	Reports disseminated to the KNAB	Risk information reports disseminated to the KNAB
2017	0	n/a
2018	4	n/a
2019	13	20
2020	10	29

In addition to reports disseminated to the KNAB listed in the Table 1, the FIU actively provides financial and strategic analysis support on ad hoc bases to LEAs, incl. KNAB, and the PGO in corruption cases, as well as large scale professional ML cases.

Case Study 1

In a case disseminated by the FIU to the KNAB in 2020, one beneficial owner controls several companies registered abroad and one company registered in Latvia, which are used to defraud funds in foreign public procurements. A chain of fictitious transactions between the linked companies is

⁵ Executive summary of the NRA for the period of 2017-2019. Available (in Latvian): <https://fid.gov.lv/uploads/files/Dokumenti/Riska%20zi%C5%86ojumi/Nacion%C4%81%C4%81%20NILLTPF%20risku%20nov%C4%93rt%C4%93juma%20zi%C5%86ojuma%20kopsavilkums.pdf>

⁶ In accordance with the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, the FIU can disseminate a report if the information raises reasonable suspicions that the relevant person has committed a criminal offence (Section 55(1)) or a risk information report (if the threshold of reasonable suspicions is not met) if, in the opinion of the Financial Intelligence Unit of Latvia, the relevant institutions can use such information for carrying out of the tasks specified for them in laws and regulations (Section 55(1¹)).

used to artificially increase the price and the illegal funds are invested in real estate, including in Latvia. In this case assets worth 350 thousand EUR were frozen by FIU as well as several real estate properties.

[Additional Information]

1. Please see the draft translation of the methodological material “ML typologies and “red flag” indicators” provided below:

[Document with “ML typologies and “red flag” indicators” provided by Latvia]

Typologies Nr. 10, 13, 14, 15, 17, 18 and 19 in the methodological material are characteristic of ML schemes linked to corruption, including foreign bribery committed by Latvian companies operating abroad.

2. No, not all the FIU disseminations to KNAB were linked to foreign bribery as a suspected predicate offence. Disseminations related to offences linked to corruption more broadly are disseminated to KNAB.

Please see in Annex Table 1 adjusted with more columns that show a number of disseminations to KNAB and how many of those are linked to foreign bribery.

[Document with data from the FIU provided by Latvia]

3. Yes, the case described on page 12 is the same which is described on page 14 and in this document under recommendations 5.a, 6.b. and 7.a.

4. Please see the National Money-Laundering, Terrorism and Proliferation Financing Risk Assessment for the period of 2017-2019 (in Latvian) in Annex. The executive summary of the NRA in English is publicly available on the website of the FIU Latvia as of 29 June 2021 (among others, section 2.2. is relevant to the recommendation).

<https://fid.gov.lv/en/roles-and-responsibilities/national-risk-assessment/for-period-of-2017-2019>

If no action has been taken to implement recommendation 4 (b), 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 5(a):

5. Regarding cooperation, resources, and specialisation in foreign bribery cases, the Working Group recommends that Latvia:

a) Further clarify KNAB’s jurisdiction over foreign bribery cases, in particular where bribes are paid abroad and transferred through the Latvian financial system and ensure that all competent law enforcement and prosecution authorities are aware of KNAB’s jurisdiction over such cases [Convention Articles 1, 5; and 2009 Recommendation V and Phase 2 Recommendation 10(a)];

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

In order to further clarify KNAB's jurisdiction over foreign bribery cases, in particular where bribes are paid abroad and transferred through the Latvian financial system and ensure that all competent law enforcement and prosecution authorities are aware of KNAB's jurisdiction over such cases several actions have been taken.

- The Prosecutors General Office have taken number of steps to ensure a better coordination of efforts in combating foreign bribery and clarifying KNAB's jurisdiction in this regard. This includes enhancing the supervision and prioritisation of foreign bribery cases by the newly established specialised unit - the Prosecution Office for Investigation of Criminal Offences Committed in State Authority Service (for more detailed information please see replies provided under 5(b) and 6(a)). Following the decision of 3 June 2021 by the specialized Working Group for the coordination of the implementation of OECD and Moneyval recommendations at the Prosecutors Office (for more detailed information on the Working Group please see the reply provided under 5(b)) the circular will be prepared which would clarify the criteria of institutional jurisdiction stipulated in the Criminal Procedure Law, based on which the jurisdiction to investigate foreign bribery and related money laundering is established.
- Following discussions with the KNAB and the State Police and the Prosecutor General's Office from February 2020 all ML cases, where FIU detects foreign bribery as possible predicate offence, are disseminated to the KNAB.
- One of the main priorities set in the Operational Strategy of KNAB 2020-2022 is to ensure targeted, efficient and high-quality activities with emphasis to the detection and investigation of criminal offence in the financial sector, where high risks of corruption and money laundering are identified. Full text of the Strategy:

https://www.knab.gov.lv/upload/2020/operational_strategy_2020-2022_eng.pdf

- In 2021 the FIU led Working Group on Preventing and Combating Corruption was established. The respective Working Group was established in the framework of Cooperation Coordination Group (CCG) meetings in the meaning of Article 55(2) of the AML/CFT/CFP Law (Latvian AML/CFT/CFP public-private partnership forum) and is composed of representatives of 4 Latvian credit institutions, FIU, KNAB and Prosecutor General's Office (PGO). Until June 2021 already 3 Working Group meetings have been convened. One of objectives of the Working Group is to develop methodological material with typologies / scenarios that would primarily be used by banks, but also by the FIU and LEAs, to help identify patterns that indicate possible corruption-related crime, including foreign bribery. The aim of the Working Group is to also promote a common understanding at all stages of the AML stakeholders, from reporting a suspicious transaction to the conviction, in order to fully understand the elements and circumstances that can facilitate a positive outcome at each stage.

As the results of steps taken, in 2020 KNAB initiated nine criminal proceedings of alleged money laundering related to corruption crimes seizing more than 22 million EUR and 13 real-estate properties.

Three of these proceedings are described below:

Based on FIU dissemination (Case study 1) KNAB commenced criminal proceeding on 18 May, 2020 for alleged bribery and money laundering in accordance to the Section 323, Paragraph 2 (Giving of Bribes) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 19 May, 2020 the court approved seizing 381 086,44 EUR and 13 real estates. Currently the investigation of alleged bribery in foreign country related to health sector continues, KNAB has carried out interviews and requested information from a Latvian company. The liability of financial institutions' employees for supporting money laundering also is examined in the scope of investigation.

Based on another FIU dissemination (for more detailed information please see reply under recommendation 10(a) “Case study 2”) KNAB commenced criminal proceeding on 31 August, 2020 for alleged bribery and money laundering in accordance to the Section 320, Paragraph 3 (Giving of Bribes) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 14 September, 2020 the court approved seizing 345270,87 EUR. On 6 April 2021 the decision approved by the court was taken imposing confiscation of the seized assets. The decision entered into force and accordingly confiscated assets were transferred to the State Budget. In relation to the predicative crime in a foreign country the investigation continues. The liability of financial institutions’ employees for supporting money laundering also is examined in the scope of investigation.

Based on FIU dissemination (for more detailed information please see reply under recommendation 10(a) “Case study 3”) KNAB commenced criminal proceeding on 20 December, 2020 for alleged bribery and money laundering in accordance to the Section 322, Paragraph 1 (Intermediation in Bribery) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 9 December, 2020 the court approved seizing 41178,39 EUR. Currently the investigation of the bribery intermediation committed in foreign country continues, KNAB has carried out interviews of bank employees and sent a European Investigation Order to one of EU Member states.

[Additional Information]

The investigation was opened in all three cases. All three cases are currently in the initial phase of the investigation. Whether foreign bribery and intermediation or aiding and abetting in foreign bribery have occurred is being evaluated. None of these three cases are included in the Matrix.

If no action has been taken to implement recommendation 5 (a), 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 5(b):

5. Regarding cooperation, resources, and specialisation in foreign bribery cases, the Working Group recommends that Latvia:

b) Reinforce coordination between KNAB and the State Police, as necessary, in foreign bribery and related money laundering investigations [Convention Article 5; 2009 Recommendation V and Annex I.D];

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

It should be noted that the fight against corruption, including bribery of foreign officials, and well as fighting money laundering are one of the priorities of the Prosecutor General who started its work on 12 July 2020. In order to implement these priorities in 2021 the structural reorganization was implemented in the Prosecution Office. Namely, on 1 January 2021 the new unit – the Prosecution Office for Investigation of Criminal Offences Committed in State Authority Service (partial translation of the Order please see in Annex, *file: Order_116*) was set up. On 1 January 2021 in the Criminal Justice Department of the Prosecutor General’s Office the new specialized unit – the Division for Coordination the Combatting with Money Laundering (the translation of the Order please see in Annex, *file: Order_117*) was set up. On 5 May 2021 the Division for Investigation of Especially Serious Cases of the Criminal Justice Department of the Prosecutor General’s Office was disbanded by setting up the Division for Coordination of the Corruption Combatting (partial translation of the Order please see in Annex, *file: Order_128*).

In order to implement recommendation 5(b) several actions have been taken by various institutions:

- on June 16, 2020 KNAB issued the Order No.1.20-1/28 by which investigators are obliged to coordinate within the scope of their competence the actions of the KNAB and other institutions, including the State Police in the investigation of bribery of foreign public officials and/or money laundering. The translation of the Order is provided attached in Annex 5.
- By the Direction of Prosecutor General of 15 February 2021 in the Prosecution Office the specialized Working Group was established for coordination the implementation of OECD and Moneyval recommendations (translation of the Direction please see in Annex, file: Direction_PO_WG). One of the tasks of the Working Group is to coordinate the cooperation between the KNAB, the State Police and the Prosecution Office in the foreign official's bribery and money laundering cases.
- In addition it should be noted that since February 2020 all ML cases, where FIU detects foreign bribery as possible predicate offence, are disseminated to the KNAB based on the agreement between FIU, KNAB and the Prosecutor General.
- In order to reinforce coordination between KNAB and the State Police in foreign bribery and related money laundering investigations in 2021 Working Group on Preventing and Combating Corruption was established and led by the FIU. The Working Group was established in the framework of Cooperation Coordination Group (CCG) meetings in the meaning of Article 55(2) of the AML/CFT/CFP Law (Latvian AML/CFT/CFP public-private partnership forum) and is composed of representatives of 4 Latvian credit institutions, FIU, KNAB and Prosecutor General's Office. Until June 2021 already 3 Working Group meetings have been convened.
- In addition to that in order to reinforce coordination among involved institutions, "Guidelines for the FIU Latvia cooperation with the bodies performing operational activities, investigating institutions and the PO" were developed and are in force starting with 17 September 2020, upon approval by the Prosecutor General, providing set of requirements to the requests of the information (please see the translation of the document in Annex, file: FIU_PGO_guidelines). For more detailed explanation please refer to description provided under recommendation 10(g).

[Additional Information]

1. As a result of the coordination activities, described in the previous responses of the Office of the Prosecutor General, the mutual cooperation between the KNAB and the State Police, and the understanding of the jurisdiction for cases has been strengthened. During the reporting period, in practice, there were not identified any situations when there would be disagreements between the KNAB and the State Police in relation to organizing investigations in cases regarding the bribery of foreign officials and the laundering of proceeds of crime related to it.

This is also confirmed by the KNAB that points out the improved determination of case jurisdiction, thus preventing overlap of competences, and ensuring that the Prosecution Office assigns the appropriate responsible authority prior to initiating proceedings. In addition, the KNAB states that another outcome of the improved cooperation is that prosecutors are already proactively engaged prior to opening a case.

KNAB also points out as an outcome the FIU Cooperation Coordination Group which organizes coordination meetings between intelligence units, law enforcement agencies, prosecutors, State Revenue Service, which enhances cooperation between control and monitoring institutions.

Based on reports received from the FIU, already 3 cases have been started in 2020.

2. The Prosecution Office for Investigation of Criminal Offences Committed in State Authority Service ensures the supervision of investigations, prosecution, maintenance of the state's prosecution, and the fulfilment of other prosecutor's obligations, as prescribed by law, starting from the 1st of January of 2021 regarding:

1) criminal proceedings with respect to criminal offenses prescribed in Chapter XXIV of the Criminal Law, initiated in the area of operation of the Prosecution Office of the Riga Court District, and

2) all criminal proceedings initiated in the territory of the Republic of Latvia with respect to criminal offenses prescribed in Sections 288.2 – 288.4 of the Criminal Law.

Yes, the status of the Prosecution Office for Investigation of Criminal Offences Committed in State Authority Service is the district prosecution office within a specialized field.

3. The role and tasks of the recently created Division for Coordination the Corruption Combatting are most fully set out in Article 6 of the Regulation of Criminal Justice Department of the Prosecutor General's Office. The Regulation was approved on June 16, 2021, by the Prosecutor General. Translated extract of the Regulation is attached below.

[See Annex I for the document provided by Latvia]

As this Division was reorganized very recently, on May 5, 2021, with new responsibilities, particularly in the field of training and methodology, the main outcomes of its work in the new areas so far are the educational work carried out by the Division's chief prosecutor, preparing and conducting lectures, organizing a survey on the understanding of direct intent in criminal offenses with formal composition, providing advisory support.

If no action has been taken to implement recommendation 5 (b), 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 5(c):

5. Regarding cooperation, resources, and specialisation in foreign bribery cases, the Working Group recommends that Latvia:

c) Ensure that sufficient resources and expertise are made available to KNAB and the State Police to effectively investigate foreign bribery and financial crimes, including money laundering predicated on foreign bribery [Convention Article 5; 2009 Recommendation V and Annex I.D];

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

In order to ensure that sufficient resources and expertise are made available to KNAB and the State Police to effectively investigate foreign bribery and financial crimes, including money laundering predicated on foreign bribery on 29 September, 2020 the Government adopted Order No. 576. It foresees strengthening the human resources of KNAB by allocating additional 19 posts, i.e., nine posts in 2021, and ten posts in 2022. The State Police was allocated additional 23 posts: 20 posts from 2021 in the First Division of Economic Police which investigates stand alone money laundering cases, of which 16 posts of investigators and 4 – criminal intelligence officers. Additional 3 posts have been allocated to Latvian ARO.

Another step has been taken in order to ensure that sufficient resources are made available to KNAB to effectively investigate foreign bribery, including related money laundering - the amendments to the Law on Remuneration of Officials and Employees of State and Local Government Authorities, as well as to the Regulation of 29 January 2013 No.66 "Regulations Regarding Work Remuneration of Officials and Employees of State and Local Government Authorities, and Procedures for Determination Thereof" have been adopted establishing a new procedure for determining the monthly remuneration of KNAB officials, thus equalizing the remuneration with that of other law enforcement authorities. Changes of the remuneration system have been granted and additional 1.5 MEUR in 2021, 2 MEUR in 2022, and 3 MEUR in 2023. Thus, monthly remuneration of KNAB officials shall be raised by 21% in 2021, by 28%

in 2022 and by 37% in 2023 (in comparison to 2020).

In addition to that in 2020 KNAB received more than EUR 214 000 for technical equipment to collect, store and process electronic information for operational activities from the Confiscation Fund.

In addition it should be noted that on 16 June 2020 the Order No. 1.20-1/28 was issued by the KNAB “On Prioritising Foreign Official’s Bribery Investigation and Money Laundering Investigation”. Thus, internal regulation has been developed in order to pursue effective and systematic investigation of foreign bribery and related money laundering.

These steps among other have ensured effective investigation of the following foreign bribery cases. In 2020, the KNAB sent for prosecution two criminal proceedings against legal persons for the bribery of foreign public officials. In the case against company (Case#2 in the Phase 3 Report) the final judgment has already entered into force. Please find attached the translation of the court decision in F, *file: foreign bribery_ENG*). In relation to the second case (Case#1 in the Phase 3 Report) the first court hearing is set for 22 June, 2021.

Summaries of both cases:

1. Case against company (Case#2)

On 6 June 2019 KNAB commenced criminal proceedings regarding an alleged violation of Section 323 of the Criminal Law (“Giving of bribes”) against a legal person in whose interests its representative committed a crime. Evidence of the criminal case contained information that the representative of the legal person in 2016 bribed a Lithuanian public official. The bribe total amount did not exceed 11 000 EUR. On 10 August 2020 KNAB sent to the Prosecutor General's Office criminal case to initiate criminal prosecution against one legal person registered in Latvia, for the alleged bribery of a foreign public official. On 30 November 2020 company agreed to plead guilty to bribery in an agreement reached with the prosecutor. The Court approved the agreement with prosecutor and imposed a fine of EUR 77 400. In addition, according to Section 42 of the Public Procurement Law the company will not be able to participate in public procurement for three years since the date when the decision was adopted.

2. Case against company IT company (Case#1)

On 7 May 2019 KNAB initiated proceedings on the application of coercive measures to a legal person - IT company, in relation to the bribery of a foreign public official.

The evidence obtained during the pre-trial investigation reveal that from 2011 until 2016 an IT company employee gave bribes in the total amount of 2 262 339.35 EUR to a public official of Belarus. The employee gave bribes in order to ensure beneficial decisions in favour of the IT company – a legal person registered in Latvia.

Pre-trial investigation has also clarified that the IT company employee concluded fictitious agreements on behalf of the legal person for services, enabling the company to transfer bribes to the public official of Belarus. The fictitious agreements allowed the legal person registered in Latvia to evade the payment of corporate income tax, causing 512 741.64 EUR losses to the State.

On 1 December 2020 KNAB sent to the Prosecutor General's Office criminal case materials for initiating criminal prosecution against one legal person registered in Latvia, for foreign official bribery and tax evasion. The first court hearing is set on 22 June, 2021. The authorities have provided the translation of the Decision for submitting the case to the prosecutor for prosecution (please see the translation in Annex 6), however, Latvian authorities would like to inform that the information have to be considered as confidential and we would appreciate if this particular information is not circulated among the WGB members.

In 2020 nine criminal proceedings of alleged money laundering related to corruption crimes have been initiated by KNAB seizing more than 22 million EUR and 13 real-estate properties. Three of this cases are described below:

Based on FIU dissemination (for more detailed information please see reply under recommendation 4(b), Case study 1) KNAB commenced criminal proceeding on 18 May, 2020 for alleged bribery and money laundering in accordance to the Section 323, Paragraph 2 (Giving of Bribes) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 19 May, 2020 the court approved seizing 381 086,44 EUR and 13 real estates. Currently the investigation of alleged bribery in foreign country related to health sector continues, KNAB has carried out interviews and requested information from a Latvian company. The liability of financial institutions' employees for supporting money laundering also is examined in the scope of investigation.

Based on another FIU dissemination (for more detailed information please see reply under recommendation 10(a) "Case study 2") KNAB commenced criminal proceeding on 31 August, 2020 for alleged bribery and money laundering in accordance to the Section 320, Paragraph 3 (Giving of Bribes) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 14 September, 2020 the court approved seizing 345270,87 EUR. On 6 April 2021 the decision approved by the court was taken imposing confiscation of the seized assets. The decision entered into force and accordingly confiscated assets were transferred to the State Budget. In relation to the predicative crime in a foreign country the investigation continues. The liability of financial institutions' employees for supporting money laundering also is examined in the scope of investigation.

Based on FIU dissemination (for more detailed information please see reply under recommendation 10(a) "Case study 3") KNAB commenced criminal proceeding on 20 December, 2020 for alleged bribery and money laundering in accordance to the Section 322, Paragraph 1 (Intermediation in Bribery) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 9 December, 2020 the court approved seizing 41178,39 EUR. Currently the investigation of the bribery intermediation committed in foreign country continues, KNAB has carried out interviews of bank employees and sent a European Investigation Order to one of EU Member states.

In order to ensure that expertise is made available to the State Police to effectively investigate money laundering, including those cases which are predicated on foreign bribery the State Police within the 1st Division which is investigating stand-alone money laundering cases created an analytical criminal intelligence unit which include experts from other State Police Units. The objectives of this Unit are to provide the necessary assistance in financial investigations, to produce the initial cross check analysis of the information and to gather this information for criminal intelligence purposes and for strategic analysis, as well as to keep statistical data related to money laundering investigations. The Unit consist of 8 staff positions, currently only one position is still vacant. The Unit's analysts, including 4 analysts who are certified accountancy forensic experts with master's degree in economics and management, perform comprehensive and high volume data analysis by using special criminalistic methods. 3 analysts of this Unit have education in IT area which allows them to automatize analysis processes, as well as to work with digital evidences, accumulation of data obtained and systematisation of the data for execution of cross checks. In 2020 the Unit started to use a criminalistic tool – iPED which is elaborated with assistance of Interpol.

[Additional Information]

In 2021 the following posts have been allocated:

5 analysts (we apologise for the previous mistake when it was stated that there are 4 analysts)

1 Head of IT department

1 IT administrator/forensic expert

1 investigator

1 internal security officer

No decision has currently been taken on the distribution of the 10 allocated posts to be added in 2022.

If no action has been taken to implement recommendation 5 (c), 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 5(d):

5. Regarding cooperation, resources, and specialisation in foreign bribery cases, the Working Group recommends that Latvia:

d) Increase PPO's financial resources in particular through recruiting additional staff and ensuring sufficient specialised expertise for prosecuting foreign bribery and related money laundering cases and monitoring investigators [Convention Article 5; 2009 Recommendation V and Annex I.D].

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

As of 1 January 2021 in the Prosecution Office of the Republic of Latvia new unit is set up– the Prosecution Office for Investigation of Criminal Offences Committed in State Authority Service with 10 staff positions (currently 7 positions are staffed). As of 1 January 2021 within the competence of the given Prosecution Office falls the criminal procedures in respect of the criminal offences provided for by the Chapter XXIV of the Criminal Law “Criminal Offences Committed in State Authority Service”, that encompasses the Sections 316-330 and includes also the bribery, including the foreign officials bribery. This Prosecution Office has the competence to investigate the criminal offences committed within the jurisdiction of Rīga Judicial Region Prosecution Office, as well as according to the direction of Prosecutor General or Head Prosecutor of the Criminal Justice Department – within the entire territory of the country.

In its turn the Division for Investigation of Especially Serious Cases of the Criminal Justice Department of the Prosecutor General's Office as of 5 May 2021 is disbanded by setting up the Division for Coordination Corruption Combatting, that is competent to investigate the crimes committed within the entire territory of the country and provided for by the Chapter XXIV of the Criminal Law “Criminal Offences Committed in State Authority Service”, if they are committed by the officials mentioned in Section 316(2) and (3) of the Criminal Law, and if the criminal procedure is especially complicated. It was done with the purpose to ensure more efficient enforcement of Prosecutors rights and obligations in the criminal procedures related with the corruption, to provide the necessary support, to share the knowledges and experience, as well as for better coordination.

Additionally, as of 1 January 2021 for more efficient enforcement of Prosecutors rights and obligations in the criminal procedures related with the money laundering and for ensuring the Prosecutor's work coordination in the given field the new specialized unit is set up in the Criminal Justice Department of the Prosecutor General's Office – Division for Coordination the Combatting with Money Laundering with 5 staff positions.

Moreover, with the Government's Order No 576 of 29 September, 2020 the Prosecutors Office was also allocated additional resources for 4 new positions. Therefore, the staff of the Specialized Prosecution Office for Organized Crime and Other Branches was supplemented with 4 new staff positions – transactions operations analyst (currently 3 positions are staffed, fourth one will be staffed as of 01/07/2021), who deal with the analytical tasks and financial investigations, thus providing the necessary assistance also in bribery and money laundering cases.

[Additional Information]

1.The average number of years spent in the Prosecution Office by prosecutors from the Division for Coordination the Corruption Combatting is 22 years. None of the prosecutors from the disbanded Division for Investigation of Especially Serious Cases moved to the Prosecution Office for Investigation

of Criminal Offences Committed in State Authority Service. Two prosecutors from the disbanded Division for Investigation of Especially Serious Cases moved to the Division for Coordination the Combatting of Money Laundering.

The average number of years spent in the Prosecution Office by prosecutors from the Prosecution Office for Investigation of Criminal Offences Committed in State Authority Service is 4 years.

2. The average number of cases handled by each prosecutor of the Prosecution Office for Investigation of Criminal Offences Committed in State Authority Service is 4 cases.

3. The prosecutors of the Division continue to maintain indictment in the proceedings, which they submitted to court at the time of fulfilling functions as prosecutors for the Division for Investigation of Especially Serious Cases, and, in addition, they continue to conduct supervision as prosecutors and prosecution for the criminal proceedings initiated before the 5th of May 2021.

Due to the complexity and the volume of cases, the number of cases, which have been entrusted to each of the prosecutors within the Division, can differ significantly. If one prosecutor can have multiple cases, then another one can be responsible for only a few cases, which respectively are more extensive in volume.

After calculating the average number of cases for each prosecutor, currently each prosecutor maintains charges in court for 9 cases, each keeps the records of 1 case on average, as well as each supervises 1 case.

4. Since May 5, 2021, four cases have been submitted to the court.

5. Yes, the mentioned corruption offence can be managed by the Division for Coordination the Corruption Combatting if the criteria are met. The competence of the Division covers the whole territory of the state regarding offences committed by public officials mentioned in Section 316, Para 2 and 3 of the CL, if the criminal proceedings are especially complex.

6. Yes, the both criteria - the offender (foreign or high-level domestic official mentioned in Section 316(2) and (3) of the Criminal Law) and the complexity of the case – are mandatory for the cases to fall under the jurisdiction of the Division for Coordination the Corruption Combatting of the Prosecutor General's Office.

7. In accordance with the Regulation of the Criminal Justice Department of the Office of the Prosecutor General, which was approved on the 16th of June 2021 by the Prosecutor General, the main tasks of the Division for Coordination the Combatting with Money Laundering are the following:

- To perform the functions of the Higher-ranking prosecutor within the scope of coordination, with respect to criminal proceedings for criminal offenses referred to under Sections 195(2) and (3) of the Criminal Law (laundering of the proceeds of crime, committed by a group of persons according to a prior agreement, in an organised group, or in a large scale, if the criminal offence, from which the proceeds have been gathered, is not found – stand-alone cases), and under Section 195.2(3) of the Criminal Law (avoidance of declaring of cash, committed in an organised group);
- To coordinate the cooperation between the Prosecution Office and the Financial Intelligence Unit of Latvia, investigation authorities, the subjects of operational activities, in the area of prevention and combatting of money laundering.
- To develop drafts of legislation, methodological materials, international cooperation projects, and new training programs, including, in relation to the recommendations of MONEYVAL and OECD.

Currently, the Division for Coordination the Combatting with Money Laundering includes one Chief Prosecutor, as well as four prosecutors. All said prosecutors have long-term work experience in the

Office of the Prosecutor General, in the respective position, and they have gained an in-depth knowledge and specialization in combatting of financial and economic crimes.

Taking into account that combatting of money laundering is one of the priorities of the Prosecution Office of the Republic of Latvia and considering the variety and complexity of the tasks conducted by the Division for Coordination the Combatting with Money Laundering (it includes not only criminal procedural obligations, but also methodological support, coordination of the cooperation of institutions, etc.), the workload of the prosecutors in said Division can be described as high.

See the translation of the Regulation of the Criminal Justice Department of the Office of the Prosecutor General (only in parts relating to the subject matter) provided above.

8. Starting from the 1st of January 2021 the title of the structural unit has been changed – from the Prosecution Office for Investigation of Financial and Economic Crimes it was changed to the Office of the Prosecutor for Taxation and Customs Affairs (hereinafter – OPTCA), as well as the jurisdiction of the institution has been narrowed down. Namely, starting from the 1st of January 2021, the prosecutors of the OPTCA conduct supervision, prosecution, and to maintain charges in criminal cases, which have been initiated in the Tax and Customs Police Department of the State Revenue Service. The purpose of the changes – to activate and to expedite the investigation and progress in criminal cases regarding the avoidance of tax payments, tax fraud, violations of salary payment obligations (“envelope salaries”) and other criminal offences regarding revenue of the state.

In the last six months there have been positive changes within the work positions of OPTCA: if in the fall of 2020 taken were only 2/3 of the available prosecutor’s positions, then currently, until the 1st of July of 2021, all positions were filled in – the Chief Prosecutor, Deputy Chief Prosecutor, 14 prosecutors, however, starting from the 1st of July of 2021, the position number was increased to 16, adding 2 more prosecutor positions. Thus, currently, there are two vacant prosecutor positions.

At present, the prosecutors (except for the three new prosecutors, who have a comparatively lower workload) on average are monitoring about 150-200 active criminal proceedings, from which about 30 are related to complex financial crimes. At once, each prosecutor holds the records of about 2 to 5 criminal proceedings. In court, each prosecutor simultaneously maintains the charges in about 10 to 18 criminal proceedings, and, additionally, depending on the criminal case – proceedings regarding criminally acquired property (non-conviction based confiscation).

If no action has been taken to implement recommendation 5 (d), 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 6(a):

6. Regarding the investigation and prosecution of foreign bribery, the Working Group recommends that Latvia take steps to:

a) Ensure that foreign bribery cases are promptly and proactively investigated and adopt a strategic approach towards the investigation and prosecution of foreign bribery and related money laundering offences [Convention Article 5 and Commentary 27; 2009 Recommendation V and Annex I D];

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

In order to ensure that foreign bribery cases are promptly and proactively investigated the KNAB issued the Oder No.1.20-1/28 on June 16, 2020 prioritizing the investigation of bribery of foreign public officials and setting a clear time frame for an initiation of an investigation if information on alleged bribery of foreign public officials is obtained. It stipulates that upon receipt of information on alleged

bribery of foreign public officials, the evaluation of the received information has to be initiated no later than within 7 (seven) working days, if necessary, involving analysts and criminal intelligence officers. Additionally, it is set forth that if the reason and basis for initiating criminal proceedings have become known, investigators have to initiate an investigation immediately in accordance with the procedures specified in the Criminal Procedure Law.

In this regard it should also be mentioned that the new approach towards the supervisory function of a prosecutor has been taken by the Prosecutor General who was appointed last year. During the last year within the frameworks of whole Prosecution Office the role of supervising prosecutor already since the very beginning of the criminal procedure has been more emphasised (especially in the most complicated criminal proceedings). During the prosecutors' training events and internal meetings prosecutors are instructed to revise their attitude towards their role in the supervision of the criminal proceedings, emphasising that instead of formal supervising function a prosecutor should assume the role of the team member (prosecutor must provide more help and support to an investigator).

As of 1 January 2021 the competence of the Division for Coordination Corruption Combatting, which up to June 2021 included the supervision of the most complex criminal proceedings, criminal prosecution and maintaining the public charges before the Courts, is supplemented with obligation to train investigators and lower ranking prosecutors on topical criminal law and criminal procedural issues in relation with the corruption offences. The necessity to cooperate with investigators is specifically emphasised, by providing the consultations, sharing knowledge, coordinating the supervision and prosecution of the corruption cases.

On 1 January, 2021 for more efficient enforcement of Prosecutors rights and obligations in the criminal procedures related with the money laundering and for ensuring the Prosecutor's work coordination in the given field the new specialized unit was set up in the Criminal Justice Department of the Prosecutor General's Office – Division for Coordination the Combatting with Money Laundering with 5 staff positions.

These two new Divisions ensure that foreign bribery and money laundering are promptly and proactively investigated and prosecuted.

Moreover in order to adopt a strategic approach towards the investigation and prosecution of foreign bribery and related money laundering offences the Prosecutor General issued the Direction on 15 February 2021 establishing the specialized Working Group for coordination the implementation of OECD and Moneyval recommendations (please see the translation of the Direction in Annex, *file: Direction_PO_WG*). One of the tasks of the Working Group is to ensure a strategic approach in the coordination of common efforts of the KNAB, the State Police and the Prosecution Office in the fight against foreign official's bribery and money laundering.

In the spring 2020 upon proposal by the Ministry of Justice the Prosecutor General's Office together with KNAB, the Economical Crimes Enforcement Department of the State Police made the list of the foreign officials' bribery cases which were included both in Latvia Phase 3 report and in Matrix. The involved law enforcement authorities were obliged regularly to supplement information in that jointly made list in relation with the conducted investigatory actions, analytical work, the international cooperation, assets confiscation and other matters applicable to any respective case, as well as had to report about the progress of these cases before the Working Group for coordination the implementation of OECD and Moneyval recommendations within the Prosecutor's General Office. The list is regularly discussed with the Head Prosecutor of the Criminal Justice Department and the supervising prosecutors and investigators, thus allowing to prioritise cases.

These steps taken have resulted in certain results regarding criminal proceedings related to foreign bribery and two of such cases in 2020 were submitted to the court and in one case the judgement was reached at the end of November 2020. The criminal proceedings for one case was submitted to the Court on 25 August 2020 and the judgment was issued on 30 November 2020 and the criminal proceedings

in another case was submitted to the court on 11 December 2020 and the trial is on-going in June 2021.

In the criminal procedure in another case during its judicial review stage Prosecutor entered into agreement with the legal person on applying the coercive measure to this legal person, and the Court approved it. The Court judgment has entered into legal force. According to that agreement approved by the Court to the legal person for the bribe given in its interests, amount of which did not exceed 11 000 EUR, is imposed the monetary collection in amount of 180 minimal monthly wages, namely, 77 400 EUR.

[Additional Information]

In accordance with the Regulation of the Criminal Justice Department of the Office of the Prosecutor General, it is not within the competence of the Division for Coordination the Combatting with Money Laundering to coordinate the investigation of foreign bribery. At the same time, if the bribery of the foreign state officials (or national officials) is related to laundering of the proceeds of crime, the prosecutors of the Division for Coordination the Combatting with Money Laundering can be invited to present a competent viewpoint.

In criminal proceedings related to *stand-alone* money laundering offenses, committed by a group of persons according to a prior agreement, in an organised group, or on a large scale (for instance, in criminal proceedings regarding professional money laundering, done by the employees of credit institutions), prosecutors of the Division for Coordination the Combatting with Money Laundering implement the powers of the higher-ranking prosecutor, prescribed in Section 46 of the Criminal Procedure Law, including giving instructions on the directions of the investigation, the procedural activities to be conducted, and handling complaints. Furthermore, the prosecutors of this division provide the methodological support to prosecutors and investigators, organize specialized training, as well as coordinate the cooperation between the Prosecution Office, the Financial Intelligence Unit of Latvia, investigation authorities, and the subjects of operational activities.

As a result of the aforesaid activities, the ability of investigators and prosecutors to identify possible laundering of the proceeds of crime, in cases of a national predicate offence, has increased, and, altogether, the activity of the investigation of cases regarding the laundering of the proceeds of crime has increased.

The Division for Coordination of the Corruption Combating is the entity which is involved in ongoing foreign bribery investigations.

If no action has been taken to implement recommendation 5 (a), 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 6(b):

6. Regarding the investigation and prosecution of foreign bribery, the Working Group recommends that Latvia take steps to:

b) Take concrete and meaningful steps to ensure that KNAB routinely considers the involvement of Latvian financial institutions, shell companies and other corporate structures in foreign bribery schemes [Convention Article 5 and Commentary 27; 2009 Recommendation V and Annex I D];

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

In addition to the actions described in replies under 5(a) and 6(a) KNAB organised a specific training in May 2021 on Financial Analysis with the special attention to the issues related to shell companies and other corporate structures in bribery schemes. Please see Annex 3 with detailed agenda, as well as Annex 4 with list of participants from KNAB, the State Police, the SRS, the Internal Security Bureau and the Prosecutor's General Office.

On daily basis during preliminary and formal investigations, as well as in evaluation of received information KNAB routinely considers the possible involvement of employees of financial institutions and financial institutions in bribery schemes. As examples of such cases can be mentioned the following proceedings:

Based on FIU dissemination (for more detailed information please see reply under recommendation 4(b). Case study 1) KNAB commenced criminal proceeding on 18 May, 2020 for alleged bribery and money laundering in accordance to the Section 323, Paragraph 2 (Giving of Bribes) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 19 May, 2020 the court approved seizing 381 086,44 EUR and 13 real estates. Currently the investigation of alleged bribery in foreign country related to health sector continues, KNAB has carried out interviews and requested information from a Latvian company. The liability of financial institutions' employees for supporting money laundering also is examined in the scope of investigation.

Based on another FIU dissemination (for more detailed information please see reply under recommendation 10(a) "Case study 2") KNAB commenced criminal proceeding on 31 August, 2020 for alleged bribery and money laundering in accordance to the Section 320, Paragraph 3 (Giving of Bribes) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 14 September, 2020 the court approved seizing 345270,87 EUR. On 6 April 2021 the decision approved by the court was taken imposing confiscation of the seized assets. The decision entered into force and accordingly confiscated assets were transferred to the State Budget. In relation to the predicative crime in a foreign country the investigation continues. The liability of financial institutions' employees for supporting money laundering also is examined in the scope of investigation.

Based on FIU dissemination (for more detailed information please see reply under recommendation 10(a) "Case study 3") KNAB commenced criminal proceeding on 20 December, 2020 for alleged bribery and money laundering in accordance to the Section 322, Paragraph 1 (Intermediation in Bribery) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 9 December, 2020 the court approved seizing 41178,39 EUR. Currently the investigation of the bribery intermediation committed in foreign country continues, KNAB has carried out interviews of bank employees and sent a European Investigation Order to one of EU Member states.

[Additional Information]

Yes, the financial investigation training focused primarily on financial flow, analysing the factual and desired actions of bank employees for identifying suspicious transactions.

Experts from the Economic Crime Department of State Police Main Criminal Police Department and PwC examined a case study on alleged shell companies' transfers to a Latvian bank. The predicate crime of the case study was alleged corruption and the following money-laundering.

If no action has been taken to implement recommendation 6 (b), 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 6(c):

6. Regarding the investigation and prosecution of foreign bribery, the Working Group recommends that Latvia take steps to:

c) Ensure that KNAB promptly investigate foreign bribery allegations disclosed in the context of international cooperation [Convention Articles 5 and 9, Commentary 27; 2009 Recommendation III.ix and Annex I.D];

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

In order to ensure that KNAB promptly investigate foreign bribery allegations disclosed in the context of international cooperation on June 16, 2020 the KNAB issued the Order No.1.20-1/28 which stipulates the requirement upon receipt of information on possible bribery of foreign public officials, including within the international cooperation, to initiate the evaluation of the received information no later than within 7 (seven) working days, involving KNAB's officials where necessary (chief inspectors (analysts) and senior inspectors (analysts) of the Fourth Department (Criminal Intelligence), and chief inspectors of the First Division (Strategic Analysis) of the First Department), and if the reason and basis for initiating criminal proceedings have become known, immediately initiate an investigation in accordance with the procedures specified in the Criminal Procedure Law.

Within the competence of the Head of Second Department (Criminal Investigation) is a task to pay particular attention to every mutual legal assistance request received in the KNAB in particular if any information in the requests indicates bribery of foreign public officials.

In relation to foreign bribery cases which have been started based on the information received through international cooperation it should be noted that:

In 2020, the KNAB sent for prosecution two criminal proceedings against legal persons for the bribery of foreign public officials and in the same year these cases were submitted to the court and in one case the judgement was reached at the end of November 2020. The criminal proceedings in the case was submitted to the Court on 25 August 2020 and the judgment was issued on 30 November 2020 approving the agreement between the prosecutor and the legal person. The criminal proceedings in another case was submitted to the court on 11 December 2020 and the trial is on-going in June 2021.

If no action has been taken to implement recommendation 6 (c), 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 6(d):

6. Regarding the investigation and prosecution of foreign bribery, the Working Group recommends that Latvia take steps to:

d) Further encourage law enforcement authorities to make full use of the broad range of investigative techniques available, including special investigative techniques and forensics [Convention Article 5, 2009 Recommendation V and Annex I.D];

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

In order to implement this recommendation on June 16, 2020 the Oder No.1.20-1/28 was issued by KNAB's Deputy Director for investigations by which investigators are obliged to extensively use all investigative techniques, including special investigative actions, methods and expert-examinations. Please find the translation of the said Order attached as Annex 5.

Moreover, it should be noted that in relation to foreign bribery cases sent for prosecution in 2020 all investigative tools available were used, namely:

- Internet and public sources
- Search and Seizure
- Seizing / processing electronic evidence
- Intercepting communications (except in one case)
- Interviews
- Forensic audits
- Self-reporting and co-operation by companies (no self-reporting, but cooperation by companies in Case#2 Case and Case#1)
- Co-operation with domestic counterparts
- Bank enquiries
- Tracing assets internationally (only in Case #3 in the 3rd Phase Report)
- Mutual legal assistance
- Other international co-operation (e.g., visits, informal contacts).

In order to ensure that expertise is made available to the State Police to effectively investigate money laundering, the State Police within the 1st Division which is investigating stand alone money laundering cases created an analytical criminal intelligence unit which include experts from other State Police Units. The objectives of this Unit are to provide the necessary assistance in financial investigations, to produce the initial cross check analysis of the information and to gather this information for criminal intelligence purposes and for strategic analysis, as well as to keep statistical data related to money laundering investigations. The Unit consist of 8 staff positions, currently only one position is still vacant. The Unit's analysts, including 4 analysts who are certified accountancy forensic experts with masters degree in economics and management, perform comprehensive and high volume data analysis by using special criminalistic methods. 3 analysts of this Unit have education in IT area which allows them to automatize analysis processes, as well as to work with digital evidences, accumulation of data obtained and systematisation of the data for execution of cross checks. In 2020 the Unit started to use a criminalistic tool – iPED which is elaborated with assistance of Interpol.

[Additional Information]

Latvia confirms that:

- One case has been adjudicated, and a fine has been imposed;
- Another case is currently adjudicated in court (first instance).

The Information from another case is still under investigation and is not yet submitted for prosecution.

In regard to 2 other cases the criminal proceedings had been terminated due to *ne bis in idem* principle.

If no action has been taken to implement recommendation 6 (d), 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 6(e):

6. Regarding the investigation and prosecution of foreign bribery, the Working Group recommends that Latvia take steps to:

e) Provide regular training to KNAB, the PPO and the judiciary on (i) the foreign bribery offence, including complicity to commit foreign bribery under Article 1(2) of the Convention and related money laundering offences; (ii) corporate liability and proceedings to impose coercive measures; (iii) effective sanctions; (iv) investigative techniques, including special investigative techniques, forensic accounting and information technology and (v) the application of non-trial resolutions in foreign bribery cases [Convention Articles 1, 3, 5; 2009 Recommendation V, Annex I.D and Phase 2 recommendation 9(c)];

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

In order to address the recommendation on organisation of regular trainings to KNAB, the Prosecutors Office and the judiciary on the foreign bribery offence and related money laundering offences, as well as corporate liability, effective sanctions, investigative techniques and the application of non-trial resolutions in foreign bribery cases Latvian authorities in cooperation with the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance, and Training (OPDAT) have planned a series of programs dedicated to the prevention, detection, investigation, prosecution, and adjudication of foreign bribery. This program is bringing together experts from Estonia, Latvia, Lithuanian, and the United States to discuss and share examples of individual and corporate criminal liability for foreign bribery. The first training of this series was conducted in June 2021 with participation of 47 practitioners from Latvia which includes 22 investigators from KNAB, 3 investigators from the State Police, 5 officials from the FIU Latvia, 3 officials from the SRS, 9 prosecutors and 3 judges. Please see the agenda of the training provided in Annex, *file: ENG Foreign Bribery Agenda*).

In addition it should be mentioned that during the review period Latvian authorities have organised other trainings and seminars in cooperation with the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance, and Training (OPDAT) which covers the subjects mentioned in the recommendation. Please see the information on the training provided in Annex, *file: OPDAT*.

During the reporting period the Prosecutor General's Office both independently and in cooperation with other institutions as well has organized various training events addressing the issues indicated in the recommendation:

On 29 November 2019 the Prosecutor General's Office in cooperation with the Court's Administration organized the training (discussion) about the uniform application of the legal provisions while laying down a sentence.

On 23 November 2020, the Prosecutor General's Office organised online training (in the form of discussion) for prosecutors on criminal policy and the position of the Prosecutor's Office in financial and economic crime cases, including corruption crimes. The training discussed, among other things, the dissuasiveness of sanctions. Around 200 prosecutors participated in the training.

On 25 January-25 February 2021 the Prosecutor General's Office in cooperation with the University of Latvia organized the training for practitioners on combatting the financial and economical crimes, namely, regarding the assets matters, applying the coercive measures to the legal persons, drafting and maintaining the public charges before the Court. That training was attended in total by 100 attendees.

In 2021 the Division for Coordination of the Corruption Combatting of the Criminal Justice Department of the Prosecutor General's Office organized the following training:

1. Training for Prosecutors on 27 January 2021 on cooperation between Investigator and supervising Prosecutor, preparing the public charges speech, drafting a decision on discontinuation of the criminal procedure.
2. Training for Investigators of the Corruption Prevention and Combatting Bureau and Prosecutors on 5 March 2021 about the concept of the public official (Section 316 of the Criminal Law).
3. Additionally on 11 March 2021 the Division for Coordination of the Corruption Combatting of the Criminal Justice Department of the Prosecutor General's Office in cooperation with the Latvian Judicial Training Centre organised a training for judges of the Economic Affairs Court, which included a topic of the concept of the public official (Section 316 of the Criminal Law) and issues related to confiscation.

Moreover, during the first half of 2021 the Division for Coordination of the Corruption Combatting organized the training for investigators of the Corruption Prevention and Combatting Bureau, criminal intelligence officers and prosecutors in relation with the quality of the criminal intelligence files, the examinations without applying the criminal judicial measures and initial investigatory actions.

Within the framework of the "International Police Cooperation and Combating Crime" program, co-funded by a European Economic Area (EEA) grant KNAB has received support to implement the project within which already two trainings have been arranged:

- On 11 May and 19 May, 2021 Financial Investigation. Please find attached the agenda and list of participants. Annex 1 and Annex 2
- From 24 May until 27 May, 2021 Financial Analysis. Please find attached agenda and list of participants. Annex 3 and Annex 4

The Latvian School of Public Administration has provided various trainings covering the issues mentioned in the recommendation and for more detailed information on the training subjects, dates and number of participants please see the table in Annex, *file: LSPA_training*.

In addition it should be noted that currently a new Judicial Training Center is being developed which will provide a unified training for judges and prosecutors. On 18 June 2021 the Justice Council unanimously endorsed the concept prepared by the Ministry of Justice which foresees the reform of the system for improving the qualifications of judges and prosecutors by 2024. The concept also envisages that starting from 2022 new training programs will be elaborated and the current ones improved for judges and prosecutors, as well as for investigators on multidisciplinary issues. The concept especially stresses that financial crimes are getting more complex and voluminous and therefore it creates the necessity for ability to work as a unified mechanism. For this reason, a single training institution is needed to enable the necessary training programmes to be planned in a coordinated manner and to ensure a uniform level of professional qualifications, including by promoting the preconditions for an effective trial.

In regard to the Economic Affairs Court it should be noted that since March 2021, when the Court started to work, the Latvian Judicial Training Centre is providing a comprehensive training programme specifically elaborated for judges of the Economic Affairs Court which includes also specific training related to improving the adjudication of financial and economic cases. Various training sessions have been conducted in cooperation with the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance, and Training (OPDAT) and the European Rights Academy (ERA) and this cooperation will continue after June 2021 (for example, in July it is planned to have a training session on using circumstantial evidences in proving the case in cooperation with OPLAT).

[Additional Information]

During the training, a general analysis of the legal framework was done and a practical task about the application of coercive measures to legal persons was conducted, not specifying the topic through specific case categories.

If no action has been taken to implement recommendation 6 (e), 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 6(f):

6. Regarding the investigation and prosecution of foreign bribery, the Working Group recommends that Latvia take steps to:

f) Take steps to ensure that false accounting related to foreign bribery is fully investigated and prosecuted, where appropriate [Convention Article 5 and 8; and Phase 2 Recommendation 9(d)].

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

In order to ensure that false accounting related to foreign bribery is fully investigated the KNAB has adopted the Order No.1.20-1/28 on June 16, 2020 by which investigators are obliged to assess in each case the need for an accounts appraisal and/or calculation of taxes by the State Revenue Service, thus determining the amount of losses caused to the budget [taxes (fees) unpaid into the State budget) and payments determined by the State] (Section 8(11) of the Law On the State Revenue Service).

In the criminal proceedings in one case the charges against the legal person have been also brought for false accounting related to foreign bribery (Section 218, Para 2 of the Criminal Law) in addition to charges according to Section 323, Para 2 of the Criminal Law. During the investigation it was established that the representative of Latvian company gave a bribe to the Belarussian official. Within the criminal proceedings the taxes estimate in respect of a legal person for the transactions with the company was conducted.

[Additional Information]

KNAB confirms that criminal proceedings were initiated and transferred for prosecution for both “foreign bribery” (Criminal Law, Section 323) and “false accounting” (Criminal Law, Section 218).

The investigative measures concluded that fictitious agreements were made through which bribes were transferred to the Belarussian public official. The investigative measures also included conducting forensic accounting by State Revenue Service, which revealed that the company had committed evasion of tax payments in time period 2011-2016 in total of 512 741,54EUR.

The case has been submitted to court and we confirm that charges against a legal person cover both foreign bribery and false accounting.

If no action has been taken to implement recommendation 6 (f), 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 7(a):

7.Regarding jurisdiction, the Working Group recommends that Latvia ensure that:

a) The application of Latvian legal provisions on jurisdiction cover those cases where Latvian legal persons, including financial institutions, have facilitated the commission of foreign bribery; [Convention Article 4].

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

In order to address this recommendation the Ministry of Justice has disseminated the informative letter to all practitioners (courts, the Supreme Court, prosecutors, investigators of KNAB and the State Police) clarifying the legal norms stipulating jurisdiction regarding Latvian legal persons, and that the liability of legal persons is not restricted to cases where the natural person(s) who perpetrated the offence are prosecuted or convicted, in Latvia or abroad and that proceedings against legal persons may be commenced in the absence of criminal charges against a natural person.

The information was also published at the website of the Ministry and is available here: <https://www.tm.gov.lv/lv/skaidrojumi>

In this regard KNAB currently is investigating several cases which were initiated based on FIU disseminations. Thus, KNAB commenced criminal proceeding on 18 May, 2020 for alleged bribery and money laundering in accordance to the Section 323, Paragraph 2 (Giving of Bribes) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime) following the FIU information (for more detailed information please see reply to Case study 1). On 19 May, 2020 the court approved seizing 381 086,44 EUR and 13 real estates. Currently the investigation of alleged bribery in foreign country related to health sector continues, KNAB has carried out interviews and requested information from a Latvian company. The liability of financial institutions' employees for supporting money laundering also is examined in the scope of investigation.

Based on another FIU dissemination (for more detailed information please see reply under recommendation 10(a) "Case study 2") KNAB commenced criminal proceeding on 31 August, 2020 for alleged bribery and money laundering in accordance to the Section 320, Paragraph 3 (Giving of Bribes) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 14 September, 2020 the court approved seizing 345270,87 EUR. On 6 April 2021 the decision approved by the court was taken imposing confiscation of the seized assets. The decision entered into force and accordingly confiscated assets were transferred to the State Budget. In relation to the predicative crime in a foreign country the investigation continues. The liability of financial institutions' employees for supporting money laundering also is examined in the scope of investigation.

Based on FIU dissemination (for more detailed information please see reply under recommendation 10(a) "Case study 3") KNAB commenced criminal proceeding on 20 December, 2020 for alleged bribery and money laundering in accordance to the Section 322, Paragraph 1 (Intermediation in Bribery) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 9 December, 2020 the court approved seizing 41178,39 EUR. Currently the investigation of the bribery intermediation committed in foreign country continues, KNAB has carried out interviews of bank employees and sent a European Investigation Order to one of EU Member states.

If no action has been taken to implement recommendation 7 (a), 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 7(b):

7. Regarding jurisdiction, the Working Group recommends that Latvia ensure that:

b) KNAB's investigators and the prosecutors thoroughly explore all jurisdictional bases when foreign bribery offences take place, even in part, on the territory of Latvia [Convention Article 4].

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

In order to address this recommendation the Ministry of Justice has disseminated the informative letter to all practitioners (courts, the Supreme Court, prosecutors, investigators of KNAB and the State Police) clarifying the legal norms stipulating territorial jurisdiction, including when foreign bribery offences take place, even in part, on the territory of Latvia.

The information was also published at the website of the Ministry and is available here: <https://www.tm.gov.lv/lv/skaidrojumai>.

As examples of cases in which KNAB's investigators and the prosecutors have thoroughly explored all jurisdictional bases when foreign bribery offences took place, even in part, on the territory of Latvia should be mentioned the criminal proceedings in a case. During the investigation is established that a representative of Latvian company gave the bribe to Belorussian official, but the money intended for bribe was paid into the account of Latvian bank.

There are several other on-going investigations which serve as examples:

KNAB commenced criminal proceeding on 18 May, 2020 for alleged bribery and money laundering in accordance to the Section 323, Paragraph 2 (Giving of Bribes) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime) (for more detailed information please see reply under recommendation 4(b), Case study 1). On 19 May, 2020 the court approved seizing 381 086,44 EUR and 13 real estates. Currently the investigation of alleged bribery in foreign country related to health sector continues, KNAB has carried out interviews and requested information from a Latvian company. The liability of financial institutions' employees for supporting money laundering also is examined in the scope of investigation.

Based on another FIU dissemination (for more detailed information please see reply under recommendation 10(a) "Case study 2") KNAB commenced criminal proceeding on 31 August, 2020 for alleged bribery and money laundering in accordance to the Section 320, Paragraph 3 (Giving of Bribes) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 14 September, 2020 the court approved seizing 345270,87 EUR. On 6 April 2021 the decision approved by the court was taken imposing confiscation of the seized assets. The decision entered into force and accordingly confiscated assets were transferred to the State Budget. In relation to the predicative crime in a foreign country the investigation continues. The liability of financial institutions' employees for supporting money laundering also is examined in the scope of investigation.

Based on FIU dissemination (for more detailed information please see reply under recommendation 10(a) "Case study 3") KNAB commenced criminal proceeding on 20 December, 2020 for alleged bribery and money laundering in accordance to the Section 322, Paragraph 1 (Intermediation in Bribery) and Section 195, Paragraph 3 (Laundering of the Proceeds of Crime). On 9 December, 2020 the court approved seizing 41178,39 EUR. Currently the investigation of the bribery intermediation committed in foreign country continues, KNAB has carried out interviews of bank employees and sent a European Investigation Order to one of EU Member states.

If no action has been taken to implement recommendation 7 (b), 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(a):

8. With respect to investigative and prosecutorial independence, the Working Group recommends that Latvia:

a) Take steps to ensure that government officials refrain from commenting on the performances of the Prosecutor General that risk creating the perception of political interference [Convention Article 5 and Commentary 27; 2009 Recommendation Annex I.D];

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

Information note is being prepared explaining the importance of refraining from commenting on the performances of the Prosecutor General and avoiding undue political interference, as well as on the Article 5 of the Convention. This note will be provided to the Cabinet of Ministers members in Autumn 2021 at the Cabinet seating discussing OECD-related report.

If no action has been taken to implement recommendation 8 (a), 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(b):

8. With respect to investigative and prosecutorial independence, the Working Group recommends that Latvia:

b) Take concrete steps to comply with and raise awareness of Article 5 of the Convention among relevant government officials [Convention Article 5 and Commentary 27; 2009 Recommendation Annex I.D].

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

Information note is being prepared explaining the importance of refraining from commenting on the performances of the Prosecutor General and avoiding undue political interference, as well as on the Article 5 of the Convention. This note will be provided to the Cabinet of Ministers members in Autumn 2021 at the Cabinet seating discussing OECD-related report.

If no action has been taken to implement recommendation 8 (b), 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 9:

9. With respect to mutual legal assistance, the Working Group recommends that Latvia continue providing effective and timely assistance and routinely seeking MLA in foreign bribery cases [Convention Article 9; 2009 Recommendation XIII(i) and (iii)].

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

Within the time period between 1 October 2019 and 31 May 2021 the Prosecutor General's Office received 18 legal assistance requests in relation with the foreign bribery: 2 requests were received at the end of 2019, 13 requests – in 2020 and 3 requests – in 2021. All legal assistance requests are completely fulfilled.

As regards the time periods for fulfilment of legal assistance requests we can inform that 11 requests of 18 were fulfilled within one month.

In 2020 KNAB received 34 mutual legal assistance requests, while itself KNAB prepared 28 mutual legal assistance requests. In relation to mutual legal assistance requests sent in foreign bribery cases the KNAB provides the following information:

- In case against company (Case#2) two mutual legal assistance requests were sent to Lithuania in 2019 and in 2020 relation to investigation of liability of legal person.
- In case against IT company (Case#1) one mutual legal assistance request to Belarus was sent in 2019 and two more in 2020.

[Additional Information]

1. The average period of the execution of the 7 incoming MLA requests was three and half month. All the MLA requests mentioned were completely fulfilled.

2. All the MLA outgoing requests mentioned were completely executed.

The average period of the execution of the 3 outgoing requests in the a case and 2 outgoing requests in another case was three to six months.

If no action has been taken to implement recommendation 9, 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. Regarding money laundering, the Working Group recommends that Latvia take steps to:

a) Take additional measures to substantially increase the number of money laundering convictions in particular when predicated on foreign bribery and routinely consider whether to hold financial institutions and their personnel liable for their involvement in money laundering schemes, where relevant [Convention Article 7; 2009 Recommendation III.ii and V];

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

On 9 July 2020 Prosecutor General adopted the Direction “On supervision of the investigation of the money laundering”, ordering that all Prosecutors shall conduct the prioritized, timely and active supervision of the money laundering investigation since the very beginning of the criminal proceedings or as of the moment when a crime under investigation is qualified pursuant to the Section 195 of the Criminal Law. The criminal cases related with the money laundering are recognized as especially prioritized criminal cases.

According to the strategic priorities of the Prosecution Office and referring to the internal legal acts of the Prosecution Office, prosecutors in their everyday work are paying special attention to fulfilling the functions provided for by the Criminal Procedure Law in the money laundering cases.

In addition to the abovementioned in August 2020 in the Prosecutor General’s Office was set up the specialized Prosecutors working group with task to identify in the country the existing problems related with the criminal procedures initiated in the result of the FIU reports, as well as to coordinate the work of Investigators and Prosecutors in the money laundering cases. In September and October 2020 by the Directions of Prosecutor General the members of the Prosecutors working party were instructed to exercise the rights of superior Prosecutor laid down in the Criminal Procedure Law in the prioritized criminal procedures regarding the money laundering.

On 1 January 2021 in the Prosecutor General’s Office new specialized unit was set up– the Division for Coordination the Combatting with Money Laundering.

Regarding the money laundering cases statistics of the Prosecution Office the following should be noted:

In 2019 – completed **59** criminal proceedings by taking the decision to submit the criminal case to the Court.

In 2020 – completed **53** criminal proceedings (47 of them were completed by taking the decision for submission to the court, but 6 criminal procedures were completed by applying Prosecutor’s penal order (out of court settlement).

Until June 2021 – completed **37** criminal proceedings (32 of them were completed by taking the decision to submit to the court, but 5 criminal proceedings were completed by applying Prosecutor’s penal order (out of court settlement).

In 2019 and 2020 the cooperation between the FIU and the KNAB has been strengthened and has resulted in a sharp increase in reports disseminated as shown in *Table 1* (under recommendation 4(b)), in particular in regards to ML cases where foreign bribery is detected as the possible predicate offense. Below are two examples from the disseminations to the KNAB that include suspicions of foreign bribery.

Case Study 2

A foreign natural person used his account in Latvian financial institution to launder illegal funds, possibly obtained by foreign bribery during the period the natural person was a high ranking official in a foreign state-owned company. The structure of transactions indicates the accounts in Latvia have been used for the 2nd and 3rd stage of money laundering – layering and integration, after a chain of transactions involving shell companies, the natural person purchased real estate abroad and transferred funds to related persons. The total amount of funds identified in the scheme is 1.2 million EUR, amount frozen 350 thousand EUR. Case was disseminated to the KNAB in 2020.

Case Study 3

A foreign natural person used his account in Latvian financial institution to transfer the funds in the interest of third parties, the sender a foreign natural person, previously convicted for corruption and embezzlement, and the receiver a legal person with beneficial owner a public official in a foreign jurisdiction. The information available to the FIU indicates a possible case of bribery to the public official and further laundering of the funds. The initial payments are disguised as payments for consultations. The total amount of funds identified in the scheme is 200 thousand EUR, amount frozen 40 thousand EUR. Case was disseminated to the KNAB in 2020.

In regards to the possible involvement of financial institutions and their personnel in money laundering (ML) schemes, professional ML is one of the priorities for FIU Latvia. All STRs that contain indications of professional ML are investigated thoroughly. Disseminations of FIU Latvia in regards to possible involvement of the financial institution or their personnel in ML schemes can be divided in two parts – suspicions that the personnel of a financial institution actively took part in the ML scheme (e.g. consulted the client) and suspicions that the financial institution or their personnel intentionally chose to ignore the ML scheme (wilful blindness). Both in 2018 and 2019 there were one report disseminated with suspicions regarding active involvement, while in 2020 and 2021 numerous reports contained suspicions that the ML scheme could not have existed without the financial institution knowing about it.

Additionally, in 2020 the FIU in cooperation with the Prosecutors office developed methodological material “ML typologies and “red flag” indicators”, applying emphasis on ML typologies that are characteristic to ML schemes implemented in Latvia (or using the Latvian financial system), incl.

typologies of corrupt transactions.⁷ For detailed explanation please refer to description provided under recommendation 4(b).

Moreover, in 2020 status of FIU disseminations was changed. The FIU provides information to pre-trial investigating institutions, the Office of the Prosecutor, or a court, if such information raises reasonable suspicions that the relevant person has committed a criminal offence, including has carried out ML/TF/PF, or an attempt to carry out such actions. Following the invitation of the PGO and agreed upon in the FIUs CCG attended by representatives of the PGO and LEAs, as of 1 September 2020 such information disseminated by the FIU is considered as a Conclusion of the Competent Authority in the meaning of Section 133 of the Criminal Procedure Law.

As per Section 133 of the Criminal Procedure Law a statement issued by a competent authority regarding facts and circumstances that are at their disposal in connection with the competence and directions of operations thereof is considered a conclusion of the competent authority and may be a piece of evidence in criminal proceedings. At the same time Egmont Group principles and guidelines regarding further use and distribution of information obtained within the framework of international cooperation, that may be included in the FIU disseminations, are respected and met.

In regard to the recommendation on holding financial institutions and their personnel liable for their involvement in money laundering schemes it should be noted that Latvia has taken various steps in order to ensure its effectiveness in this regard:

1. On 17 September 2020, the Prosecutor General and Head of FIU Latvia signed the Guidelines for Prioritization of ML Cases (the translation of the document is provided in Annex, *file: ML priorities guidelines*).

2. In order to streamline criminal proceedings related to the ABLV Bank in August 2020, a specialised group of prosecutors was set up at the PGO. In September and October 2020, with the orders of the PG, the members of this Public Prosecutors were entitled with rights of a higher prosecutor in these priority criminal proceedings for ML.

3. Considering that a large part of the most important ML criminal proceedings are being initiated on the basis of reports from the FIU, the State Police issued an order, setting priority of cases arising from the FIU reports based on Latvia's risk profile. Thus, priority is given to alleged ML cases which correspond to one of the following criteria:

- Related to the ongoing need for the verification of high-risk customers at the time (for example, in the context of the self-liquidation process of ABLV Bank);
- Indications of large-scale ML schemes (international laundromats) with the abuse of the Latvian financial system;
- Suspicion of involvement of employees of Latvian credit institutions in ML;
- Suspicion of involvement of Latvian residents in professional ML by providing professional ML services to other persons;
- Involvement of PEPs in transactions.
- The cases with adverse media, national or foreign.

As the result of measures taken to prioritize investigations of ML in line with risk profiles, Latvian authorities succeeded not only to start the prosecution of several complex multi-jurisdictional ML but also to submit cases to court charging high ranking employees of financial institutions, as well as in some cases financial institutions:

⁷ Methodological material "ML typologies and "red flag" indicators" (available in Latvian). Available: https://www.fid.gov.lv/images/Articles/2020/NILL_tipolo%C4%A3ijas_un_paz%C4%ABmes.pdf

- One case in which alleged multijurisdictional ML, involving the financial institution and its employees is being prosecuted. In case of financial institution it has been ascertained that employees of the bank were involved in an organised criminal group laundering proceeds in amount of 1.5 billion USD and 6 million EUR from 2012 to 2015. Currently the case is in the prosecution stage.
- In another case a comprehensive investigation involving several criminal proceedings and extensive international cooperation has been performed. The cooperation with Germany resulted in successful investigation of the Russian Laundromat in Germany (<https://www.occrp.org/en/daily/9269-germany-seizes-50-mil-euros-of-russian-laundromat-loot>). Close cooperation was performed with the Russian Federation as the result of which investigators have received significant information on „Russian Laundromat” and the bank’s involvement in it. The case currently is in court being adjudicated.

[Additional Information]

[Document provided by Latvia with “ML typologies and “red flag” indicators”]

Through this specialized working party, the prosecutors of the Prosecutor General’s Office were instructed to carry out the rights of the higher-ranking prosecutor, mentioned in Section 46 of the Criminal Procedure Law, in the context of prioritised criminal proceedings regarding money laundering.

The specialized working group of prosecutors (created in August of 2020) and the Division for Coordinating the Fight against Money Laundering (created in January of 2021) are not two independent units of the Prosecutor’s Office. Namely, the specialized working group of prosecutors has been reorganized, and, on the basis of it, the Division for Coordinating the Fight against Money Laundering has been created.

In accordance with the Regulation of the Criminal Justice Department of the Prosecutor General’s Office that was submitted to you, the prosecutors working within the Division for Coordinating the Fight against Money Laundering carry out rights of the higher-ranking prosecutor, prescribed within Section 46 of the Criminal Procedure Law. Within their everyday duties, in relation to criminal proceedings regarding money laundering, that are under the stages of investigation and prosecution, includes such actions as giving instructions, handling complaints, organizing the discussions regarding the progress of cases (see points 5.1., 5.3., 5.4., and 5.5. of the aforementioned Regulation).

To the Prosecutor General’s Office, the meaning of the wording “managing money laundering cases” is not entirely clear.

If by “managing money laundering cases” it is meant – which unit of the Prosecutor’s Office is responsible for investigation and prosecution of money laundering cases, then our response is the following: specialized units of the Prosecutor’s Office (including the Specialized Prosecutor’s Office for Organized Crime and other branches, Prosecutor’s Office of Tax and Customs Matters), as well as territorial units of the Prosecutor’s Office, respectively to their territorial competence.

If by “managing money laundering cases” it is meant – which unit of the Prosecutor’s Office is responsible for the coordination of cases regarding money laundering, then our response is: the Division for Coordinating the Fight against Money Laundering. This division of the Prosecutor General’s Office creates the strategic policy of the Prosecutor’s Office within the area of combating money laundering.

1.

Year	Number of cases adjudicated	Convicted persons	Natural persons	Legal persons
2019	16	32	32	0
2020	23	59	58	1
Jan – 20 July, 2021	19	35	34	1

2. In the period 2019- 20 July, 2021 there were two legal persons that received coercive measures in money laundering cases.

3. It should be noted that Section 6 of the Criminal Procedure Law stipulates the mandatory nature of criminal proceedings (the official who is authorised to conduct criminal proceedings has an obligation within his or her competence to initiate criminal proceedings and to lead such proceedings to the fair regulation of criminal legal relations provided for in The Criminal Law in each case where the reason and grounds for initiating criminal proceedings have become known.). In cases if the information provided on alleged offence does not contain sufficient grounds for initiating criminal proceedings, then law enforcement agency may perform whether a departmental examination (Section 373, para 3: if information contains particulars regarding a violation of the law for the disclosure of which the use of the resources and methods of criminal proceedings is not necessary, such information shall be sent to the competent authority for the performance of a departmental examination. By a departmental examination within the meaning of this Law shall be meant an examination performed by the State authority and officials thereof in respect of possible violation of the law using powers, which are not criminal procedural powers, specified in the law governing the operation of such authority) or use criminal intelligence according to the provisions of Operational Activities Law to verify information or gather more information needed for initiating criminal proceedings. Please refer to Latvia’s Phase 2 Report (paras.143-145).

Latvian authorities do not gather statistics on “preliminary investigations” in money laundering cases.

Please see below the statistics on criminal proceedings initiated for money laundering:

ML offence	2017	2018	2019	2020	Jan-June, 2021
Criminal proceedings initiated	104	181	257	344	132

4. In regard to settlements it should be noted that there are two types of settlements: an agreement between a prosecutor and an accused which is approved by the court and it is considered as a judgment therefore in statistics such agreements are not separately reflected. Another form of a settlement is a prosecutor’s penal order which is an out-of-court settlement (according to Section 36, Para 3 of the Criminal Law: (3) for a person who has committed a criminal violation, a less serious crime or a serious crime for which a punishment of deprivation of liberty for a period of up to five years is provided for, a prosecutor in drawing up a penal order may specify a fine or community service, as well as an additional punishment - restriction of rights or probationary supervision.). It should be noted that for money laundering if committed on a large scale (25 000 EUR) or by an organised group a prosecutor’s penal order is not applicable as it is considered an especially serious crime (Section 7, Para 5 of the Criminal Law).

Statistics on applying Prosecutor’s Penal Orders in money laundering cases:

In 2019 – 0

In 2020 – 6 criminal cases were completed by applying Prosecutor’s Penal Order;

In 2021 (until 31 May) – 5 criminal cases were completed by applying Prosecutor’s Penal Order.

The Prosecutor’s Office manually has checked the cases of 2020 and 2021 where the prosecutor’s penal order has been applied and in all cases those were natural persons: in 2020 - 6 natural persons and in 2021 – 9 natural persons.

In addition the Prosecutor’s General Office provided the following information on prosecution of money laundering cases in the first 6 months in 2021: in 46 criminal proceedings prosecution resulted in submission of cases to courts for adjudication against 86 persons, from those in 12 criminal proceedings an agreement between a prosecutor and an accused have been reached (but still the court has to approve

the agreement) (86 persons) and in 5 criminal proceedings a prosecutor's penal order have been applied (9 persons). Therefore, in first 6 months of 2021 there were 51 cases of money laundering prosecuted (95 persons).

We confirm that trial proceedings in one case are ongoing in Latvia for money laundering.

If no action has been taken to implement recommendation 10 (a), 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(b):

10. Regarding money laundering, the Working Group recommends that Latvia take steps to:

b) Ensure that the money laundering risk criteria triggering enhanced due diligence measures are updated on a regular basis, using Latvia's National Risk Assessment as a source of information to identify customers and transactions that pose money laundering risks [Convention Article 7; 2009 Recommendation II];

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

In 2020 the FIU Latvia in cooperation with the competent authorities developed the Latvian National ML/FT/FP risk assessment report for the period 2017-2019. The Report takes also in consideration the key events of 2020, paying special attention to the challenges caused by the COVID-19 pandemic. It serves as the basis for strengthening the AML/CFT/CFP system, supported by supervisory and law enforcement work, and well understood by the regulated sectors.

The AML/CFTP Law Section 6 stipulates an obligation to the subjects of this law to take into account risks identified by the national risk assessment when performing the risk assessment and creating the internal control system. Below is provided information from the Financial and Capital Market Commission (the FCMC), the State Revenue Service (the SRS), the Bank of Latvia, of the AML/CFTP Law on implementation of the recommendation:

The FCMC: in the process of conducting sectoral risk assessment several discussions take place with the banking sector and non-banking institutions. In 2019, regular meetings with banks were launched by the Association of Finance Latvia to discuss the sectoral risk assessment process, methodology and data to be submitted. Following the meetings all the questions are summarized and sent to the Association for further distribution to members. Similar communication was also processed in 2020.

In 2019, meetings with banks took place at the FIU on ML/TF sectoral risk assessment as well as discussion of role of non-governmental organizations in TF financing and the need to have an overall view of the non-governmental sector and its transactional activity. In 2020, online discussions were organized, separately with FIU and non-governmental organizations.

Discussions with all the banks on summary of identified sectoral ML/TF risks and the process itself takes place yearly in spring / summer.

In June 2019 all banks and branches operating in Latvia along with executive summary of Sectoral ML/TF Risk Assessment were informed about the National Terrorism Financing and Proliferation Financing Risk Assessment Report 2017-2018 and in assessment of efficiency of internal control system were urged to take into account the risks identified in both the executive summary of Sectoral Risk Assessment and the National Terrorism Financing and Proliferation Financing Risk Assessment Report. Supervised entities were required to provide feedback on assessment whether risks identified in both documents apply. It is intended regularly to discuss application of the identified risks as well as to

analyse conclusions of submitted risk assessment of banks.

The overall conclusions in 2019:

- 1) all the banks have made assessment of those risks identified in sectoral risk assessments, in total 14 risks had to be taken into consideration and to assess whether those apply to particular bank;
- 2) to assess and to address sectoral risks, screening and review of customer base was launched, internal regulations were analysed and updated, implementation of de-risking measures is on-going, for example, winding down provision of trust services;
- 3) as the result substantial resources have been invested in automated solutions and IT systems, internal control systems have been strengthened, investments in personnel training have been made;
- 4) increasing role of external reviews and implementation of received recommendations.

Overview (overall picture) has been obtained and it has been concluded that sectoral risks have been taken on-board by banks. However, sufficiency and efficiency of risk mitigating measures is subject to further on-site inspections.

The overall conclusions in 2020:

The Compliance Control Department has carried out a sectoral assessment of ML/TPF risk for 2019, please find below a summary of main positive trends and significant risks identified that need to be addressed more closely in the follow-up process:

After assessing the ML/TPF threat and vulnerability in Latvia's credit institutions in 2019, the overall conclusion is that the risk level of ML/TPF remains medium-high. In view of the measures taken by credit institutions to improve their internal control systems, the level of vulnerability has been reduced from a medium high to medium, while the level of threat remains at the previous level.

While assessing the non-banking financial institutions' ML/TPF threat and vulnerability in 2019, it was established that the risk mitigation process and supervisory measures previously undertaken in the PI/EMI segment had resulted in a significant reduction in the number of high-risk institutions and their scope: consequently, the level of ML/TPF threat in the PI/EMI segment declined in the reporting year from a medium-high to medium, overall maintaining a medium-high risk level. The ML/TPF threat and vulnerability in the IF/IMC segments remained at a medium-high level, and the level of ML/TPF threat in other non-banking segments still was assessed as low.

The conclusions on the sectoral risk assessment have been presented and discussed with the FIU, Ministry of Finance and Finance Latvia Association.

Positive trends:

- The share of high risk (HR) and medium-high risk (MHR) banks in terms of credit turnover in the overall banking sector continued to decline while the proportion of medium and low risk banks' credit turnover continued to increase accordingly;
- The credit turnover of credit institutions' customers subject to customer due diligence continued to shrink (from EUR 103 785 million in H2 2017 to EUR 39 416 million in H2 2019);
- The segment of credit institution customers – shell companies had experienced a significant drop in financial assets and credit turnover as well as in terms of number already in 2018, and this trend was observed also in 2019; overall, the number of shell companies decreased from 26 thousand in Q3 2017 to 4 thousand at the end of 2018 and 1.9 thousand at the end of 2019;
- The payment flows declined further (both incoming and outgoing payments) to and from the CIS countries; incoming payments from the CIS countries decreased from EUR 14 787

million in 2018 to EUR 11 106 million in 2019, and outgoing payments from EUR 15 362 million to EUR 10 782 million, respectively.

Regulations and recommendations issued by the FCMC:

In 2019 the FCMC Regulation No 135 on customer risk scoring and EDD measures was adopted. Regulation was binding to all obliged entities supervised by FCMC – credit institutions, payment institutions and electronic money institutions, private pension funds, investment companies, investment management companies, alternative investment fund managers, insurance companies, insofar as they provide life insurance or other insurance services related to the accumulation of funds, insurance intermediaries, insofar as they provide life insurance or other insurance services related to the accumulation of funds, reinsurance companies.

The Regulation prescribes the minimum requirements for customer due diligence, including enhanced customer due diligence and transaction supervision, as well as for the establishment of the customer's risk scoring system.

The regulation requires that the institution shall obtain information to such an extent that it can identify the risk increasing and decreasing factors inherent to the customer and ensure their management. In particular, Section 3.3 of the regulations describes in detail measures to be carried out within the enhanced CDD, including what information and how should be obtained.

The Regulation available on the FCMC website following the link:

<https://www.fctk.lv/en/law/general/fcmc-regulations/regulations-on-the-establishment-of-customer-due-diligence-enhanced-customer-due-diligence-and-risk-scoring-system>

In 2020 in cooperation with industry the FCMC has developed recommendations for the Establishment of the Internal Control System for Anti-Money Laundering and Countering Terrorism and Proliferation Financing and Sanctions Risk Management, and for Customer Due Diligence that will serve as a practical guide for financial institutions through customer due diligence and enhancement of internal control system.

The objective of the recommendations is to have a common understanding on both the banks and regulator's side of the application of laws and regulations in the area of the prevention of financial crime, as well as the introduction of risk-based approach.

Recommendations available on the website of the FCMC following the link:

<https://www.fctk.lv/en/law/general/fcmc-guidelines-and-recommendations/recommendations-for-the-establishment-of-the-internal-control-system-for-anti-money-laundering-and-countering-terrorism-and-proliferation-financing-and-sanctions-risk-management-and-for-customer-due-diligence/>

The Recommendations are subject to revision to be completed in June 2021.

In January 2021 The FCMC Regulation No 135 has been replaced with 18.01.2021 Regulation No 5 On customer due diligence, customer enhanced due diligence and development of numerical risk assessment system further strengthening risk-based approach in supervised entities. Implementation of the FCMC Regulation No 5 is to be ensured by August 1 2021.

Guidance, awareness raising provided by the FCMC

In 2019 following targeted off-site inspections on the subject of identification and verification of UBOs in all the banks executive summary was drafted by the FCMC and distributed to the banks and released on the website of the FCMC.

The summary includes best practices in terms of procedures established by the banks regarding identification of UBO and verification of the compliance of identified UBO, as well as identified areas where improvements are needed. In addition, an explanation has been prepared on the application of effective national legal requirements, analyzing the identified problems in the application of legal acts

for verification of UBO. The executive summary was first forwarded to banking and non-banking institutions.

On 4.11.2019 this information was released on the FCMC website emphasizing risk-based approach in the process of UBO identification along with recommended solutions to be adjusted to risk profile of financial institution.

Other outreach activities of the FCMC in 2019 include:

- National TF and PF prevention guidelines were distributed in the regular monthly newsletter, march edition.
- FATF June 2019 update on 2012 Recommendations on International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation were distributed in the regular monthly newsletter of July 2019.
- methodological guidance of FIU on risk indicators associated with legal entities and non-governmental organizations in the context of money laundering, terrorism and proliferation financing activities, the involvement of natural and legal persons and legal entities in proliferation financing activities, the use of virtual currency in criminal activities, money laundering, terrorism and proliferation financing, as well as general risks indicators for TF.

In 2020 guidance forwarded to financial sector include:

- Implementation and observance of AML/CFTP requirements during the COVID-19 pandemia
- Requirements with regards to basic account
- Implementation of sanctions requirements with regards to flash payments

On 20.01.2021 the FCMC in co-operation with the Finance Latvia Association and non-governmental institutions has prepared an explanatory statement on the identification of UBOs in associations. It explains the definition of UBOs of the associations and the responsibilities of credit institutions in identifying actual UBOs. The purpose of the explanation is to provide banks with additional information on the practical aspects of the activities of associations in the context of the requirements of regulatory enactments and the risk-based approach also in the sector of non-governmental organizations. The explanation provides information that the purpose of the association is defined in its statutes and may be aimed at both the public good and the interests of its members. Each association is subject to individual assessment, i.e, whether the purpose of the association is to support the general public, promote the interests of the general public or a large number of members, or whether the association is chosen as a legal form and operates in the interests of a limited number of individuals. In most associations, should those be established and operate in accordance with the association's statute, it will not be possible to identify the true beneficiaries. The statement has been forwarded to all the supervised entities.

In May 2021 following targeted off-site inspections in banks on the subject of provision of private banking services and related AML/CFT risks executive summary was drafted and is to be distributed to all the banks and branches operating in Latvia by the FCMC. Summary contains case study of best examples and approaches from and provides particular guidance on circumstances and risks for consideration when establishing customers actual recipients of private banking services to be included in the banks' ML/TF risk exposure subject to appropriate risk mitigating measures.

In 2019 the FCMC has provided or contributed to 11 various training and awareness raising events for supervised entities on AML/CFT, sanctions risk management, internal control system and customer due diligence issues, in 2020 number of training and awareness raising events reached 8, whereas in 2021 the FCMC has provided 7 training events.

The State Revenue Service (SRS): The frequency of inspections is determined by the size of the particular sector and its risk exposure, i.e. more resources are allocated to the monitoring of a high-risk sector with a large number of entities.

General supervision strategy is set by the Financial Sector Development Board. Risk criteria are defined by Internal regulation No.23 – “Analysis of risks of subjects to the AML/CFT Law” (please see in Annex, *file: internal reg 23* translation of the regulation, but please be advised that it is only for consideration of lead examiners and the Secretariate and it should not be disseminated to the WGB) and the law “On international sanctions and national sanctions of the Republic of Latvia”. Taking into account the scope and amount of SRS supervised entities, SRS has developed automatic risk categorization matrix – Overall risk assessment (is updated regularly according to national and supranational risks) which categorizes all subjects in three categories (high, medium, low).

Overall risk assessment provides overview of all subjects at a constant time period, when it’s conducted, thus it is used as a strategic tool, to identify major tendencies and risks. Afterwards two times a month all highest risk subjects (at that time) are identified and in-depth analysis of them is conducted. For in-depth analysis SRS uses new IT system “HANA” which provides functionality for constructing different risk criteria (consisting of many sub factors) with specific weight in regard to overall risk.

SRS applies its risk criteria to all of its supervised entities as a whole and to individual subjects. Risk criteria (23) are defined in the Internal regulation No 23 Clause 11. Sector specific is accounted for when strategic goals are set and individual monthly plans are approved. If sector is small, new, or has a potential for high risk (like virtual currency service providers or cash collection service provider) all subjects go through on-site inspections, thus a clear overview of emerging or unknown risks can be identified.

Supervision resources are divided according to latest information on subject risks (highest risks amongst all sectors) and sectoral risks from NRA. SRS AML department consists of its director and three divisions with managers and total staff of 48. Methodology Support and Risk Analysis Division employs 6 lawyers, 2 data analysts and 4 methodologists. Transaction Supervision Division I employs 17 inspectors and Transaction Supervision Division II employs 15 inspectors. Inspectors are specialized either in methodology or in the tax audit (bookkeeping) field. On-site inspections are conducted by two inspectors (combining both fields of knowledge) and usually takes at least one full day of on-site presence at subject premises or several visits if subjects bring all information to SRS and visit is conducted on SRS premises.

As it is stated in Clause 11 of Internal regulation No 23, results of NRA are taken into account each time supervision plan is created. Taking into account national risks identified in the NRA, targeted supervision measures on BO, reputation (fit and proper), TFS and without prior notice were introduced in 2019.

Follow-up inspections are scheduled on a case by case basis, to check on improvements subjects were supposed to implement or to make sure that subjects follow previously provided guidance and successfully manage their risk exposure. Targeted (specialized) inspections are carried out on specific areas identified as essential to the effectiveness of the overall AML/CFT regime. For example in 2019, 193 targeted inspections on the ascertaining of BOs, 59 targeted inspections on the application of targeted financial sanctions, 20 targeted inspections on compliance with reputation requirements and 35 targeted inspections without prior notice were performed.

During the monitoring measures, the most common violations detected are related to:

- failure to carry out a risk assessment of its ML/TPF exposure, thereby also affecting the adequacy and effectiveness of the design and application of the ICS. it is still established that the ICS is not adapted to the specifics of the entity or is not actually applied in essence;

- shortcomings in the client's ML/TPF risk assessment. Insufficient understanding of the client's activities, ownership structure, transaction supervision;
- shortcomings of the CDD, failure to clarify the BO. Often, formal completion of customer questionnaires is found, where the information presented is not documented;
- identified suspicious transactions that the entity was required to report but did not do.

During last sectoral risk assessment SRS came to a conclusion that current supervision model is appropriate and the level of sanctions is effective, proportionate and dissuasive. Future challenge for SRS is to keep working with diversified risks but at the same time keep tailored approach to each subject and identify not only the role of the legal person but also MLRO in the specific infringements.

The Bank of Latvia (BoL):

- BoL uses risk-based approach in supervision process. The framework of inspections is set in internal regulation "Procedure for carrying out inspections at foreign currency cash exchange companies holding a license for purchasing and selling cash foreign currencies or having submitted an application for receiving a new license or reregistering a license" (last review February 2021) Onsite inspections are carried out according to Inspection plan which is approved each year. Inspection plan for each year is based on the risk matrix (where currency exchange companies are evaluated according to risk factors (for example, the market share of the foreign currency cash exchange company; significant changes in the foreign currency cash exchange company's turnover; the share of anonymous transactions; the average value per transaction)
- Guidelines on the Prevention of Money Laundering and Terrorism Financing in the Currency Cash Exchange Sector are revised on yearly base and are available on BoL website (<https://www.bank.lv/auditorijas/valutas-mainas-kapitalsabiedribam>);
- "Procedure for carrying out inspections at foreign currency cash exchange companies holding a license for purchasing and selling cash foreign currencies or having submitted an application for receiving a new license or reregistering a license" is reviewed each year;
- Once year a seminar for foreign currency cash exchange companies is organized. BoL publishes information in website www.bank.lv. Consultations by phone is provided on regular bases.
- The assessment of money laundering and terrorism financing (ML/TF) risks in the currency cash exchange sector are carried out and available on BoL website (<https://www.bank.lv/auditorijas/valutas-mainas-kapitalsabiedribam>). First it was developed in year 2018. It was renewed in 2020. Both times it was communicated to industry through seminars and consultations.

Customers Rights Protection Center (CRPC):

1) A risk-based supervision process is in place. The risk matrix is constantly improved and the information is updated in accordance with the received information. The aspects to be evaluated in the matrix are defined in the CRPC internal regulations;

2) On-site and off-site inspections are planned on the basis of risk-based supervision, taking into account the risk matrix. Monitoring activities and planning are described in the CRPC internal regulations;

3) Internal procedures and forms are constantly updated and improved, taking into account findings and inconsistencies. The new versions of the internal regulations were approved in January 2021. Guidelines for subjects of law - in August 2020. CRPC working on supplementation of the Guidelines.

4) Both industry wide risk assessments have been developed on April 8, 2020, subjects were informed

individually and assessments are constantly available on CRPC website.

5) Internal guidelines for determining sanctions and corrective actions have been developed. The CRPC is guided by the requirements set out therein. Inspection processes are described in the CRPC internal regulations.

6) The subjects of the law are regularly consulted. Latest seminar for consumer credit service providers took place on December 17, 2020, while for debt recovery service providers - on January 6, 2021. Seminars were organized on topical issues, CRPC monitoring practices, feedback to subjects on suspicious transaction reporting, terrorist financing and proliferation financing, sanctions violations, risk assessments, good practices, more frequent violations and other information. Seminar materials have been sent to the subjects of the law, the subjects also have access to the recordings of both seminars in video mode.

7) The list of high-risk countries is provided on a permanent basis, the list is available on the CRPC website, a detailed explanation is provided in the Guidelines.

CRPC follows risk indicators, the minimum “red flags” are included in Chapter 6 of the CoM Regulation No 705.

Both industry wide risk assessments have been developed on April 8, 2020, subjects were informed individually and assessments are constantly available on CRPC website. Latest seminar for consumer credit service providers took place on December 17, 2020, while for debt recovery service providers - on January 6, 2021. Seminars were wide range, including information about NRA, industry wide risk assessments and enterprise wide risk assessments.

Latvian Association of Certified Administrators of Insolvency Proceedings (LSMPAA):

LSMPAA is a supervisory and control institution that started performing its functions and duties on January 1, 2020, when amendments to the AML/CTPF Law came into force.

In order to identify the situation, LSMPAA has developed a sectoral risk assessment for insolvency process administrators at the time when the insolvency process administrators became subject to AML/CFTP Law. All the administrators of the insolvency proceedings, the Financial Intelligence Service, as well as the Insolvency Control Service have been informed about the risk assessment. The sectoral risk assessment is available to all insolvency process administrators on the website of LSMPAA www.administratori.lv in the members section.

When developing the risk assessment, the AML/CFTP risks characteristic to Latvia, taking into account the specifics of insolvency process, have been identified, assessed and understood.

In addition, LSMPAA on October 6, 2020 has developed instruction for insolvency process administrators “Procedures for the Set of Measures to be Taken to Ensure Compliance with the Requirements of the AML/CFTP Law and for the Establishment of the Internal Control System” which also is available on the website of www.administratori.lv in the members section.

Along with sectoral risk assessment and instruction for insolvency process administrators, on the webpage www.administratori.lv there is information on current issues related to the prevention of AML/CFTP which is regularly updated (available in the section for members).

The LSMPAA risk-based inspections: In 2020, 3 inspections were made, while in 2021, one inspection process has been started so far. The inspections are performed taking into account the risk-based approach and the identified risks in the insolvency process administrators sector, as well as the division of insolvency process administrators into risk categories, identifying the subjects of the higher risk.

LSMPAA informs about the trainings implemented in 2020 in the field of AML/CFTP:

- 15.09.2020. seminar: Prevention of money laundering, terrorist financing and proliferation financing in insolvency proceedings, attended 44 insolvency process administrators;

- 10.11.2020. seminar: Prevention of money laundering, terrorist financing and proliferation financing in insolvency proceedings, attended 17 insolvency process administrators.

In 2021, trainings and seminars for insolvency process administrators in the field of AML/CFTP prevention is planned in the nearest future.

On the website of LSMPAA, www.administratori.lv in the members section up-to-date information on the field of AML/CFTP is posted. An informative e-mail is sent to all insolvency process administrators about the changes in the mentioned section, inviting them to get to know the updated information.

Article 22, Paragraph two of the AML/CFTP Law specifies the cases when the subject of the law conducts in-depth research of a client. In addition, Article 22, Paragraph four of the Law regulates that the supervisory and control institution may additionally determine the categories of clients for which in-depth research is to be performed, the minimum amount of in-depth research for different categories of customers and requirements for in-depth research of these customers, factors for money laundering and terrorist and proliferation financing risk management, as well as factors increasing the risk of money laundering and terrorist and proliferation financing. At the same time, it should be taken into account that the second sentence of the said Article indicates that the additional requirements referred to first sentence of this Article regarding the supervised and controlled subjects of law of several institutions, including the LSMPAA, may be established by the Cabinet. In view of the above, the AML risk criteria, which determine the obligation to perform in-depth customer due diligence, are stated at the regulatory level.

Lotteries and Gambling Supervisory Inspection (LGSI):

A risk-based supervision process is in place:

In 2020, LGSI has revised and made public Guidelines for Gambling and Lottery Operators on the Creation of Internal Control Systems for the Prevention of Money Laundering and Terrorism and Proliferation Financing, which also provide criteria for conducting an enhanced customer due diligence.

On July 1, 2019, the LGSI provided information on Sectoral Risk Assessment (2017-2018) summary report to all supervised obliged entities.

At the regular quarterly meeting on July 30, 2019, the obliged entities were informed about the results of the sectoral risk assessment and the risks identified therein.

On 31 October 2019, a seminar was organized in cooperation with the FIU to all supervised obliged entities about conclusions of Sectoral Risk Assessment.

In 2019, LGSI carried out 27 training and counselling activities from the planned 34 activities and provided training and counselling to 166 persons from the planned 340. Training was carried out on the following topics: ML/TPF, CDD, transaction monitoring (supervision of business relationships and occasional transactions and liability of the obliged entities), amendments to the AML/CFTP Law, NRA.

In 2020, 6 seminars and training out of the planned 9 took place and 25 consultations were provided. Training and seminars were held on the planned LGSI work programme and findings of supervision actions, as well as on the basic requirements for the development of ICS and CDD. Data on training measures provided by LGSI:

		2019	2020	2019	2020
Trainings and seminars	Participants	Number of trainings		Number of participants	
	Organizers of lotteries and gambling	27	6	166	85

On the basis of Article 9 of the Law "On Measures for the Prevention and Suppression of Threat to the State and Its Consequences Due to the Spread of COVID-19," on April 06, 2020, the LGSI made a

decision to suspend all gambling licenses for the period of validity of the mentioned law (from 06.04.20 until 10.06.20).

Operation of on-site gambling halls/casinos is still prohibited.

Collegium of Sworn Advocates of Latvia (LCSA):

LCSA performs supervision and control procedures of supervised entities – sworn advocates, including on-site and off-site inspections.

In accordance with the assessed risks of sworn advocates the LCSA performs the following inspections of supervised entities:

- 1) planned off-site inspections (including monitoring);
- 2) planned on-site inspections;
- 3) unscheduled off-site inspections (including monitoring);
- 4) unscheduled on-site inspections (including sudden).

In the closed section of the website of the Latvian Advocacy the LCSA has created a questionnaire on the existence of a risk assessment of all sworn advocates, ensuring the annual monitoring of the updating of the mentioned information (off-site inspection). The results of survey (off-site inspection - monitoring), which took place in November-December 2020, were used as a matrix for identifying and profiling threats, vulnerabilities and risks of the sector of sworn advocates.

LCSA performs monitoring of risks of all the LCSA supervised entities – sworn advocates. According to the risk assessment of sworn advocates, they are currently divided in five general ML/FT/FP risk categories in relation to the nature of their professional activities as follows:

- 1) practicing only in courts and criminal proceedings (lowest ML/FT/FP risk category);
- 2) practicing mainly in courts and criminal proceedings, but also partly in transactions;
- 3) practicing equally in courts, criminal proceedings, and transactions;
- 4) practicing mainly in transactions, but partly also in courts and criminal proceedings;
- 5) practicing only in transactions (highest ML/FT/FP risk category).

Categorizing sworn advocates in general risk categories ensures that the LCSA organizes and performs on-site and off-site monitoring more efficiently, as well as supports decisions on targeted inspections.

LCSA in cooperation with other supervisors participates in measures to ensure common understanding of all supervisors about ML/FT/FP risks and adequate application of uniform preventive measures, including the LCSA participates in the meetings of the Platform of Cooperation and Control Institutions organized by FIU Latvia, as well as in the development of NRA.

From 01.01.2020. - 01.06.2021. the LCSA has performed the following on-site and off-site inspections:

- 4 on-site inspections of high-risk subjects, in which 23 sworn advocates were inspected;
- In November-December 2020, the LCSA has performed a of-site inspection-monitoring of all sworn advocates (1210) who had not been suspended their activities on sworn advocates' risk categories in accordance with the requirements of the AML/CFT/CFP Law and the Law on International and National Sanctions of the Republic of Latvia (hereinafter referred to as Sanctions Law).
- 1 extramural thematic examination, in which 1 lawyer was examined.
- In March-April 2021, the LCSA has started 3 off-site inspections where totally 62 supervised entities are inspected. Inspections continue.

The number of members of the inspection team, as well as the inspection methodology specific to each inspection is expedited as necessary during the inspection.

On December 3, 2019 and February 4, 2020 the LCSA has adopted the new version of Internal Control System Guidelines for Sworn Advocates of the Collegium of Sworn Advocates of Latvia “Prevention of Money Laundering and Terrorism and Proliferation Financing and Compliance with the International and National Sanctions” (hereinafter referred to as ICS Guidelines for Sworn Advocates), which states that the sworn advocates pays special attention to the typologies of suspicious transactions published on the FIU Latvia website when monitoring a client's business relationship or occasional transactions.

On June 30, 2020 the LCSA has approved amendments to the ICS Guidelines for Sworn Advocates regarding to the procedure for sworn advocates with regard to the procedure by which sworn advocates submit reports to the Register of Enterprises regarding possible incorrectly registered information regarding the BO, as well as with regard to the reports on suspicious transactions and the procedure for submitting a threshold declaration to the FIU Latvia.

Amendments to the ICS Guidelines for Sworn Advocates were also approved on October 27, 2020. and March 16, 2021.

In 2020, the LCSA has developed a sectoral risk assessment for sworn advocates as of 31.12.2019, which includes risk indicators for the sworn advocates sector and which is posted on the the website of the Latvian Advocacy <https://advokatura.lv/lv/nilltpfnl-sl-jautajumi/zverinatu-advokatu-nilltpf-risk-assessment/> and is available to all supervised entities.

For failure to fulfil the obligations specified in the AML/CTP/CPF Law, the Sanctions Law or the ICS Guidelines for Sworn Advocates the LCSA in accordance with Clause 4.5.4 of the Regulations of the Supervision and Control Commission may decide to initiate a disciplinary proceeding against the sworn advocate or explain the wrongdoing without initiating disciplinary proceedings or to refer the matter to the Ethics Commission of the Latvian Collegium of Sworn Advocates. Pursuant to Section 78, Paragraph two of the AML/TF Law, Section 71, 71 (1), 71 (2), Section 73-80 of the Advocacy Law of the Republic of Latvia for failure to fulfil the obligations specified in the AML/CTP/CPF Law, the Sanctions Law or the ICS Guidelines for Sworn Advocates the Disciplinary Commission of the Latvian Collegium of Sworn Advocates applies to sworn advocates corrective measures and sanctions individually, evaluating all the circumstances in general and in relation to each other, prescribed by Section 77, Paragraph three of the AML/CFT/CFP Law, by requesting a written explanation from the relevant sworn advocate in advance.

The LCSA has determined that from 2020 all sworn advocates training in AML/CFT/CFP and sanctions matters are mandatory; The LCSA performs awareness raising/training activities held with obliged entities on risk assessment and ICS. In 2020 14 training activities has been organised and 1367 persons trained. Offices of sworn advocates independently organize training for their sworn advocates as well. The LCSA was represented at the FATF-organized webinar “Risk-Based Supervision” on May 6,2021. The LCSA has ensured the participation of sworn advocates in the CCBE organized webinar “Training of lawyers on anti-money laundering and counter terrorist financing” on May17, 2021. The LCSA together Latvia Judicial Training Centre organized a webinar for sworn lawyers "Prevention of Money Laundering", on May 26, 2021.

A link to the "Sanctions Lists" section of the website of the FIU Latvia, as well as to the FATF website with a list of FATF high risk and other countries under its oversight is published on the website of the Latvian Advocacy (<https://advokatura.lv/lv/nilltpfnl-sl-jautajumi/sankciju-saraksti-valstis-fiziskas-personas-precis-pakalpojumi/>). Based on the information provided by the FIU Latvia, a link to the list of identified jurisdictions in the EU with strategic shortcomings in the AML and TF prevention regimes was published on the website of the of the Latvian Advocacy (<https://advokatura.lv/lv/nilltpfnl-sl-jautajumi/sankciju-saraksti-valstis-fiziskas-personas-precis-pakalpojumi/>).

The Latvian Association of Sworn Auditors (LASA): The Latvian Association of Sworn Auditors continuously organizes training for sworn auditors, as well as ensures that within the framework of quality control regular monitoring is carried out on the compliance of sworn auditors and sworn auditors' companies with the LASA procedure "Procedures of Sworn Auditors and Commercial companies of Sworn Auditors to identify Bribery during the performance of audit and expert or fiduciary tasks, if necessary, to report to the KNAB".

LASA provides the opportunity for sworn auditors to receive continuous support and explanations on the legal norms for the identification and reporting of bribery.

In June 11, 2021, LASA in cooperation with KNAB organized the seminar "Bribery of the public official and the role of sworn auditors in combating it".

The topics of the seminar:

1. The concept of corruption, incl. bribery of foreign officials.
2. Examples of bribery practices of foreign officials.
3. Signs that may indicate bribery, incl. bribery of foreign officials.
4. Liability of a legal person.

During the 2019/2020 audit season, sworn auditors and commercial companies of sworn auditors submitted 3 reports to the KNAB.

The Council of Sworn Notaries of Latvia (LCSN):

Regarding the professional activities performed by a sworn notary as a subject of AML/CFTP Law, notaries professional risk, client risk and service risk assessment are analysed and assessed annually by preparing Latvian Notarial Sectoral Risk Assessment (SRA). SRA is submitted to FIU on bases of that and information obtained by other sources FIU prepared National Risk Assessment (NRA), indicated risks concerning specific sector.

LCSN ensures that sworn notaries are introduced to the sectoral risk assessment and national risk assessment, as well as updates between the assessment periods the factors that may significantly affect the identification of risks in the professional activities of a sworn notary. SRA and summary of NRA is available electronically in the Internal Notaries' Information System; access to full NRA is for each notary in FIU information system.

To raise awareness of sworn notaries on ongoing situation in matters regarding AML/CFTP, current threats and in order to increase quality of reports submitted to FIU, LCSN in cooperation with FIU, annually sets up training for all the notaries with representatives of FIU, to discuss matters arising from NRA concerning actual information about characteristics raising suspicions about corruptive transactions and tax evasion or tax fraud, red flag indicators and typologies of transactions characteristic to the sector are held, giving obliged entities access to up-to-date information and conclusions arising from analyses from reports received from entities.

On bases of information gained from NRA, LCSN decides on every years inspection strategy, by indicating which subjects will be inspected and what AML question will be scope of annual inspection. According to the conclusions of SRA and NRA, work on revision of the methodology of inspections has been started at the end of 2020, with additional attention being paid to issues related to misunderstandings by entities, i.e. the use of notary's escrow account and CDD when doing so.

As in year 2020 there were no significant changes in risks and/or cope of cases when notary is subject to questions regarding prevention of money laundering, proliferation and terrorism financing and/or legislation applicable to sector, there have been no changes in guidelines and/or internal procedures.

LCSN provides and maintains an internal digital database, which is used by sworn notaries on a daily basis to identify and verify their clients (individuals and legal entities). LCSN has developed and in

official internal home page of sworn notaries (<https://intra.latvijasnotars.lv/intra/>), available only for sworn notaries and staff of notaries offices, published guidelines for risk assessment documentation and infographics of documentation procedures, as well customer research questionnaire, risk evaluation tables, info charts and schemes for better visualization of customer research principles; NIS contains all the materials, presented to notaries during trainings. Sworn notaries are receiving notifications sent to their official e-mail addresses on topical information being updated in NIS, in order for them not to miss the latest updates. Information is updated as needed.

LCSN regularly update red flags typical for the sworn notaries and publishes information in homepage mentioned above. If necessary LCSN organizes meetings with notaries to discuss how to recognize red flags and assess the risk level of a customer accurately. During inspections LCSN compares information from documentation and evaluates whether the risks are correctly determined.

Since the second half of 2020, an AML group has been created and approved by the CSNL. It consists of 3 young notaries, approved by the CSNL and one representative (a mentor) of the CSNL; aim of AML groups is to compile topical information on AML/TF issues, execute orders of the CSNL in connection to coordination of the supervision measures and implementation of the action plan, take part in elaboration of supervision methodology, SRA and other documentation, as well as, if necessary, consult colleagues on all AML/TF related issues.

The National Heritage Board (NCHB): In accordance with sectoral risk assessment, NCHB has devoted more resources to the supervision of the circulation of art and antiques. 149 obliged entities were identified – antiques, galleries and auction houses. Obligated entities are classified in two risk categories. Low risk - for transactions with cultural monuments of national importance included in the National List of Cultural Monuments.

Medium risk - for persons operating in handling of art and antique articles by importing them into or exporting them from the Republic of Latvia, storing or trading in them, including such persons who carry out the actions provided for in this Clause in antique shops, auction houses, or ports, if the total amount of the transaction or several seemingly linked transactions is EUR 10 000 or more.

The Insolvency Control Service

According to Section 45, Paragraph 1, Clause 10 of the AML/CTP/CPF Law the Insolvency Control Service carries out supervision and control of compliance of the administrators of insolvency proceedings (hereinafter – administrators) in the part regarding the imposition of sanctions, when the Association of the Certified Administrators of Insolvency Proceedings of Latvia (hereinafter – Association of Administrators) establishes an infringement of the AML/CTP/CPF Law.

Therefore presently, the Insolvency Control Service is limited by restrictions in the AML/CTP/CPF Law in its ability to carry out meaningful supervisory actions. However, amendments in the AML/CTP/CPF Law which intend to grant the Insolvency Control Service the right to independently detect an infringement of the AML/CTP/CPF Law are being currently viewed by the legislature.

In 2020, the Insolvency Control Service assessing the information received in the context of the examination of complaints concerning the conduct of an administrator has sent 4 submissions to the Association of Administrators about possible infringements of the AML/CTP/CPF Law.

In 2020, the Insolvency Control Service didn't receive any proposals from the Association of Administrators for the imposition of sanctions on administrators.

To ensure proportional and equal application of the sanctions imposed to administrators by the AML/CTP/CPF Law on October 27, 2020 The Insolvency Control Service issued recommendations No. 1-03/2020/33 "Recommendations for imposing sanctions on Administrators of Insolvency Proceedings for violations of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing".

The Insolvency Control Service has created 2 additional posts to strengthen the Insolvency Control

Service's capacity as a supervisory and control authority to implement rights and obligations set out in the AML/CTP/CPF Law.

If no action has been taken to implement recommendation 10 (b), 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(c):

10. Regarding money laundering, the Working Group recommends that Latvia take steps to:

c) Require all financial and non-financial entities to apply enhanced due diligence and other additional AML measures on customers and transactions that represent high corruption related money laundering risks, including business with shell companies [Convention Article 7; 2009 Recommendation II and Phase 2 Recommendation 8(b)];

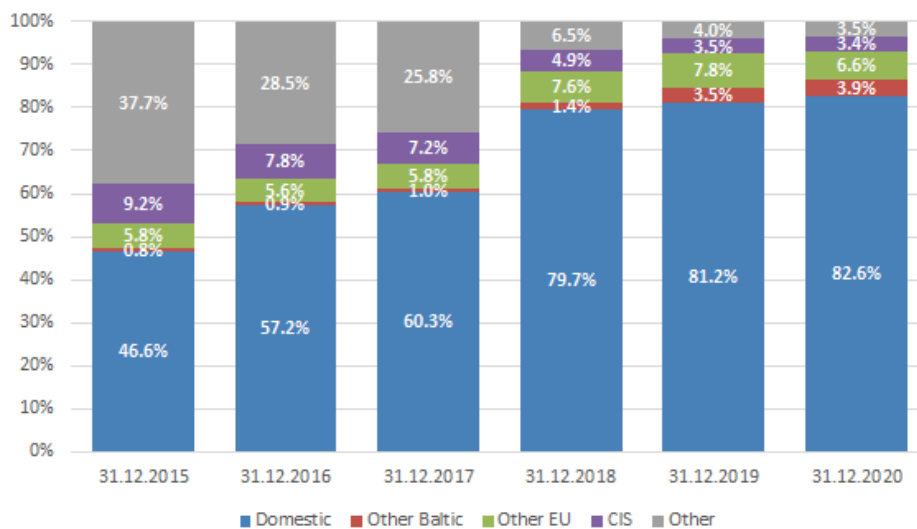
Action taken as of the date of the follow-up report to implement this recommendation:

FCMC: Latvia's cross-border financial flows have significantly decreased during the last five years. The volume of cross-border payments received and sent in foreign currencies has also decreased significantly. Accordingly, the potential threat of ML/TF, including laundering of proceeds of corruption, committed in other countries, arising from cross-border payments is reduced.

Volume of cross-border payments including with CIS countries through correspondent network (including accounts held with the Bank of Latvia) has decreased from EUR 192 billion in 2019 to EUR 179.4 billion in 2020 totalling both incoming and outgoing transactions.

Volume of transactions under correspondent relationship with CIS countries has been decreasing over that past four years. In 2017 amount of such transactions was 20.43 % of all the cross-border payments, in 2018 it reached 10.88 % of all the cross-border transactions, whereas in 2019 and 2020 it was below 10 % of all cross-border transactions reaching 8.02 % in 2019 and 5 % in 2020.

Amount of all foreign customers has been decreasing already starting from 2014. In 2018 it had decreased for 50.1 % comparing with 2017, in 2019 the amount was 28.9 % less than in 2018 and in 2020 amount of foreign customers' transactions decreased for 4.4 % comparing with 2019. Further, volume of outgoing transactions of all foreign customers from 2017 until 2020 has decreased for 66.7 % or from EUR 78 billion in 2017 to EUR 26 billion in 2020.



In 2019 and 2020 in banking sector share of domestic deposits had upwards dynamics, and comparing share of domestic deposits in 2020 with the volume in 2015 it has been increased for nearly 50 % reaching 82.6 % of all the deposits in 2020. Whereas deposits from CIS countries continued to decline from 4.9 % in 2018 to 3.5 % in 2019 and to 3.4 % in 2020.

Since 2018 banks previously focusing on servicing non-resident customers have changed their business strategies and adopted their business models in order to shift from servicing shell companies to domestic customers and customers from EEZ. Since November 2017 more than 17,000 shell companies have been eliminated previously serviced by Latvian banks. The number of shell companies at the end of 2019 reached 1058, whereas at the end of 2020 there were only 682 shell establishments.

Closure of shell establishments was subject to enhanced monitoring of the FCMC including requirement to provide information on countries where assets of closed shell establishments were transferred to.

ML/TF risk scoring of customer base and assigning appropriate EDD measures for high risk customers is one of key issues under enhanced scrutiny during inspections of the FCMC and external AML/CFTP audits. Failure to properly identify and assess risks associated with shell establishments as high-risk customers may have consequences of imposing operational restrictions to on-board new high risk customers. For example in 2021 there are effective operational restrictions to on-board new shell establishments for 4 banks.⁸

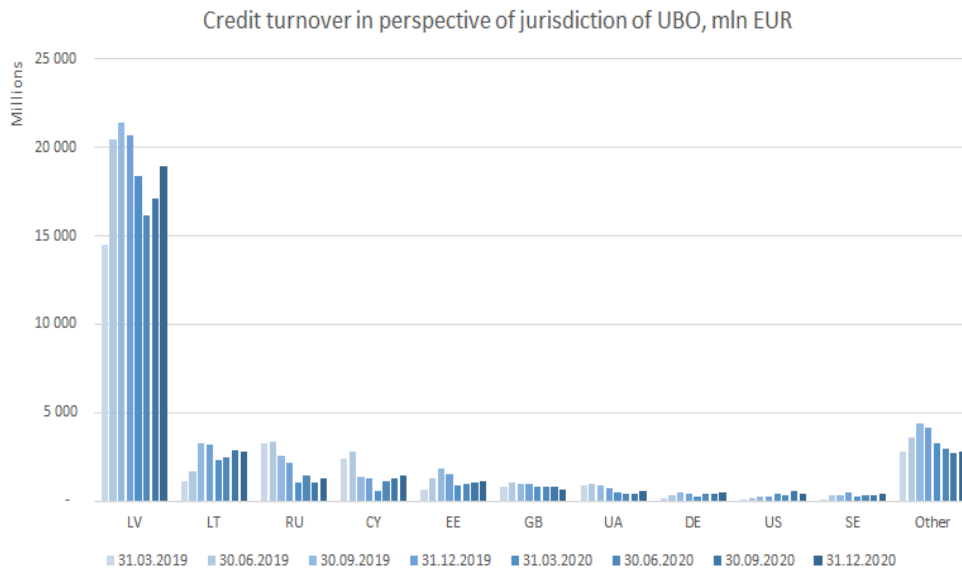
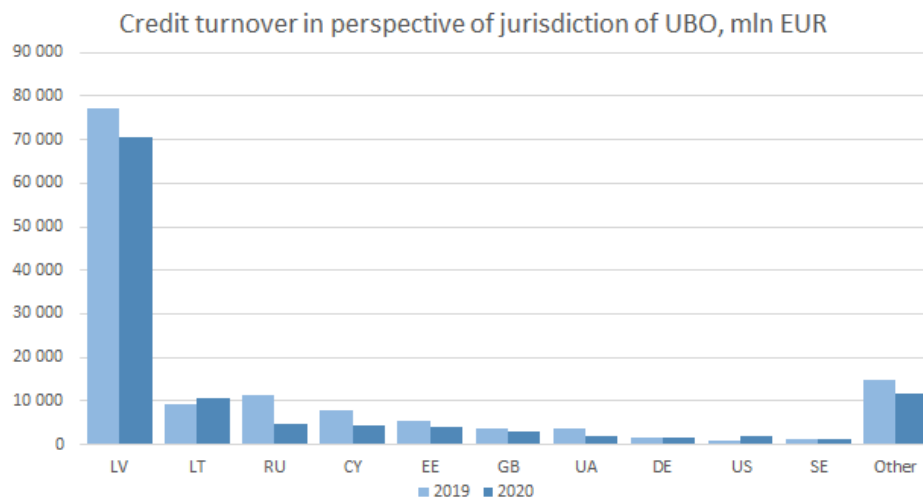
In the supervisory framework, identification and verification of actual UBOs always has been under enhanced scrutiny during inspections and identified as one of the risk factors. From 2019 the FCMC Regulation No. 1 Regulation on Money Laundering and Terrorist Financing Risk Management applicable to credit institutions stipulates provision of detailed information in the ML/TF risk exposure reports on UBO of customers on a quarterly basis. The information to be provided include the customer's country of origin code according to the UBOs country of residence, actual data on the number of customers according to the UBOs country of residence, including if the customer has more than one beneficial owner and each country of residence, the amount of assets according to the country of residence of the UBO and data regarding the actual credit turnover of customers according to the country of residence of the UBOs.

The inclusion of detailed data on UBO in the ML/TF risk exposure report first of all focuses on the acquisition and correct presentation of the data, as the reports are submitted in an automated way

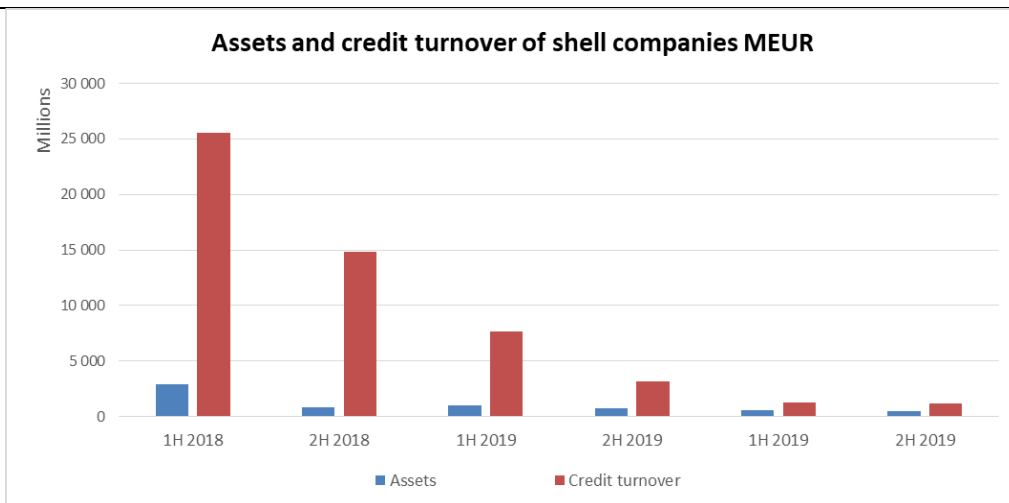
⁸ Reference to shell establishments as to entities having no place or premises for the performance of economic activity in the country where the relevant legal person is registered.

following a certain algorithm. The received data is analysed in conjunction with other information provided in the supervisory framework.

In order to improve availability and access to the information on UBO from 1 January 2020, all the information on legal persons registered in the Enterprise Register, including information on beneficial owners, is available electronically free of charge to financial institutions. Further, in accordance with amendments to the AML/CFTP Law from 01.07.2020 reporting obligation has been established requiring financial institutions and supervisory authorities report to the Enterprise Register any discrepancy detected between the UBO information available in the Enterprise Register and the UBO information available to them. The established reporting obligation requires immediately, but not later than within three working days, notify the Enterprise Register thereof, explaining the nature of the discrepancy found, as well as indicating that the information may be materially incorrect or that a misspelling error has been detected in the information.

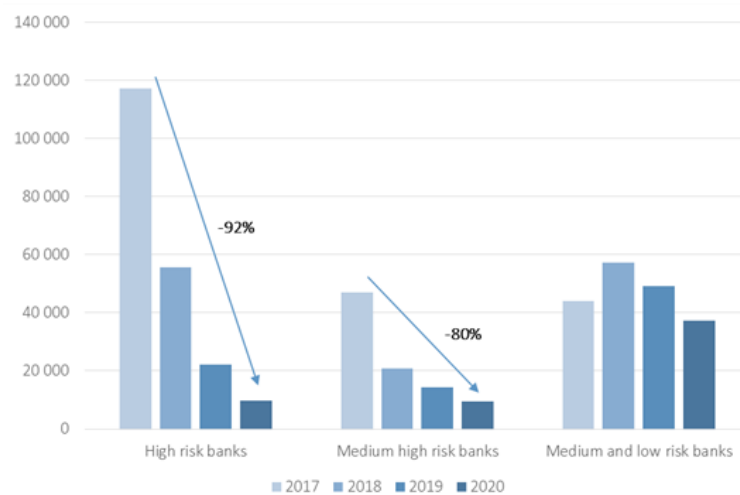
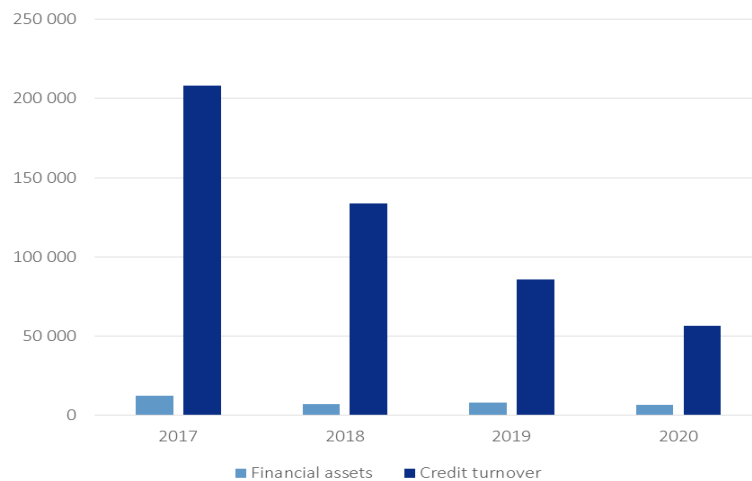


Financial assets and credit turnover dynamics of shell establishments in 2018-2019



There are effective restrictions for on-boarding shell establishments for 4 banks, 2 of the banks are high ML/TF risk level banks, 2- medium-high risk banks.

Credit turnover and financial assets of EDD customers, from 2017-2020



The credit turnover and financial assets of EDD customers is decreasing continuously.

The largest decrease in EDD has been observed in HR and medium HR banks, while increase in medium

risk and low risk banks in 2017 and 2018, which can be explained by bank's precautionary policies rather than in risk appetite increase.

Servicing of shell establishments in non-banking institutions

Requirements banning servicing certain type of shell establishments stipulated in the AML/CFTP Law apply to also non-banking institutions. In the supervisory framework the FCMC has observed that payment institutions and electronic money institutions (PI/EMI) provide services to customers to be considered shell establishments, in particular in high risk PI/EMI. However, due to targeted supervisory measures the number of high-risk PI / EMIs in the segment decreases, the number of institutions working with shell formations also decreases, and accordingly the absolute and relative characteristics of this risk factor have decreased in the reporting year, ie, if in 2017 the total credit turnover of clients - shell formations accounted for about 10.8% of the total loan turnover of all MI / ENI customers with whom business relationships had been established, reaching about 29 million. EUR, then in 2019 the mentioned share has decreased to 2.6%, reaching 14 mln. EUR.⁹

Section 22 par. 2(2) of the AML/CFT Law stipulates application of enhanced due diligence upon establishing and maintaining a business relationship or executing an occasional transaction with a customer - politically exposed person, a family member of a politically exposed person, or a person closely associated to a politically exposed person.

The FCMC Regulations on IT Support for ML/TF Risk Management Regulations requiring IT solutions for ML/TF risk management stipulate automated maintenance and application of the system for the thresholds applicable to the customer's risk profile in order to monitor activities of the customer (such as customer's type, residence, status of a politically exposed person, a family member thereof, or the status of a person closely related to a politically exposed person, type of the planned or usable services, criteria for enhanced customer due diligence procedures and enhanced monitoring established in laws and regulations etc.).

The referred to Regulations stipulate automated supervision of PEPs including:

16.7. supervision of clients who are PEPs, their family members or persons closely related to a PEP ensuring:

16.7.1. automated preparation of alert messages, if a potential PNP is identified in the information of the representatives of the client, its true beneficiaries;

16.7.2. automated transfer of information regarding potential customers who are PNPs for decision-making to the responsible employee of the credit institution specified in legal framework in the AML/CFTP field;

16.7.3. automated IPA status control for the entire group of interconnected customers, if a PEP is identified in its composition;

The FCMC Recommendations for Credit Institutions and Financial institutions on Identification and EDD of PEPs and Related Persons (issued 02.03.2016) provide for permanent transaction monitoring as one of EDD measures if a customer is PEP or related person.

Customer scoring approach and applied measures is subject to scrutiny during on-site inspections of the FCMC and also external AML/CFTP audits.

In 2019 and 2020 findings of the FCMC inspections with regards to PEPs have not resulted with imposing sanctions. Not sufficient action or effort in few cases have been identified on behalf of obliged entities constituting therefore no major impact.

⁹ Data for 2020 is in process of analysis

Since 2018 banks previously focusing on servicing non-resident customers have changed their business strategies and adopted their business models in order to shift from servicing shell companies to domestic customers and customers from EEZ. Since November 2017 more than 17,000 shell companies have been eliminated previously serviced by Latvian banks. The number of shell companies at the end of 2019 reached 1058, whereas at the end of 2020 there were only 682 shell establishments.

Closure of shell establishments was subject to enhanced monitoring of the FCMC including requirement to provide information on countries where assets of closed shell establishments were transferred to.

ML/TF risk scoring of customer base and assigning appropriate EDD measures for high risk customers is one of key issues under enhanced scrutiny during inspections of the FCMC and external AML/CFTP audits. Failure to properly identify and assess risks associated with shell establishments as high-risk customers may have consequences of imposing operational restrictions to on-board new high-risk customers. For example, in 2021 there are effective operational restrictions to on-board new shell establishments for 4 banks.¹⁰

SRS: Section 11.¹ “Customer Due Diligence Measures and Risk Factors” Paragraph two Clause 2 Sub-clause “b” of the AML/CFT Law states, that when conducting the customer due diligence, the subject of the Law shall take into account a risk increasing factor that the customer or its beneficial owner is affiliated with a higher risk jurisdiction, i.e. - a country or territory with a high corruption risk. To guarantee implementation in practice SRS has included in its Guidelines reference to corruption index (Transparency international) to be used by the subjects in assessing jurisdiction risk of the customer or its UBO. SRS Guidelines also include several “red flags” for shell companies and the description how they are used. Trainings provided by SRS also often focus on CDD measures and risk indicators, covering also shell companies and typologies of laundering of the proceeds of corruption. When expanding on EDD measures supervision practice shows, that detection of above mentioned links with jurisdiction with high corruption is a mandatory trigger for obliged entity to conduct EDD on a such client. Such approach is effectively implemented and has led to many obliged entities reassessing their client risks and applying EDD and also has started a court case in EU court C-562/20 SIA Rodl & Partner v Valsts ieņēmumu dienests (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A62020CN0562>).

LCSA: LCSA performs supervision and control procedures of supervised entities – sworn advocates, including on-site and off-site inspections.

In accordance with the assessed risks of sworn advocates the LCSA performs the following inspections of supervised entities:

- 1) planned off-site inspections (including monitoring);
- 2) planned on-site inspections;
- 3) unscheduled off-site inspections (including monitoring);
- 4) unscheduled on-site inspections (including sudden).

In the closed section of the website of the Latvian Advocacy the LCSA has created a questionnaire on the existence of a risk assessment of all sworn advocates, ensuring the annual monitoring of the updating of the mentioned information (off-site inspection). The results of survey (off-site inspection - monitoring), which took place in November-December 2020, were used as a matrix for identifying and profiling threats, vulnerabilities and risks of the sector of sworn advocates.

LCSA performs monitoring of risks of all the LCSA supervised entities – sworn advocates. According to the risk assessment of sworn advocates, they are currently divided in five general ML/FT/FP risk

¹⁰ Reference to shell establishments as to entities having no place or premises for the performance of economic activity in the country where the relevant legal person is registered.

categories in relation to the nature of their professional activities as follows:

- 1) practicing only in courts and criminal proceedings (lowest ML/FT/FP risk category);
- 2) practicing mainly in courts and criminal proceedings, but also partly in transactions;
- 3) practicing equally in courts, criminal proceedings, and transactions;
- 4) practicing mainly in transactions, but partly also in courts and criminal proceedings;
- 5) practicing only in transactions (highest ML/FT/FP risk category).

Categorizing sworn advocates in general risk categories ensures that the LCSA organizes and performs on-site and off-site monitoring more efficiently, as well as supports decisions on targeted inspections.

LCSA in cooperation with other supervisors participates in measures to ensure common understanding of all supervisors about ML/FT/FP risks and adequate application of uniform preventive measures, including the LCSA participates in the meetings of the Platform of Cooperation and Control Institutions organized by FIU Latvia, as well as in the development of NRA.

From 01.01.2020.-01.06.2021. the LCSA has performed the following on-site and off-site inspections:

- 4 on-site inspections of high-risk subjects, in which 23 sworn advocates were inspected;
- In November-December 2020, the LCSA has performed a of-site inspection-monitoring of all sworn advocates (1210) who had not been suspended their activities on sworn advocates' risk categories in accordance with the requirements of the AML/CFT/CFP Law and the Law on International and National Sanctions of the Republic of Latvia (hereinafter referred to as Sanctions Law).
- 1 extramural thematic examination, in which 1 lawyer was examined.
- In March-April 2021, the LCSA has started 3 off-site inspections where totally 62 supervised entities are inspected. Inspections continue.

The number of members of the inspection team, as well as the inspection methodology specific to each inspection is expedited as necessary during the inspection.

On December 3, 2019 and February 4, 2020 the LCSA has adopted the new version of Internal Control System Guidelines for Sworn Advocates of the Collegium of Sworn Advocates of Latvia "Prevention of Money Laundering and Terrorism and Proliferation Financing and Compliance with the International and National Sanctions" (hereinafter referred to as ICS Guidelines for Sworn Advocates), which states that the sworn advocates pays special attention to the typologies of suspicious transactions published on the FIU Latvia website when monitoring a client's business relationship or occasional transactions.

On June 30, 2020 the LCSA has approved amendments to the ICS Guidelines for Sworn Advocates regarding to the procedure for sworn advocates with regard to the procedure by which sworn advocates submit reports to the Register of Enterprises regarding possible incorrectly registered information regarding the BO, as well as with regard to the reports on suspicious transactions and the procedure for submitting a threshold declaration to the FIU Latvia.

Amendments to the ICS Guidelines for Sworn Advocates were also approved on October 27, 2020. and March 16, 2021.

In 2020, the LCSA has developed a sectoral risk assessment for sworn advocates as of 31.12.2019, which includes risk indicators for the sworn advocates sector and which is posted on the the website of the Latvian Advocacy <https://advokatura.lv/lv/nilltpfnl-sl-jautajumi/zverinatu-advokatu-nilltpf-risk-assessment/> and is available to all supervised entities.

For failure to fulfil the obligations specified in the AML/CTP/CPF Law, the Sanctions Law or the ICS Guidelines for Sworn Advocates the LCSA in accordance with Clause 4.5.4 of the Regulations of the

Supervision and Control Commission may decide to initiate a disciplinary proceeding against the sworn advocate or explain the wrongdoing without initiating disciplinary proceedings or to refer the matter to the Ethics Commission of the Latvian Collegium of Sworn Advocates. Pursuant to Section 78, Paragraph two of the AML/TF Law, Section 71, 71 (1), 71 (2), Section 73-80 of the Advocacy Law of the Republic of Latvia for failure to fulfil the obligations specified in the AML/CTP/CPF Law, the Sanctions Law or the ICS Guidelines for Sworn Advocates the Disciplinary Commission of the Latvian Collegium of Sworn Advocates applies to sworn advocates corrective measures and sanctions individually, evaluating all the circumstances in general and in relation to each other, prescribed by Section 77, Paragraph three of the AML/CFT/CFP Law, by requesting a written explanation from the relevant sworn advocate in advance.

The LCSA has determined that from 2020 all sworn advocates training in AML/CFT/CFP and sanctions matters are mandatory; The LCSA performs awareness raising/training activities held with obliged entities on risk assessment and ICS. In 2020 14 training activities has been organised and 1367 persons trained. Offices of sworn advocates independently organize training for their sworn advocates as well. The LCSA was represented at the FATF-organized webinar "Risk-Based Supervision" on May 6, 2021. The LCSA has ensured the participation of sworn advocates in the CCBE organized webinar "Training of lawyers on anti-money laundering and counter terrorist financing" on May 17, 2021. The LCSA together Latvia Judicial Training Centre organized a webinar for sworn lawyers "Prevention of Money Laundering", on May 26, 2021.

A link to the "Sanctions Lists" section of the website of the FIU Latvia, as well as to the FATF website with a list of FATF high risk and other countries under its oversight is published on the website of the Latvian Advocacy (<https://advokatura.lv/lv/nilltpfnl-sl-jautajumi/sankciju-saraksti-valstis-fiziskas-personas-precis-pakalpojumi/>). Based on the information provided by the FIU Latvia, a link to the list of identified jurisdictions in the EU with strategic shortcomings in the AML and TF prevention regimes was published on the website of the of the Latvian Advocacy (<https://advokatura.lv/lv/nilltpfnl-sl-jautajumi/sankciju-saraksti-valstis-fiziskas-personas-precis-pakalpojumi/>).

LCSN:

Before receiving notarial assistance, clients are asked to submit initial transaction information, as well as asked to fill in the client's questionnaire. After receiving the information provided by the client, the transaction is evaluated and the client is researched. The preparation and signing of the transaction is performed only after the research is done. If the preliminary examination of the documents shows that the risk of the transaction is low or if, in accordance with the internal control system developed by a sworn notary, the specific transaction does not comply with the criteria of in-depth investigation, the transaction may be performed.

The result of the risk assessment is obtained by a sworn notary by using two main tools:

1. researching the submitted client questionnaire and additional available information from public systems and the web;
2. by filling in the client's research conclusion – obtaining the number of points indicated in the conclusion.

The conclusion is a key factor in the risk assessment as it contains many questions about the client, including a section on high-risk countries (country of residence and geographical risk). By accurately filling in the client's research conclusion, a sworn notary obtains an idea of the degree of risk of the client's transaction to be used for further analysis of the risk-based approach.

Both the obligation of sworn notaries to enhanced customer due diligence measures to manage and mitigate appropriately cases of higher risk and prohibition for sworn notaries to cooperate with shell arrangements are specified in guidelines.

Since the second half of 2020, an AML group has been created and approved by the CSNL. It consists

of 3 young notaries, approved by the CSNL and one representative (a mentor) of the CSNL; aim of AML groups is to compile topical information on AML/TF issues, execute orders of the CSNL in connection to coordination of the supervision measures and implementation of the action plan, take part in elaboration of supervision methodology, SRA and other documentation, as well as, if necessary, consult colleagues on all AML/TF related issues.

BoL, CRPC, LSMPAA, LGSi, The Insolvency Control Service: Please see the information provided in reply to recommendation 10 (b).

[Additional Information]

1. With adoption of the Regulations No 135 Normative regulations for customer due diligence, enhanced customer due diligence and development of numerical risk assessment system on 21.08.2019 the FCMC Regulations No 2 and No 3 are no longer effective. Regulations No 135 were binding to all supervised entities of the FCMC in one regulation. However with the adoption of the Regulations for customer due diligence, customer enhanced due diligence and risk numerical assessment system development and information technology requirements (Regulations No 5) on 18.01.2021 and binding to all the supervised entities, Regulations No 135 are no longer effective.

Enclosed the Regulations No 5.

[Document provided by Latvia with FCMC Regulation 5]

2. Regulations No 5 Regulations for customer due diligence, customer enhanced due diligence and risk numerical assessment system development and information technology requirements, adopted 18.01.2021 are binding to insurance undertakings insofar as they provide life insurance or other insurance services related to fundraising, insurance intermediaries insofar as they provide life insurance or other insurance services related to fundraising.

However, the requirements of the Regulations No 5 regarding the performance of customer due diligence and enhanced customer due diligence shall apply to insurance intermediaries insofar as they provide life insurance or other fund-raising insurance services if it follows from the content and nature of the requirements that it is justified to apply those requirements.

3. The Enterprise Register information, including on BOs, is **publicly** available on the website and in machine-readable format since April 1, 2018. Currently, the Enterprise Register ensures that all registered information is available on webpage - <https://info.ur.gov.lv/#/data-search>, in web services (API) - available for public and private organizations and in open data portal - <http://dati.ur.gov.lv/>, which makes it possible to receive information internationally immediately, including integrating it into their systems.

Amendments to the Law on Enterprise Register were prepared and starting from January 1, 2020 the Enterprise Register provides information from its 14 registers, including company officials, owners and BO to everyone online and costs are fully covered from the State budget. As a result of these changes, any user without authentication can see legal persons current data, with authentication – current and historical data, as well as documents from registration file which are public. Information and documents included in the non-public part of the registration file are restricted access information, and may be obtained for the performance of the tasks specified in regulatory enactments by law enforcement authorities – as well as Financial Intelligence Unit of Latvia and supervisory and control authorities in the field of the prevention of money laundering and terrorism and proliferation financing without restrictions, and other institutions, by submitting a reasoned request.

Since November 11, 2020 for journalists, by submitting a reasoned request, shall be granted permanent access to the non-public part of the registration case where such access is necessary for the purposes of research journalism with a view to publishing information concerning the public interest.

As regards the BO's information, the Enterprise Register shall register and publish the following information (available online without authentication):

- 1) Person with LV identity no.:
given name and surname;
personal identity number ;
nationality;
country of residence.
- 2) Person without LV identity no.:
given name and surname;
the date, month, and year of birth;
information regarding personal identification document (number, date of issue, country and body issuing the document);
nationality;
country of residence.
- 3) The nature of control (property/voting rights, member of a legal partnership, legal arrangement, as a representative of the executive or administrative body etc.)
- 4) Information about "control chain" - If BO control exercises indirectly, Enterprise register registers all entities via whom BO exercises control.

4. To address and mitigate the ML/TF risk posed by payment institutions and electronic money institutions that were registered as small payment institutions or small electronic money institutions (i.e., not authorized) in Latvia, in July 2018 several amendments were adopted in the Law on Payment Institutions and Electronic Money Institutions requesting those small PSP/EMI institutions, that offered financial services with international presence (like money remittance, e-commerce, payment and e-money accounts etc.) to receive an authorization and permitting continue their operation as a small (or registered) institutions only in case if provision of services were to local customers, as well as it is not permitted for registered institutions to provide their services in the EEA or participate in international payment systems. New requirement stipulated that holders of electronic money and users of payments services have to be connected to Latvia along with earlier adopted different thresholds for PSP and EMI.

The adopted amendments also provide for detailed registration procedure including the requirement to re-apply the information on the identity of persons having direct or indirect substantial participation in the institution as well as a statement that the persons who have a qualifying holding in the institution, directly or indirectly, have an impeccable reputation.

In addition to on-site inspections, off-site supervisory activities, include, inter alia, a desk-based evaluation of policies and procedures of non-banking FI, and in cases of identified shortcomings or deficiencies OE were requested to addressed. Several of these off-site supervisory activities resulted with the institution choosing to cease its activities in Latvia by renouncing the operating license issued to it.

In the light of targeted supervisory measures, including registration requirements, number of PSP/EMI in Latvia has significantly decreased. This in particular applies to high risk PSP/EMI. At the end of 2016 there were 43 PSP/EMI, of which 24 were high risk entities, in December 2018 the total number of PSP/EMI has reduced to 28, whereas by the end of 2019 number of PSP/EMI providing services in Latvia were below 20 and continued to decrease in 2020.

At the end of 2020 only 3 of PSP/EMI were high risk entities, of which one had suspended the provision of services, one was under enhanced off-site monitoring and one had undergone external independent audit, the results of which are closely monitored by the FCMC.

In the FCMC's view, the significant decrease in the number of high-risk PSP/EMIs reflects the combined effectiveness of the various supervisory measures and activities used for supervision of non-banks,

taking into account the resources available to the FCMC, which are also allocated according to a risk-based approach.

In 2019 the FCMC has conducted:

4 on-site inspections (of which 2 was initiated at the end of 2019 and continued in 2020) in 1 IF, 1 CU, 2 establishments of foreign PSPs;

3 off-site targeted inspections in 3 PSPs;

9 off-site (desk-based) reviews in 5 PSPs, 1 IMC, 2 AIMC, 1 PPF;

2 enhanced off-site monitoring processes in 2 IMC .

In 2020 supervisory measures of the FCMC for non-banking institutions include 2 on-site inspections continued from 2019;

17 off-site (desk-based) reviews in 4 IMC, 6 PSPs, 5 AIMC, 2 CU.

2 enhanced off-site monitoring processes continued from 2019.

All non-banking OE are subject to tailor made annual off-site desk review on basis of survey elaborated by the FCMC and adjusted to business specifics of each of segments (PSP/EMI, IC, etc.)

Last but not least in 2020 the FCMC Regulations on Establishment of Internal Control System in Payments Service Providers and Electronic Money Institutions (available in Latvian only) were adopted stipulating among other that when establishing an internal control system, an institution shall comply with the requirements of these Regulations in accordance with the volume, types, complexity and specificity of its activities, as well as its risks related to each area of activity, institution's governance model, information technology and other factors relevant for reaching operational objectives of the institution.

SRS: When expanding on EDD measures supervision practice shows, that detection of above mentioned links with jurisdiction with high corruption is a mandatory trigger for obliged entity to conduct EDD on a such client. Such approach is effectively implemented and has led to many obliged entities reassessing their client risks and applying EDD and also has started a court case in EU court C-562/20 SIA Rodl & Partner v Valsts ieņēmumu dienests (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A62020CN0562>).

Regulations No 5 are applicable to all entities for which AML/CFTP supervision is executed.

If no action has been taken to implement recommendation 10 (c), 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(d):

10. Regarding money laundering, the Working Group recommends that Latvia take steps to:

d) Ensure the efficient operation of the FCMC by: (i) regularly reviewing the adequacy of the FCMC's resources; (ii) reviewing its criteria for the application of available sanctions; (iii) monitoring FCMC's application of sanctions in cases of violations of AML requirements by legal and natural persons to ensure that these are effective, proportionate and dissuasive; [Convention Article 7; 2009 Recommendation II];

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

(i) The internal resources

In order to increase the supervision capacity and efficiency of its anti-money laundering and counter terrorism financing (AML/CTF) operations financing and to address ML/TF risks in the financial sector, operations restructuring of the FCMC Financial Integrity Division was started already in 2016. Restructuring has resulted in establishment of Money Laundering Prevention and Sanctions Department (previous Compliance Control Department) with 28 staff positions at the end of 2019 and at the end of 2020. The Department currently consists of 3 divisions – Bank Audit Division, Non-banking Audit Division both engaged in on-site supervision, whereas Support and Regulations Division ensures off-site supervision.

Outsourcing external expertise

Adding in, external outsourcing of AML/TF experts has been launched for supervision of applying Methodology for the AML/CFT and sanctions compliance checks in the context of the ABLV self-liquidation supervision and PNB Bank insolvency proceedings.

Last but not least, in 2019 the FCMC Regulations No 148 on Conducting an Independent Assessment of an Internal Control System for the Prevention of Money Laundering and Terrorism and Proliferation Financing have been adopted. Conclusions and findings from external audit reports is used for assessment of risks of banks and clustering into risk categories. Audit reports are used also during on-site inspections to assess whether and how effective bank has eliminated identified deficiencies.

Independent external audits are requested to be performed at least every 18 months. The results of the audits must be submitted to the FCMC upon request, and findings of such audits constitute an additional element used by the FCMC when determining the risk level of the respective institution.

Regulations require that in the sample testing of customer cases and their transactions the number of customers to be inspected shall be determined commensurately and proportionately to the total number of the institution's customers in the respective customer risk group, covering the risks inherent to the institution and its customers identified in the MLTPF risk assessment. External audit reviews internal control system and policies as part of the system.

Conclusions and findings from external audit reports are used for assessment of risks of banks and clustering into risk categories. Audit reports are used also during on-site inspections to assess whether and how effective bank has eliminated identified deficiencies.

Additional expertise attracted for strengthening supervisory capacity

The FCMC Money Laundering Prevention and Sanctions Department experts took part in the AML training programme with the technical support provided by the European Commission Structural Reform Support Service (SRSS), implemented from 2017 until the first quarter of 2019. In the framework of the programme the training focused on achieving a more effective approach towards AML/CFT was delivered.

At the end of 2019 the FCMC submitted project proposal to the SRSS Strengthening AML/CFT Supervision Capacity of the Financial and Capital Market Commission. Project proposal was approved by the European Commission and in 2020 two off-site training sessions/workshops in co-operation with the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (Sepblac, from its initials in Spanish) on exchange of AML/CFT supervision approach, including risk based methodology, determining of ML/TF risk levels of supervised entities.

(ii), (iii) Reshaping inspection scope

The FCMC improved the procedures of the on-site inspection process to ensure that the inspection process placed more emphasis on the risk inherent in each institution, and the inspection process was revised to make it more efficient and to complete the inspection in a shorter period of time. In 2020

the AML/CFT full-scope on-site inspection approach of the FCMC has been changed towards assessment of AML/CFTP governance in general, focusing on in-depth review of elements of internal control system. On practical terms internal control system is to be reviewed through the following elements: risk assessment, AML/CFT strategy and tone of top, structure, responsibilities, staff and training, CDD and transaction monitoring, suspicious transaction identification and reporting, IT systems and data storage, audit (external and internal), agents and third parties services, whistleblowing, revision of policies and procedures, including also role of responsible AML/CFTP employees.

In 2019 taking into account the severity of identified breaches and role of the board member responsible for AML/CFTP the FCMC along with a fine to a high-risk bank also issued warning to the Board member responsible for AML/CFTP issues.

In 2020 the FCMC imposed a fine to medium high-risk bank and obliged the bank to assess the suitability of AML/CFTP responsible employee and board member. The Bank was also obliged to submit results of assessment and to inform about the decisions taken within the defined deadline.

Sanctions policy and framework

The FCMC has adopted and applies Recommendations (Guidelines) for Imposing Sanctions and Legal Obligation for Violations of the Laws and Regulations Governing Money Laundering and Terrorism Financing on the Participants of the Financial and Capital Market and the Natural Persons Responsible for the Violation, specifying a procedure for imposing sanctions and legal obligation if participants of the financial and capital market have committed violations of the laws and regulations governing AML/CFT. The Recommendations provide that violation of the practical implementation of the requirements of laws and regulations in the management of the risks of customers and their transactions (sample testing) shall be deemed long-term, provided it persists for more than three month or has been repeatedly established in the Commission's inspection over the last four years until initiation of an administrative case.

The FCMC in occasions provided for in the Recommendations (Guidelines) for Imposing Sanctions and Legal Obligation for Violations of the Laws and Regulations Governing Money Laundering and Terrorism Financing on the Participants of the Financial and Capital Market and the Natural Persons Responsible for the Violation shall apply operational restrictions. Restrictions to operation may be imposed with regards to the segment, operational geography, financial services, distribution channels of services of customers or combination of the said factors. A legal obligation may be imposed upon a participant of the financial and capital market not to increase or to reduce the current exposure of the relevant risk factor until evaluation of the results of a follow-up or an external audit inspection.

Reporting on implementation of remedial actions obligation for sanctioned entities may be applied and this is to be applied irrespectively of nature of violations. Reporting frequency is established in every occasion individually and documented evidence of indicated information about remediation has to be submitted.

Implementation of remedial actions is also one of the factors taken into account when assessing risk of particular bank and failure to timely implement remedial actions shall have impact on general risk assessment. After the remediation plan is implemented external audit has to be conducted to make sure that remediation plan has been actually implemented. During the last two years the FCMC also carries out follow-up inspections. Sanctions may be imposed by decision or administrative agreement if obliged entity proactively remediates deficiencies, actively collaborate and parties (the FCMC and obliged entities) agree on terms and conditions of the agreement.

Application of sanctions

In 2019, the FCMC has not entered into administrative agreements with banks that had been sanctioned for breach of AML/CFT requirements previously and all the sanctions in 2019 were enacted with the decision of the FCMC Board. Thus, the amount of applied monetary fines reached

80-90% of the maximum threshold.

Whereas in 2020, sanctions were applied to three banks, in one case in line with the FCMC Board decision, in two cases by entering into administrative agreements.

Banks		
2018	2019	2020
3 907 902 EUR	5 398 039 EUR	1 704 109 EUR
3 banks	4 banks	3 banks

It has to be noted that in 2020 the outcome of few inspections was not application of pecuniary sanction due to the nature of detected incompliances and shortcomings.

Overview of imposed sanctions and corrective measures to banks 2018-2020

[Attachment removed]

One of sanctions imposed in 2020 constituting long-term substantial violation was deficient and low quality of CDD results, no analysis was provided for complex and interrelated transaction schemes of customers. Internal procedures are not designed in accordance with the level of risk and the specifics of the activity, unable to identify the actual UBO and to detect suspicious transactions

In these cases penalties close to maximum are applied and operational limitations are set.

Further, in 2019-2020 the FCMC has imposed operational restrictions in several occasions. In 2019 it was applied to three high risk banks, in 2020 to one medium high-risk bank. During the last two years the FCMC has implemented scrupling and close follow-up on implementation of corrective measures and carries out follow-up inspections.

From 2016 – 2020 FCMC has imposed monetary sanctions to banks in 17 cases in total of 18.7 million EUR, whereas from 2018 – 2020 amount of pecuniary sanctions imposed by the FCMC was 11.5 million EUR.

During examinations FCMC examine also responsibility of AML board member and AML officer and in set of cases sanctions are imposed.

FCMC has powers to impose sanctions to natural persons and from 2015 until 2020 decision on suspension has been applied to five officials, fine has been applied to five persons, warnings issued for 8 persons.

Amendments in criteria of applying sanctions

In accordance with the initiative of the European Commission, in the first quarter of 2021 it is planned to improve and harmonize the regulation of penalties by issuing EU regulations. Thus, in the first half of 2021, the development of a new draft penal policy will be started. Taking into account the new requirements of the EU, and given the importance of sanctions policy, it needs to be in line with the EU vision on the subject.

It is anticipated to have the first version of amended sanctions policy project in September and new sanctions policy to be approved by the end of December 2021.

At the moment, work is underway on Supervisory and Evaluation Review Process (SREP) and the methodology combining prudential and ML/TF risk assessments, after the completion of which it shall be used in sanctions policy to determine the criteria for violations.

[Additional Information]

On 31.12.2020 Bank Audit Division had 12 staff members including Head of Division. All experts take part in on-site inspections and occasionally involved in off-site supervision activities.

Support and Regulations Division has 11 staff members including Head of Division. Division experts do off-site supervision, desk reviews, also take part in targeted inspections, cover national and international sanctions issues and provide legal support on AML/CFT issues.

Non-banking Audit Division consists of 4 staff members including Head of Division, all performing on-site and off-site supervision.

Annex document “NILLTPFNL_sankc_piem_ieteikumi_271020_eng” does not refer to FCMC but to another supervisor - the Insolvency Control Service.

Hereby is the link to the Recommendations (Guidelines) for Imposing Sanctions and Legal Obligation for Violations of the Laws and Regulations Governing Money Laundering and Terrorism Financing on the Participants of the Financial and Capital Market and the Natural Persons Responsible for the Violation, available of the website of the FCMC:

<https://www.fktk.lv/en/law/general/fcmc-guidelines-and-recommendations/recommendations-guidelines-for-imposing-sanctions-and-legal-obligation-for-violations-of-the-laws-and-regulations-governing-money-laundering-and-terrorism-financing-on-the-participants-of-the-financ/>

Date of adoption: 31 October 2017

In 2020 operational restrictions to on-board new high-risk customers along with a fine and legal obligations including elaboration and submission of a remediation plan, conducting independent evaluation of the adequacy and effectiveness of the Bank's internal control system and assessment of suitability of responsible AML/CFT employees were imposed.

In 2019 a bank was subject to operational restrictions with regards to on-boarding certain high-risk customers and limitations for credit turnover of customers related to shareholders;

Another occasion of imposing operational restrictions included setting limited thresholds to Bank's intrabank customer payments.

The third occasion in 2019 also refers to limitations to on-board new high risk customers and to have new trust transactions.

Amendments to the Recommendations (Guidelines) for Imposing Sanctions and Legal Obligation for Violations of the Laws and Regulations Governing Money Laundering and Terrorism Financing on the Participants of the Financial and Capital Market and the Natural Persons Responsible for the Violation have not been elaborated and adopted as yet.

If no action has been taken to implement recommendation 10 (d), 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(e):

10. Regarding money laundering, the Working Group recommends that Latvia take steps to:

e) Continue to ensure compliance of the financial sector with the AMLTFL and related regulations especially regarding banks that represent high ML risks including through comprehensive and risk based oriented on-site visits [Convention Article 7; 2009 Recommendation II];

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

FCMC: Starting from very late 2018, early 2019 banks are no longer divided into resident and non-resident bank and split into banks servicing domestic customers and foreign customers is no longer applied. As of the end of 2019, the division of banks into ML/TF risk groups has been revised and banks

have been divided into risk groups in accordance with the developed methodology, where supervisory measures are determined in accordance with each risk group in the following categories: low, medium, medium high risk and high risk banks.

Both in 2018 and during nine months of 2019 all previously defined as foreign deposits banks have been subject to on-site inspections.

In accordance with risk based supervisory framework on-site inspections were carried out both as full-scope on-site inspections as well as targeted ones, including overseas missions. Furthermore, at the same time, taking into account specific emerging and inherited risks designated horizontal inspections have been executed.

Breakdown of inspections 2018 – 2021

2018	2019	2020	2021
27 inspections in banks, including: 4 full scope on-site inspections; 10 targeted on-site inspections; 5 targeted off-site inspections; 8 on-site inspections carried out by independent audit 3 inspections in non-banking institutions	38 inspections in banks, including: 3 full scope on-site inspections; 17 targeted on-site inspections; 6 targeted off-site inspections; 12 on-site inspections carried out by independent audit 4 inspections in non-banking institutions	23 inspections in banks, including: 5 full scope on-site inspections; 5 targeted on-site inspections; 3 targeted off-site inspections; 10 on-site inspections carried out by independent audit	10 inspections, including: 3 full scope on-site inspections; 4 targeted off-site inspections; 3 on-site inspections carried out by independent audit

Banks previously focusing on servicing non-resident customers have changed their business strategies by reviewing risk appetite and focusing to provision of services to domestic customers and customers from EEZ. Under scrupulous supervision of the FCMC business transformation process is ongoing.

Following results of Sectoral Risk Assessment in 2019 and 2020, banks are divided into the following ML/TF risk categories:

Risk level	2019	2020
Low	2	3
Moderately low	2	1
Moderately high	7	7
High	3	3

The FCMC has updated the ML/TPF risk assessment of banks and the determination of the AML/TPF risk level procedure. As a result of the changes, the procedure for calculating the ML/TPF risk size has been updated so that this calculation can be used within the SREP to determine the amount of own capital.

The procedure for determining the ML/TPF risk group of banks and the measures to be taken in accordance with each risk group have been specified.

The FCMC improved the procedures of the on-site inspection process to ensure that the inspection process placed more emphasis on the risk inherent in each institution, and the inspection process was revised to make it more efficient and to complete an inspection in a shorter period of time.

In 2020, the FCMC significantly changed its approach in carrying out full-scope inspections, focusing on in-depth review of elements of internal control system. On practical terms internal control system is to be reviewed through the following elements: risk assessment, AML/CFT strategy and tone of top, structure, responsibilities, staff and training, CDD and transaction monitoring, suspicious transaction identification and reporting, IT systems and data storage, audit (external and internal), agents and third parties services, whistleblowing, revision of policies and procedures.

In 2020, the focus of the supervisor was on the implementation of the change of credit institutions 'strategy and business models, as well as the performance of credit institutions compared to the credit institutions' previous forecasts, including taking into account what was presented to supervisors before the change of business model. This process is also part of the annual comprehensive monitoring and evaluation process (UPNP). During the year, regular face-to-face meetings with credit institutions were continued, during which credit institutions presented their achievements. During this quarterly dialogue, the FCMC listened to credit institutions, identifying and identifying possible obstacles to the successful completion of strategies, as well as continuing to assess credit institutions' financial forecasts to ensure that business models will be able to prove their long-term viability.

Within the framework of UPNP, a number of off-site activities were performed by analyzing the reports submitted by credit institutions, performance indicators and information available to other supervisors, as well as assessing the significant risks inherent in each credit institution. Within the framework of business models and profitability assessment, such indicators as return on assets (ROE), cost-income ratio, income stability, planned target market and possible changes in the number of customers, interest rate and tariff policies, etc. were assessed.

In the UPNP process in 2020 circumstances of the COVID-19 pandemic were also taken into account through a single flexible approach for European supervisors, namely the implementation of a pragmatic UPNP. Within the pragmatic UPNP, special attention was paid to the assessment of the profitability, viability and sustainability of credit institutions, as well as to the assessment of the risks associated with the change of the business model. Emphasis was placed on qualitative monitoring measures.

At the same time, the pragmatic approach provided for the maintenance of own funds requirements for the inherent and potential risks of credit institutions, as well as specific liquidity requirements. Within the framework of the SREP process, based on the FCMC methodology for assessing the ML/FTP risk profile of credit institutions, the level of ML/FTP threats of credit institutions was assessed according to specific risk factors (for example, credit institution customers and from risk countries, etc.) and the effectiveness of the AML/CFTP internal control system, taking into account not only the findings of the inspections on the effectiveness of the internal control system (e.g, quality of ML/TPF risk assessment and compliance with credit institution risks, the effectiveness of the customer due diligence and transaction monitoring process, etc.), but also the supervisory information at the disposal of the FCMC information on the quality of the reports). At the same time, attention was paid to the harmonization of credit institutions' ML/FTP risk strategy and new business strategy. As a result, a comprehensive assessment of the ML/TPF risk profile of credit institutions was obtained, which combines the assessment of the quality of the AML/CFTP internal control system or risk management and the assessment of the ML/FTP risk level.

The FCMC inspections in banks, breakdown of specific topic under review of each inspection

Banking sector	Risk category	2019	2020	2021
1. Full scope on-site inspections	High risk	0		
	Medium high risk	3	2	2
	Medium and low risk	0	3	1
2. Targeted on-site inspections				
2.1. Issuance of loans	High risk		1	

2.2. Internal AML/CFTP governance	Medium high risk		1	
2.3. Source of assets invested in share capital	High risk		1	
2.4. Information from FIU	Medium high risk		2	
2.5. UBO identification and verification	High risk	1		
	Medium high risk	3		
	Medium and low risk	2		
2.6. Clasification, EDD and monitoring of shell companies	High risk	4		
	Medium high risk	2		
2.7. Cash transactions	Medium high risk	1		
2.8. Subordinated loan	High risk	1		
2.9. Sanctions	High risk	1		
	Medium and low risk	1		
2.10. Implementation of methodology	High risk	1		
3. Targeted off-site inspections				
3.1. Unusual transactions reporting	Medium high risk	1		
3.2. Complaints	High risk	1		
	Medium high risk	1		
3.3. Sanctions	High risk	1		
3.4. Cooperation with shell companies	High risk	1		
3.5. 'Horizontal' Beneficial Ownership inspection	In all banks	1		
3.6. 'Horizontal' inspection regarding remote identification	In all banks		1	
3.7. 'Horizontal' inspection regarding private banking services	In all banks		1	
3.8. Information received rom FIU	Medium high risk		1	
3.9. UBO identification and verification	High risk			2
	Medium high risk			2
	Medium and low risk			

SRS:

Targeted on-site controls are focused on general shortcomings identified in the NRA. Follow-up controls are scheduled on a case by case basis, to check on improvements subjects were supposed to implement or to make sure that subjects follow previously provided guidance and successfully manage their risk exposure. There were 192 Unlicensed credit and financial leasing providers and 3 Persons providing cash collection services supervised by SRS in 2020. In 2020, 10 On-site and 2 off-site inspections of compliance with the Law requirements were completed.

BoL:

Onsite inspections are carried out according to Inspection plan which is approved each year. Inspection plan for each year is based on the risk matrix (where currency exchange companies are evaluated according to risk factors (for example, the market share of the foreign currency cash exchange company; significant changes in the foreign currency cash exchange company's turnover; the share of anonymous transactions; the average value per transaction).

During inspections, BoL checks the conformity of the ICS with the requirements of regulatory enactments and risk assessment, as well as compliance with laws and regulations in the field of AML/CFT. If non-compliance of ICS or violations of the laws and regulations in the field of AML/CFT

and sanction risk management has been identified, BoL initiates administrative proceedings, requests explanations and gives time to remedy the non-compliances and violation by submitting the evidence. If employees had shown insufficient knowledge on the requirements of the AML/CFT Law, BoL repeats knowledge test of the employees that previously showed insufficient knowledge. In accordance with BoL recommendations No 1584/5 BoL take a decision on corrective measures. Foreign currency cash exchange companies with identified non-compliance in previous inspections get higher risk score and are re-inspected in the next inspection period

In 2018 BoL has carried out 40 inspections in 29 foreign currency cash exchange companies, 23 of inspections were on-site inspections, including 3 inspections focused on compliance with the requirements of the laws and regulations in the field of ML. In 2018 BoL imposed corrective measures against 7 foreign currency cash exchange companies :

- 1) 4 foreign currency cash exchange companies were issued fines in total of 5257 EUR;
- 2) 1 member of board of the foreign currency cash exchange company was fined 140 EUR;
- 3) 1 responsible person of the foreign currency cash exchange company was obliged to ensure compliance with the requirements of the AML/CFT Law.
- 4) 3 warning to the foreign currency cash exchange companies and 1 warning to the person responsible for the AML/CTF compliance of foreign currency cash exchange company.

The sanctioned foreign currency cash exchange companies remedied the violations for which they were sanctioned.

In 2019 BoL has carried out 18 inspections in 13 foreign currency cash exchange companies, 15 of inspections were on-site, including 8 inspections focused on compliance with the requirements of the laws and regulations in the field of AML/CFT. BoL carried out less inspections than before, but all on-site inspections carried out by BoL were more focused on compliance with the requirements of the laws and regulations in the field of AML/CFT. BoL imposed corrective measures against 7 foreign currency cash exchange companies:

- 1) 6 foreign currency cash exchange companies were fined in total of 8 850 EUR;
- 2) 5 foreign currency cash exchange companies were obliged to improve their risk assessment and ICS documents to ensure compliance with the requirements of the AML/CFT Law;
- 3) 1 license of foreign currency cash exchange company was suspended and later revoked forbidding buying and selling foreign currency as a commercial activity.

The sanctioned foreign currency cash exchange companies remedied the violations for which they were sanctioned.

In 2020 BoL carried out 7 inspections in 7 foreign currency cash exchange companies, but 4 inspections are still being conducted in 2021. All inspections were focused on compliance with the requirements of the laws and regulations in the field of AML/CFT. BoL imposed corrective measures against 7 foreign currency cash exchange companies:

- 1) 6 foreign currency cash exchange companies were fined in total of 18 350 EUR;
- 2) 5 foreign currency cash exchange companies were obliged to ensure compliance of the risk assessment and ICS documentation with the requirements of the AML/CFT Law;
- 3) One foreign currency cash exchange company was obliged to dismiss the person responsible for AML/CFT compliance;
- 4) One foreign currency cash exchange company's license was revoked forbidding buying and selling foreign currency as a commercial activity.

The sanctioned foreign currency cash exchange companies remedied the violations for which they were sanctioned.

CRPC: Please see information provided in reply to recommendation 10 (b).

In addition, total amount AML/CFT inspections covered: 2019 – 197 offsite (146 on consumer credit and 51 on debt recovery service providers) and 13 onsite (9 on consumer credit and 4 on debt recovery service providers), 2020 – 131 offsite (91 on consumer credit and 40 on debt recovery service providers) and 12 onsite (9 on consumer credit and 3 on debt recovery service providers). These inspections are related with full amount ICS inspections, fit and proper requirements, beneficial ownership, risk assessment quality, checks on the origin of funds invested in core capital.

Based on fit and proper requirements, in 2018, the CRPC refused to register a special permit (license) based on unknown source of funds invested in the company's share capital. In relation of serious infringements in the field of AML/CFT CRPC in 2019 have made decisions to terminate 1 license and do not allow relicensing (prolonging) 1 license. Also in 2020 CRPC have made 2 decisions to suspend licenses and 1 decision of denying relicensing (prolonging) as well as CRPC has taken 4 decisions imposing fines in total 10'000 EUR. Information about decisions taken by CRPC, as well as amount of fines for each entity and obligations is available on CRPC home page.

If no action has been taken to implement recommendation 10 (e), 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(f):

10. Regarding money laundering, the Working Group recommends that Latvia take steps to:

f) Provide more resources to the FIU so that it has the capacity to detect and report foreign bribery as well as raise awareness and train FIU officials on detecting bribery-related money laundering cases [Convention Article 7; 2009 Recommendation II];

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

Adequate resources have been allocated to the FIU and the capacity of the FIU in terms of human and financial resources has been substantially increased, therefore the FIU among other activities has the capacity to detect and report foreign bribery as well as raise awareness and train FIU officials on detecting bribery-related ML cases.

The FIU is financed from the State budget. The budget of the FIU has gradually increased since 2017, reaching 4,617,365 EUR in 2019 and 4,173,678 EUR in 2020.

Additionally, to ensure effectiveness of the ongoing improvement of the AML/CFT/CFP system, the government, by approving the AML Action Plan,¹¹ has allocated additional budget resources to ensure successful fulfilment of the ML/TF/PF risk mitigation activities, incl. those performed by the FIU.

Figures regarding FIUs staff positions are as follows: from 35 staff positions in 2017 to 68 in 2021; positions are expected to reach 72 by the end of 2022 (15 people are directly involved in performing “administrative” functions, thereby ensuring the FIU can perform its functions independently and autonomously).

¹¹ Plan of Measures for Mitigation of the Money Laundering and Terrorism and Proliferation Financing Risks for 2020 – 2022. Available (in Latvian): <https://likumi.lv/ta/id/317729-par-pasakumu-planu-noziedzigi-iegutu-lidzeklu-legalizacijas-terorisma-un-proliferacijas-finansanas-noversanai-laikposmam>

The overall number of FIU staff and breakdown per operational unit:

	2017	2018	2019	2020	2021
Total, of which	38	38	54	56	68
Operational, including management	29	29	40	41	49
Support (IT, HR, legal)	9	9	14	15	19

The technical capacity of the FIU has also been strengthened. The FIU has implemented *IBM i2 Analyst's Notebook* – a tool that provides analysts with multidimensional visual analysis capabilities so that hidden connections and patterns in data can be uncovered quickly, and *IBM i2 Enterprise Insight Analysis* which helps turn disparate data into comprehensive and actionable intelligence to support timely decision making, which is especially useful for the FIU's strategic analysis needs.

In 2019, in accordance with the FIU's strategy to implement IT-based analysis for the FIU's core operations, the FIU began the implementation of the *goAML* system developed by the UNODC, which will substitute the current FIU database used for information analysis process. The implementation process of the *goAML* system is expected to be finalized by the end of 2021.

FIU's capacity to detect and report foreign bribery is also raised by ensuring the participation of FIU representatives in various training sessions and seminars. In both 2020 and 2021 employees of the FIU actively engaged in awareness and knowledge raising activities on corruption and ML. Few examples of the most recent seminars are as follows:

- on 28 April 2021 webinar "Combating Organized Crime and Corruption" was organized by INTERPOL. Six employees of the FIU participated in the webinar, incl. representatives of the higher management.
- on June 2021 25 employees of the FIU took e-learning course on corruption prevention, containing 9 extensive e-learning lectures developed by Latvian School of Public Administration.
- on 9 - 10 June 2021 webinar on prevention, detection, investigation, prosecution and trial of foreign bribery and international corruption was organized. Webinar brought together experts from Estonia, Latvia, Lithuania and the United States to discuss and share examples of individual and corporate criminal liability for foreign bribery.

Additionally, in 2021 12 employees of the FIU started required training to acquire CAMS (Certified Anti-Money Laundering Specialist) certification. It is expected that by the end of July all 12 employees will gain global qualification that outlines the key principles of ML, and how to prevent it.

[Additional Information]

FIU's budget in the current fiscal year is EUR 4 657 514. Remuneration of all FIU staff is certainly included in the budget.

On 28 April 2021, webinar "Combating Organized Crime and Corruption: Role of Law Enforcement in the Identification, Seizure of Proceeds of Crime and Asset Recovery" was organized by INTERPOL, in which experts shared their experiences and practices. Agenda of the virtual workshop covered the following matters: (1) An Overview of INTERPOL Anti-Corruption Unit's Capabilities; (2) International Cooperation in the Baltic Region – The experience of the United States; (3) Identification, Seizure of Proceeds of Crime and Asset Recovery from an Irish perspective; (4) Asset Management: An Australian perspective on risk mitigation for assets the subject of confiscation proceedings. Issues in regards to detection of bribery-related money laundering cases and foreign bribery were not the central topics of the workshop. Six employees of the FIU also participated in the webinar, incl. representatives of the higher management.

In June 2021, 25 employees of the FIU took e-learning course on corruption prevention, containing 9 extensive e-learning lectures followed by mandatory test developed by Latvian School of Public Administration. This training offered to increase general knowledge and understanding of what corruption is to employees at various levels, incl. to employees with no prior or in-depth knowledge regarding the topic. However, specific and targeted study of issues related to detection of bribery-related money laundering cases and foreign bribery in particular was not covered. Lectures included the following topics: (1) general characteristics of corruption; (2) consequences of corruption; (3) institutions preventing and combating corruption; (4) preventing and combating corruption in the public and private sectors; (5) conflict of interest; (6) values and ethics in public administration; (7) risks of corruption; (8) conditions conducive to corruption and actions in cases of bribery; (9) whistleblowing.

If no action has been taken to implement recommendation 10 (f), 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(g):

10. Regarding money laundering, the Working Group recommends that Latvia take steps to:

g) Continue its efforts to promote and ease the exchange of information between the FIU and law enforcement authorities [Convention Articles 5 and 7; 2009 Recommendation V].

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

In order to ease the exchange of information between the FIU and LEAs “Guidelines for the FIU Latvia cooperation with the bodies performing operational activities, investigating institutions and the Office of the Prosecutor” were developed and are in force starting with 17 September 2020, upon approval by the Prosecutor General, providing set of requirements to the requests of the information. Guidelines, inter alia, ensure better cooperation and allows the FIU Latvia to incorporate feedback from LEAs into its work (the translation of guidelines is provided in Annex, *file: FIU_PGO_guidelines*). According to statutory requirements and competences of the authorities, the guidelines specify cases in which the FIU shall provide information at its discretion to bodies performing operational activities, investigating institutions and the Office of the Prosecutor, cases in which bodies performing operational activities, investigating institutions and the Office of the Prosecutor can request information from the FIU, and cases in which the FIU may order the freezing of funds based on information provided by the bodies performing operational activities and investigating institutions. The guidelines describe the requirements for requests for information as well as the procedures for requesting information that the FIU can obtain in cooperation with analogous foreign services.

Moreover, the interinstitutional cooperation is also enhanced by successful operation of the established CCG - a mechanism for cooperation and coordination between the FIU, LEAs, supervisory and control institutions and obliged entities on both policy and operational levels demonstrated by both public-private and public-public cooperation. For detailed explanation please refer to description provided under recommendation 16(h).

In order to further promote the exchange of information between the FIU and LEAs on 4 December 2020 the FIU organized online training “Competence of the FIU Latvia and Cooperation with Persons Directing the Criminal Proceedings”, which was attended by approximately 350 participants - investigators, criminal intelligence officers, prosecutors, judges of the 1st and 2nd instance courts, representatives of the Ministry of Interior and the FIU. The training was devoted to such question as:

- FIU’s competencies;
- legal basis of the FIU cooperation with LEAs, prosecutor’ office and courts;

- cooperation coordination, including mechanisms of activity of the FIUs cooperation coordination group;
- disseminations and responding to requests in frameworks of criminal intelligence and criminal proceedings;
- special attention was paid to noticed deficiencies of the information requests.

It is also expected that the new *goAML* system developed by the United Nations Office on Drugs and Crime (UNODC), which will substitute the current FIU database, will promote and ease the exchange of information between the FIU and LEAs. New system is planned to be launched in 2021.

Alongside introduction of the *goAML*, which will ensure internal digital transformation of the FIU, it is planned to increase the capacity of information flow between the FIU and LEAs in electronic form. The FIU received Directorate General for Structural Reform Support (DG REFORM) of the European Commission grant, which will ensure independent audit of the current document circulation processes, identification of regulatory deficiencies, as well as preparation of optimal solution development scenario for electronic information flow between FIU and LEAs, incl. KNAB.

[Additional Information]

1. Numbers of STRs received by the FIU on suspicion of corruption and foreign bribery (suspicion is noted by the reporting entity) are provided in Table 2.
2. All the reports disseminated to KNAB and STRs used concerned suspicion of corruption and/or foreign bribery. However not all of transferred STRs were initially filed with FIU as in connection with corruption. Please see Table 3.

If no action has been taken to implement recommendation 10 (g), 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 11(a):

11. Regarding accounting and auditing requirements, the Working Group recommends that Latvia:

a) (i) Extend the legislative provision applicable to listed companies to also cover non-listed companies; and (ii) incentivise companies to conduct independent internal investigations and report to competent authorities in case of reports of suspected foreign bribery. [2009 Recommendation III(iv) and X.B(iv) and Phase 2 recommendation 7(d)];

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

The Ministry of Finance and the Ministry of Justice are assessing possible legislative changes that would provide for the obligation of non-listed companies to conduct internal investigations if a sworn auditor has been provided information to company's management regarding indications of reasonable grounds to suspect violations in the company's operations and activities that could make possible foreign corruption.

Besides that, if legislative changes are or new National Risk Assessment (NRA) is published, every company is expected to audit its risk assessments. Renewal of risk assessments is checked by the SRS in follow-up controls based on Risk Based Approach (RBA) principle.

If no action has been taken to implement recommendation 11 (a), 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:

<p>Text of recommendation 11(b):</p> <p>11. Regarding <u>accounting and auditing requirements</u>, the Working Group recommends that Latvia:</p> <p>b) Raise awareness among external auditors of their key role in detecting foreign bribery and of the requirement for external auditors to report suspected foreign bribery to competent authorities [(2009 Recommendation III(i));</p>

<p>Action taken as of the date of the follow-up report to implement this recommendation:</p> <p>On 11 June 2021 KNAB arranged a training to members of the Latvian Association of Certified Auditors in relation to reporting on corruption crimes, highlighting the importance of reporting duty.</p> <p>The Latvian Association of Sworn Auditors (LASA) continuously organizes trainings for sworn auditors, and ensures that, within the framework of quality control, regular monitoring is carried out on the compliance of sworn auditors and commercial companies of sworn auditors with the LASA's procedure "Procedures of Sworn Auditors and Commercial Companies of Sworn Auditors to identify Bribery during the performance of audit and expert or fiduciary tasks and, if necessary, to report to the Corruption Prevention and Combating Bureau (KNAB)".</p> <p>LASA provides the opportunity for sworn auditors to receive ongoing support and explanation on legal provisions related to the identification and reporting of bribery.</p> <p>On June 11, 2021, LASA in cooperation with KNAB organized the seminar "Bribery of the public official and the role of sworn auditors in combating it".</p> <p>The topics of the seminar:</p> <ol style="list-style-type: none"> 1. The concept of corruption, incl. bribery of foreign officials. 2. Examples of bribery of foreign officials. 3. Signs that may indicate bribery, incl. bribery of foreign officials. 4. Liability of a legal person. <p>[Additional Information]</p> <ol style="list-style-type: none"> 1. None of the three reports by the external sworn auditors were related to foreign bribery. 2. According to the information provided by LASA in 2021 there was one seminar organized by LASA. <p>On June 11, 2021 LASA organized a seminar for its members "Bribery of the public officials and the role of sworn auditors in combating it". The seminar was chaired by KNAB (lectors - Head of Criminal Investigation Department and Head of Strategy Department). Number of participants 105.</p> <p>Topics covered: the concept of corruption, incl. bribery of foreign officials; examples of bribery practices of foreign officials; signs that may indicate bribery, incl. bribery of foreign officials; liability of a legal person.</p> <p>In 2021 4 webinars took place. The topics covered during webinars included also topics on fraud risks related to the bribery of officials. The following webinars were organized:</p> <ol style="list-style-type: none"> 1. Cryptocurrencies – accounting and tax aspects (including fraud risk and bribery of officials). Lector T. Labzova-Ceicana. Number of participants 30.
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2. International Code of Conduct for Professional Accountants (including the International Standards on Independence). Lector R. Ikaunieks. Number of participants 70.

3. Assessment of the internal control environment in the audited entity. Lector T. Labzova–Ceice. Number of participants 30.

4. Assessment of risks at the assertion level (including fraud risks and risk of bribery of officials). Lector A. Movsisjana. Number of participants 30.

For sworn auditors the respective recordings are available from the LASA's Education Centre's E-seminar Library (<https://lzraic.lv/shop>).

Members of LASA (total number is 154 in 2021) are regularly updated about the materials on the matters of AML and bribery issued by IFAC and Accountancy Europe (AE). For example, in 2021 the IFAC material Navigating the Heightened Risks of Fraud and Other Illicit Activities During the COVID-19 Pandemic, including Considerations for Auditing Financial Statements and the Round Table Discussion IFAC AND THE INTERNATIONAL BAR ASSOCIATION TO COHOST VIRTUAL EVENT ON FIGHTING CORRUPTION was distributed to the members and published in the LASA website.

Also, an informative material of the FIS "Money Laundering and Terrorism Financing Risks due to Covid-19" was made available to LASA members on LASA website, which provides analysis of the increase of fraudulent activities in different environments during COVID-19 pandemic: untitled (fid.gov.lv)

In 2020, the following seminars were held, in which the issue of bribery was also covered:

1. Mandatory audit risks - management's ability to circumvent established controls and the risk of revenue fraud.
2. Risk assessment at the assertion level.

Both seminars were attended by 25-30 participants. These seminars are also recorded and available on the LASA's Education Centre website as e-seminars.

In 2020 LASA organized its annual summer conference.

At the conference "Topicalities of the Audit Profession 2020", the topic "Public Interest Entities and Auditor's Reporting Obligations" was discussed among the issues on the reporting obligation to the Ministry of Finance, the Financial and Capital Market Commission also considered other reporting obligations, including on fraud. Number of participants 95.

In 2019 after October 10 within the framework of the professional development program "Audit of Financial Statements" accredited by the Ministry of Education, the LASA has trained both sworn auditors and employees of commercial companies of sworn auditors on the detection of possible cases of bribery. The training lasted 160 hours for each group. 2 groups were trained, 40 people in each group.

Previously in 2019 2 training activities took place:

- the lecture "Compliance with the Law on the Prevention of money laundering and Terrorism Financing and anti - corruption legislation in the practice of the international sworn auditors' commercial companies" (lector Edvards Grasis (ACCA/CFE/CAMS), Senior Project Manager, Risk Consulting KPMG Baltics SIA);
- the presentation of KNAB "Prevention of Corruption Risks in business" (lector Anna Aļošina, Head of Strategy Department).

3.The Report refers to the same training event.

If no action has been taken to implement recommendation 11 (b), 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 11(c):

11. Regarding accounting and auditing requirements, the Working Group recommends that Latvia:

c) Amend its legislation to clarify that courts, prosecutors and investigators may require an auditor to provide information for use in foreign bribery investigations [2009 Recommendation III(iv) and X.B(v); Phase 2 recommendation 7(e)].

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

On 19 November 2020 the Parliament (Saeima) adopted the amendment to Section 121 of the Criminal Procedure Law which entered into force on 1 January 2021. The amendment added a new Paragraph 5¹ to Section 121:

“(5¹) During the pre-trial proceedings, to request from sworn auditors the information at their disposal regarding the facts, which have become known to them in providing professional services, or to interrogate them, or to perform the inspection or removal of such documents, which are at the disposal of a sworn auditor or a commercial company of sworn auditors, except the information referred to in Paragraph five of this Section, an investigator may with a supervising prosecutor consent or a public prosecutor.”

In regard to the reference made in the new Paragraph to Paragraph five it should be noted that this Paragraph stipulates the procedure for obtaining the banking information:

(5) During the pre-trial proceedings, undisclosed information that is at the disposal of credit institutions or financial institutions or documents that contain such information may be requested therefrom or transactions in the accounts of the customers of credit institutions or financial institutions may be monitored for a definite period of time only by a decision of the person directing the proceedings which has been approved by the investigating judge. Transaction in the account of a client of a credit institution or financial institution may be monitored for a period of time up to three months, but, if necessary, the investigating judge may extend the time period for a period of time up to three months.

[Additional Information]

There were no legislative amendments made to Paragraph 5 of Section 121 of the Criminal Procedure Law since Phase 3 Report (this provision was reflected in Latvia’s Phase 2 Report (para 151 of the Report) and in Phase 3 Report (para 119 of the Report). The amendments were made by adding a new Paragraph 5.¹ which stipulates the rights of investigators and prosecutors to obtain the information from an external auditor during the pre-trial stage. During the pre-trial stage judges are not involved in criminal proceedings except investigative judges which have a special role of the control over the respect for human rights in criminal proceedings (Section 40 of the Criminal Procedure Law).

The rights of judges to request the information from the external auditor are provided in Section 27 of the Law on Audit Services:

- (1) A sworn auditor is prohibited to disclose a commercial secret that he or she has learned while performing professional duties. The information containing a commercial secret may not be used or disclosed by a sworn auditor and a commercial company of sworn auditors without the written authorisation of the client, except for the cases referred to in Paragraph two of this Section, Section 33 of this Law, and the Law on the Prevention of Money Laundering and Terrorism Financing and also the law On Taxes and Duties and Regulation No 537/2014, or in

the cases when the sworn auditor has the right or an obligation to do so in accordance with a court ruling.

The reference to Paragraph 5 in Paragraph 5¹ was made for cases when external auditor is doing the audit in the credit institution and undisclosed information that is at the disposal of credit institutions or financial institutions or documents that contain such information are at the disposal of an external auditor. To request such information the approval by the investigative judge is needed. Therefore, the Parliament made this exception as such information shall be requested by the person leading the proceedings (an investigator or a prosecutor) which has been approved by the investigating judge.

According to Paragraph 5¹ any information may be requested except that containing non-disclosable information (Information regarding a customer and his or her transactions, which the credit institution acquires in providing financial services in accordance with an entered into contract, is non-disclosable information, which does not contain official secrets) which has to be requested from the financial /credit institution by a decision of the person directing the proceedings which has been approved by the investigating judge.

The exception refers to those investigative actions mentioned in the Paragraph 5¹.

Yes, in accordance with Paragraph 5¹ of Section 121 of the Criminal Procedure Law auditors are obliged to provide information or perform activities as requested if the request has been approved by a supervising prosecutor or a prosecutor. Section 9 of the Criminal Procedure Law stipulates that in initiated criminal proceedings, each person has the obligation to fulfil the requirements of an authorised official for conducting the criminal proceedings and to comply with the procedural order specified in the Law.

The rights to an exception from the execution of this duty shall be held only by persons for whom immunity from criminal proceedings has been specified. The Criminal Procedure Law does not stipulate the immunity from criminal proceedings for external auditors.

If no action has been taken to implement recommendation 11 (c), 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 12(a):

12. With respect to tax-related measures, the Working Group recommends that Latvia ensure that the non-tax deductibility of bribe payments is enforced in foreign bribery-related enforcement actions and in particular:

a) Ensure that law enforcement authorities routinely share information with the SRS on foreign bribery investigations as foreseen in the PPO Informative Letter of 1 June 2016; [2009 Recommendation VIII and 2009 Tax Recommendation I(ii)];

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

In order to ensure that KNAB routinely share information with the SRS on foreign bribery investigations as foreseen in the PPO Informative Letter of 1 June 2016 the KNAB issued the Order No.1.20-1/28 on June 16, 2020 obliging investigators to assess in each case the need for an accounts appraisal and/or calculation of taxes by the State Revenue Service, thus determining the amount of losses caused to the budget [taxes (fees) unpaid into the State budget] and payments determined by the State] (*Section 8(11) of the Law On the State Revenue Service*) and to share the information with the SRS for that purpose.

One of the successful example of such cooperation with the State Revenue Service should be mentioned the criminal proceedings in one case, where the supervising prosecutor according to the Prosecution Office informative letter of 1 June 2016 already in the initial phase of the investigation tasked

investigator to get in touch with the State Revenue Service and to clarify whether according to Article 8(2)9 “Expenditure not related to Economic Activity” of the Enterprise Income Tax Law company by making payment to other company, that actually was payment of bribe to Belarussian official, has not attributed those costs to the expenditure related with the economic activity, but in fact were spent for the commission of the criminal offence and given to the public official as a bribe.

Following this instruction the KNAB’s investigator on 25 May 2020 submitted a request to the SRS to perform a tax calculation within the criminal proceedings in which the company has been convicted of a bribe paid to a foreign official in a large amount in order to promote the company's IT products on the world market. In accordance with the received materials of the criminal case, the SRS performed a tax calculation (SRS 08.02.2021, No. VID.4.2 / 17.26.1 / 680 “Action when performing tax calculation at the request of the person conducting the criminal proceedings”) for the period from 2011 till 2016, in which bribe payments were identified. In the tax calculation, the bribe was recognized as a payment not related to the company's business activities and corporate income tax in the amount of EUR 512,741.54 was calculated for the company's spent funds on not related to the business activities. Opinion on tax calculation provided on 01.10.2020. The tax calculation has been performed on the basis of the Law “On Corporate Income Tax” (valid until 31 December 2017):

- Section 5, Paragraph four (in force until March 28, 2013), which stipulates that expenses not related to economic activities also including donations or gifts to other persons, guarantee amounts which the taxpayer as a guarantor must pay in accordance with a guarantee contract, deductions from profit, turnover or other basic amount made by the taxable person on his own initiative, at the order of its owner or in accordance with the law, and such expenses which are not economically related to the taxable person's economic activity.
- Article 5, Paragraph nine (in force as of March 29, 2013), which stipulates that expenses that are not directly related to economic activity shall include material value, property or other benefits used for the commission of a criminal offense, including as a bribe for public official or an employee of a state or local government institution who is not a public official, or the same person authorized by a state institution for the performance of illegal activities, or a private person for the purposes of commercial bribery.

Therefore, the assumption was approved during the tax estimate made by the State Revenue Service and was found that company with the purpose to decrease the company income tax and therefore to gather the financial benefit for the company in profit and loss statements for years 2011, 2012, 2013, 2014, 2015 and 2016, included the expenses in relation with the fictitious transactions with the company incorporated in the United Kingdom of the Great Britain and Northern Ireland other company. On the grounds of such information it was possible to qualify additionally the criminal offence under investigation pursuant to the Section 218(2) “Evasion of Tax Payments and Payments Equivalent Thereto” of the Criminal Law.

The SRS performs tax calculation and provides opinion on the losses caused to the budget in accordance with the methodological instructions “*Action when Performing Tax Calculation at the Request of the Person Conducting Criminal Proceedings*” (updated on 08.02.2021 No. VID.4.2 / 17.26.1 / 680).

If no action has been taken to implement recommendation 12 (a), 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 12(b):

12. With respect to tax-related measures, the Working Group recommends that Latvia ensure that the non-tax deductibility of bribe payments is enforced in foreign bribery-related enforcement actions and in particular:

b) Continue to provide guidance and training on foreign bribery to tax examiners, including on the importance of detecting foreign bribery and the priority that should be given to this offence [2009 Recommendation III(i) and (iii) and VIII and 2009 Tax Recommendation I(ii)];

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

- In order to improve understanding of bribery of foreign officials among tax administration employees, at the end of 2020 the School of Public Administration, at the request of the SRS, to repeat training for SRS employees "Identification of Corrupt Activities in SRS Inspections as a Tool for Reducing the Shadow Economy", with the participation of SRS specialists, started work on the organization of the training "Identification of Funds Used for Bribery in Latvian and International Business Transactions in State Revenue Service Inspections". The training is planned after the conclusion of the procurement contract in the autumn of 2021.
- The program of training measures for SRS employees included topics aimed at raising of the understanding of the indication of foreign (cross-border) bribery and the risk to be assessed when performing information on taxpayers' information, inter alia:
 - OECD Convention against Bribery of Foreign Public Officials in Combating Bribery of Foreign Public Officials in International Business Transactions - Objective, Tasks, Relation to Tax Administration Issues.
 - OECD Briefing and Corruption Identification Handbook for Tax Inspections Key Issues.
 - Assessment and recommendations to Latvia by the OECD Anti-Bribery Working Group, including the identification of corrupt practices during inspections by the tax administration. Experience of other countries to identify taxpayers at risk of bribery of foreign officials for tax control measures.
 - Possibilities of using information technologies in detecting corrupt and fraudulent activities (incl., Foreign experience in this field). Information technology solutions in other countries.
- The School of Public Administration has developed and implements the e-course "Prevention of Corruption" within the framework of the European Social Fund project No. 3.4.2.0/15/I/002 "Professional Development of Public Administration Human Resources in the Field of Prevention of Corruption and Reduction of the Shadow Economy". SRS' experts participated in the development of the training. The training in the mentioned course started in April 2021. At the moment 1 group (10 participants) has completed the course. Currently, another 50 participants are continuing their studies in 3 groups. Grouping continues.
- The SRS internal regulations No. 7 of 11 February 2016 have been updated and replaced with the SRS internal regulations No. 59 of 28 December 2020 "Actions to be Taken by Officials of the State Revenue Service When Identifying Risks of Bribery".

If no action has been taken to implement recommendation 12 (b), 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 12(c):

12. With respect to tax-related measures, the Working Group recommends that Latvia ensure that the non-tax deductibility of bribe payments is enforced in foreign bribery-related enforcement actions and in particular:

c) Strengthen its system of risk-based tax audits to more adequately take into account the risk of foreign bribery when deciding which companies to audit and integrate the indicators detailed in the OECD Bribery Awareness Handbook for Tax Examiners and Tax Auditors into this risk assessment [(2009 Recommendation VIII and 2009 Tax Recommendation I(ii))];

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

In 2020 December in the SRS's computerized taxpayer risk assessment system ESKORT complex knowledge base has established 18 criteria for the risk of foreign officials' bribery, using indicators laid down by the document "OECD Bribery Awareness Handbook for Tax Examiners" updated version "Bribery and Corruption Awareness Handbook for Tax Examiners and Tax Auditors". Indicators laid down by this handbook was used if it was possible to create an automatic solution.

[Additional Information]

In 2021 two taxpayers with the possibility of risk for bribery of foreign officials were included in tax compliance incentive plan (tax control measures plan).

On 1 July 2021 tax compliance incentive activity (tax control measure) was completed for one taxpayer, no cases of bribery of foreign officials have been identified during the inspection.

If no action has been taken to implement recommendation 12 (c), 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 12(d):

12. With respect to tax-related measures, the Working Group recommends that Latvia ensure that the non-tax deductibility of bribe payments is enforced in foreign bribery-related enforcement actions and in particular:

d) Take further steps to assess whether bribes to foreign public officials are effectively detected by tax authorities. [2009 Recommendation VIII and 2009 Tax Recommendation I(ii); Phase 2 recommendation 6(a) (iv)];

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

In 2020, no cases of bribery of foreign officials were detected.

An internal competence centre has been established in the SRS, which is ready to provide initial consultations on corruption issues to SRS officials, incl. in connection with possible bribery of foreign officials.

[Additional Information]

The internal competence centre has started to operate in June 2020 (it was created in June 2020).

If no action has been taken to implement recommendation 12 (d), 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 12(e):

12. With respect to tax-related measures, the Working Group recommends that Latvia ensure that the non-tax deductibility of bribe payments is enforced in foreign bribery-related enforcement actions and in particular:

e) Take steps to ensure that KNAB provides regular feedback on information provided by the SRS on allegations of bribery [2009 Recommendation VIII and 2009 Tax Recommendation I(ii)].

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

In order to ensure the regular feedback on information provided by the SRS on allegations of bribery such requirement is set forth in the KNAB Order No.1.20-1/28 issued on June 16, 2020. In instances where information on alleged bribery of foreign public officials has been received from other institutions, including the SRS, it has to be ensured that the information provider receives a feedback within the scope of the KNAB's competence. Please find additional information provided in the answer 6 (f).

If no action has been taken to implement recommendation 12 (e), 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:

13. Regarding corporate compliance, internal controls and ethics, the Working Group recommends that Latvia continue to encourage companies, including SMEs and SOEs, to adopt effective internal controls, ethics and compliance measures designed to prevent and detect foreign bribery [2009 Recommendation X.C].

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

On regular basis KNAB continues to raise awareness among companies, including SMEs and SOEs to adopt effective internal controls, ethics and compliance measures to prevent and detect bribery, including foreign bribery.

1. On 8 December 2020, the KNAB in cooperation with national counterparts arranged the discussion "4 C (4K) or control (kontrolē), corruption (korupcija), crises (krīze), and competition (konkurss)". More than 700 viewers in Latvia and abroad followed the discussion. The event was launched by the opening remarks of the Prime Minister of Latvia and the Director of KNAB. Following the opening speeches Ms. France Chain, Senior Analyst of the OECD Anti-corruption Division presented the OECD study *Corporate Anti-Corruption Compliance Drivers, Mechanisms, and Ideas for Change*. The presentation was followed by a panel discussion led by Mr. Jānis Brazovskis, a member of the Management Board of Finance Latvia Association. The aim of the discussion was to emphasize the role of internal anti-corruption control in terms of the current Covid-19 crisis and in everyday conditions, when companies participate in state and municipal tenders. Considering that the

Covid-19 crises has affected the economic growth and business environment state and municipal public procurements, which ensure orders, are especially important to the functioning of companies. To ensure that state and municipal budgetary resources are invested in a fair and meaningful way, the circumstances of the current pandemic require responsibility and special precautions from both parties involved, namely, the public and private sector. More on:

https://www.knab.gov.lv/en/knab/news/552472during_the_online_discussion_the_importance_and_need_for_internal_anti-corruption_control_was_highlighted.html

<https://www.delfi.lv/news/versijas/sintija-helviga-eihvalde-cetri-k-jeb-kas-kopigs-kontrolei-korupcijai-krizei-un-konkursiem.d?id=52730169>

2. On 09 April, 2021 a publication *Game Rules Abroad* in on-line media that is focused on entrepreneurs was published raising awareness on risks when planning business activities abroad. More on: <https://ir.lv/2021/04/09/speles-noteikumi-arpus-robezam/>
3. Within the received support for the implementation of the project “Support for the establishment of a whistle-blowing system in Latvia” co-funded by a European Economic Area (EEA) grant in 2021 KNAB plans to organize large-scale social campaigns to promote public awareness of the kinds of corruption and the need to report observed violations with separate focus on entrepreneurs.
4. Regular trainings organised by KNAB and presentations in 2020 and 2021.

2020 (January – December)

Date	Event	Description	Persons
31.01.	Presentation at the annual conference “Procurements”	Corruption risk indicators in public procurement, OECD Anti-bribery Convention Attendance: persons with daily duties related to procurement (public and private sectors)	260
18.02.	Presentation at the seminar of Investment and Development Agency	Seminar was arranged for SMEs planning to expand their business abroad. Corruption prevention issues internationally, OECD Antibribery Convention	32
17.05.	Training to the JSC “Pasažieru vilciens” (public transport service by rail)	Corruption risks and prevention in procurements, corporate liability, OECD Anti-Bribery Convention Attendance: board members and management	18
12.11.	Training to local SOEs in municipalities (Saldus and Brocēni)	Prevention of corruption and conflict-of-interest, corporate liability. Attendance: board members of SOEs (municipal level)	122
05.11. 03.12.	Joint training arranged by KNAB, Procurement Monitoring Bureau and Competition Council	Prevention of corruption, topical issues in public procurements, including corporate liability. Attendance: persons with daily duties related to procurement (public and private sectors)	180

2021 (January – May)			
27.01.	Presentation at the annual conference “Procurements”	Internal anti-corruption control – from minimum to maximum Attendance: persons with daily duties related to procurement (public and private sectors)	330
11.02.	Training to local SOEs in municipalities (Cēsis, Saulkrasti, Jēkabpils, Ādaži, Kandava, Inčukalns, Ikšķile, Lielvārde)	Prevention of corruption and conflict-of-interest, risks in procurements, corporate liability. Attendance: board members of SOEs and members procurement commissions (municipal level)	350
03.03.	Training to members of Latvian Chamber of Commerce and Industry in Liepaja	Development of internal anti-corruption systems in private enterprise	101
18.03.	Training to SOEs (Air Navigation Service, Electronic Communication Office, European Rail Line, Maritime Administration)	Corruption risks in SOEs, including corporate liability, prevention of conflict-of-interests	350
21.04. 22.04.	Training to Rail Baltica	Prevention of corruption and conflict-of-interests, including corruption risks, corporate liability and OECD Anti-bribery Convention Attendance: board members, management and middle management, members of procurement commissions	64
13.05.	Training to the JSC “Pasažieru vilciens” (public transport service by rail)	Prevention of corruption and conflict-of-interests, including corporate liability and OECD Anti-bribery Convention Attendance: Attendance: board members, management and middle management, members of procurement commissions	38
14.05.	Training to the local union of entrepreneurs (Rēzekne)	KNAB functions, reporting of corruption crimes	15

In addition to the abovementioned it should be noted that every year the Cross-Sectoral Coordination Centre (CSCC) sends state-owned enterprise shareholders a reminder that the companies must comply with the Regulation of the Cabinet of Ministers No. 630 “Regulations Regarding the Basic Requirements for an Internal Control System for the Prevention of Corruption and Conflict of Interest in an Institution of a Public Person” of 27 October 2017 by annually, and no later than three months after approval of their annual statement, publish information on corruption measures taken in the previous year on their website.

In accordance with the amendments to the Law on Governance of Capital Shares of a Public Person and Capital Companies which entered into force on 1 January 2020, 2020 was the first year when the CSCC checked whether state-owned enterprise shareholders, state-owned enterprises, local governments and municipalities-owned enterprises with a net turnover of more than EUR 21 million and a balance sheet total of more than EUR 4 million published the information specified in the regulatory enactment and checked whether the capital companies published information on the internal control system established in the capital company, a requirement set in the Regulation of the Cabinet of Ministers No. 630. The 2020 Public Report on the State-Owned and Municipalities-Owned Enterprises and Shares by the CSCC is available: http://www.valstskapitals.gov.lv/images/userfiles/GP2019_Latvia_Report-on-State%26Municipalities-Owned-Enterprises-and-Shares-in-2019_ENG%282%29.pdf.

In 2021, the CSCC also plans to check whether information on the measures taken by capital company in the previous year to prevent the risk of corruption has been published on their websites. This task will be performed from 28 June till 15 September, 2021.

If no action has been taken to implement recommendation 13, 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 14(a):

14. Regarding awareness-raising and the reporting of foreign bribery, the Working Group recommends that Latvia:

a) Continue its efforts to raise awareness of the foreign bribery offence and risks among Latvian officials likely to detect and report foreign bribery, including officials based in foreign embassies, and officials in contact with Latvian businesses operating abroad [2009 Recommendation III.i and IX.ii];

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

On 25 March 2021 KNAB sent an official letter to the Ministry of Foreign Affairs in order to raise awareness of the foreign bribery offence and risks among Latvian diplomats likely to detect and report foreign bribery in contact with Latvian businesses operating abroad. It was also noted that KNAB considers important to continue to include the topic of the foreign officials’ bribery in the annual training of Latvian diplomats based in embassies.

On 16 June 2020 KNAB provided training for diplomats before departure to embassies abroad regarding conflict-of-interest issues and OECD Anti-Bribery Convention (in total 47 persons).

On 15 April 2021 KNAB provided training to consular officials as well as diplomats before departure to embassies abroad regarding conflict-of-interest issues and OECD Anti-Bribery Convention (In total 143 persons).

On 16 April 2021, a letter, signed by the State Secretary of the Ministry of Foreign Affairs, was circulated to the Latvian representations abroad reminding of and clarifying the Ministry’s responsibility

and tasks in the effective implementation of the OECD Anti-Bribery Convention. The letter *inter alia* instructs the diplomatic officers to alert the KNAB when they come across information in the residence country's media regarding suspicious business transactions conducted by Latvian companies.

If no action has been taken to implement recommendation 14 (a), 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 14(b):

14. Regarding awareness-raising and the reporting of foreign bribery, the Working Group recommends that Latvia:

b) Require public officials to report, directly or indirectly through an internal mechanism, to law enforcement authorities, suspected acts of bribery of foreign public officials in international business transactions detected in the course of their work. [2009 Recommendation III.iv; Phase 2 recommendation 2(b)].

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

In order to implement the recommendation, the amendments to the Law on Prevention of Conflict of Interest in Activities of Public Officials were made which entered into force on 3rd February, 2021. Section 21 *Obligations of Public Officials*, Para 5 of the said Law requires a public official to report suspected acts of corruption (which includes foreign bribery), as well as situations of conflict of interest:

“(5) If a public official, upon performance of the duties of office, becomes aware of information regarding situations of a conflict of interest or possible cases of corruption, he or she shall inform the head of the authority of a public person, the Corruption Prevention and Combating Bureau, or the Prosecutor General. If a public official working in a State security authority, upon performance of the duties of office, becomes aware of information regarding situations of a conflict of interest, he or she shall inform the Director of the Constitution Protection Bureau, but of potential cases of corruption – the head of the authority, the Corruption Prevention and Combating Bureau, or the Prosecutor General.”

If no action has been taken to implement recommendation 14 (b), 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 15(a):

15. Regarding public advantages, the Working Group recommends that Latvia:

a) Ensure that procuring authorities routinely check debarment lists of multilateral development banks and conducting comprehensive due diligence before granting a procurement contract [Convention Article 3(4); 2009 Recommendation XI.i];

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

To give contracting authority more scope to exclude dishonest economic operators from participation in a procurement procedure, amendments to the Law on Public Procurement have been proposed. The draft law "Amendments to the Law on Public Procurement" (No.851/Lp13) currently is being discussed by

the responsible Committee of the Parliament. The first reading of the draft law in Parliament was on the 11 February 2021.

The proposed amendments are intended to enable contracting authorities to make much greater use of the possibilities provided by the Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC and to exclude from participating in the public procurement procedure economic operators who can be shown to be dishonest and unreliable, that is to say, whose reputation is reasonably doubtful. Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC is transposed in Latvia by the Public Procurement Act.

With the amendments it is planned to apply some of the exclusion grounds (conviction by final judgment, breach of its obligations relating to the payment of taxes or social security contributions, conflict of interest) to economic operators' beneficial owners and to persons which have a decisive influence in this economic operator.

Also, it is planned to widen the possibility for the contracting authority to exclude economic operator from participating in the public procurement procedure if contracting authority can demonstrate by appropriate means that the economic operator is guilty of grave professional misconduct, which renders its integrity questionable and which the contracting authority can demonstrate with the information at its disposal.

[Additional Information]

For the draft law to be adopted, it must be considered in three readings by the Parliament. The first reading of the draft law in Parliament was on February 11, 2021 and the adoption of draft law will be continued during autumn session of the Parliament according to the agenda of the responsible committee of Parliament.

If no action has been taken to implement recommendation 15 (a), 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 15(b):

15. Regarding public advantages, the Working Group recommends that Latvia:

b) Ensure that authorities in charge of disbursing ODA (i) strengthen their mechanisms to verify the accuracy of information provided by applicants to ODA-funded projects, including by routinely checking debarment lists of multilateral development banks and the Register of Punishment; and (ii) ensure that appropriate due diligence is carried out prior to the granting of ODA-funded projects [2016 Recommendation 6; Phase 2 Recommendation 5];

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

Since 2020 the MFA has introduced screening of ODA project applicants and their partners in the debarment lists (of the World Bank and the ERDB) and the national and international sanctions lists to ensure eligibility of the applicants to participate in the call for project proposals.

Draft amendments to the Law on International Assistance have been announced in the State Secretary meeting on 11.02.2021. Draft amendments will provide access for the MFA to screen the project applicants and their partners in the Register of Punishment.

Since 2021 the MFA has elaborated applicant's corruption risk assessment procedure. Project applicants have to provide information on internal control system and/or anti-corruption plan. The MFA will assess

the applicant's corruption risk management activities prior to the granting funds (this will affect the total score that the project applicant receives).

Further improvements to the management and due diligence of the ODA-funded projects are seen in the framework of establishing new institutional architecture for Latvia's development co-operation. Please, consult the seminar report on this prepared by the OECD Unit on Foresight, Outreach and Policy Reform of the Development Cooperation Directorate (DCD/FOR).

[Additional Information]

The Ministry of Foreign Affairs has concluded the internal audit of execution and supervision of ODA programme in 2020. Please see the attached summary of the audit.

[Document provided by Latvia with the summary of the internal audit]

If no action has been taken to implement recommendation 15 (b), 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 15(c):

15. Regarding public advantages, the Working Group recommends that Latvia:

c) Ensure that Altum (i) continue to strengthen its mechanisms to verify the accuracy of information provided by applicants to officially supported export credits, including by routinely checking the Register of Punishment; (ii) ensure that appropriate due diligence is carried out before granting supports; and (iii) provide training to its staff on preventing detecting and reporting foreign bribery [2009 Recommendation IX(i), X.C, and XII; 2006 Recommendation on Bribery and Officially Supported Export Credits].

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

- (i) By 30 July 2021, internal regulatory documents will be amended to stipulate that those exporters, their officials, owners and beneficial owners (customer profile) about which Altum has received information that they have been involved in criminal proceedings or convicted of economic crimes, including criminal offenses related to bribery of foreign persons, will be required to present a statement from the Punishment Register. If no statement is submitted, the transaction will not be examined. In addition, Altum has initiated at the ministerial level an amendment to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, providing that Altum will have free access to the Punishment Register.
- (ii) Customer and transaction assessment (CDD, EDD) is carried out in accordance with internal and external regulatory documents.
- (iii) In order to enhance general understanding of the basic nature of corruption, including foreign bribery, at the end of 2020 Altum organized an e-training for all employees, "Basic Issues in the Prevention of Corruption", after which all those who attended the training had to take a test. In general, all Altum employees participated in the e-training on corruption prevention and passed the test. In order to carry out appropriate customer assessment, including by identifying potential cases of bribery of foreign public officials, employees responsible for customer assessment raise their professional qualifications in the field of the prevention of money laundering and terrorism and proliferation financing

and sanctions risk management at least once a year by participating in courses/seminars for raising qualifications.

If no action has been taken to implement recommendation 15 (c), 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:

PART II: ISSUES FOR FOLLOW-UP BY THE WORKING GROUP

Regarding Part II, countries are invited to provide information with regard to any follow-up issue identified below where there have been relevant developments since Phase 3. Please describe/include any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate.

16. The Working Group will follow up on the issues below as case-law, practice and legislation develop:

Text of issue for follow-up 16(a):

a) The autonomous application of the definition of foreign public official [Convention Article 1];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

As an example of autonomous application of the definition of foreign public official one criminal case has to be mentioned, where, according to what has been established during the investigation, the Latvian company gave a bribe to a foreign public official (from Belarus). In the case the fact whether the person, whom the bribe was given in Belarus, is the public official, was established, referring to the definition of the autonomous foreign official provided for by the Section 316, Para 3 of the Criminal Law.

The same concerns the case of *company*, where Chairman of the Board of company, while being in Lithuania, gave the bribe to Acting Infrastructure Director of the state company so that he, abusing his official authority, would take the decisions on construction works in favour of company and in the interests of the given company. As within the frameworks of the given criminal procedure had to be decided the issue on applying the coercive measure to a legal person for foreign bribery, the definition of the autonomous foreign official provided for by the Section 316(3) of the Criminal Law of Latvia was applied.

Text of issue for follow-up 16(b):

b) The impact of the 2017 amendment of AMLTFL Section 5 on Latvia's ability to secure money laundering convictions [Convention Article 7];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

The impact of the 2017 amendment of AMLTFL Section 5 on Latvia's ability to secure money laundering convictions is reflected in the growing number of convictions for stand alone money laundering: if during 2013 - 2017 there was only one person convicted for **standalone** ML, in 2020 alone there were 23 persons convicted for stand alone money laundering.

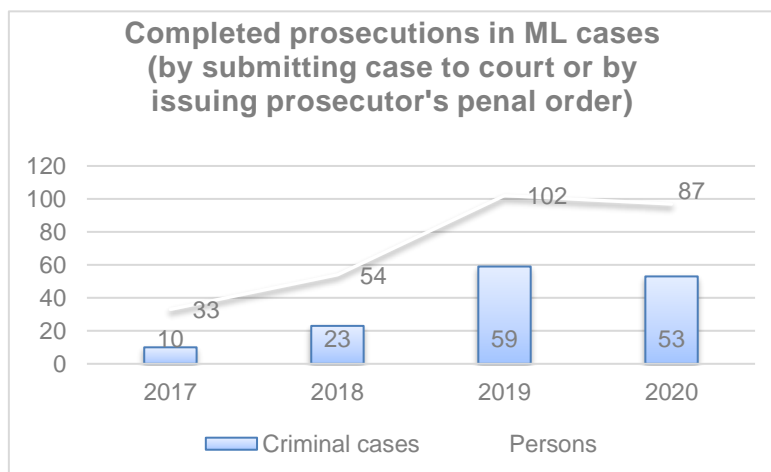
Since Phase 3 up to 25 May 2021 there have been 88 persons convicted for money laundering offence. From October to December 2019 there were 7 persons convicted for money laundering offence; in 2020 there were 59 persons convicted and from January to 25 May 2021 – 22 persons:



In 2020 the Prosecutor's Office submitted to court 47 criminal cases with charges of money laundering against 81 persons:

- 1) 42 persons have been charged with self-laundering charges;
- 2) 3 persons have been charged with third party laundering charges; and
- 3) 36 persons have been charged with stand alone laundering charges (16 persons have been charged with stand alone money laundering with foreign predicate offence and 20 persons with stand alone money laundering without predicate offence).

It should be noted that in addition to the cases submitted to court for adjudication the Prosecutor's Office has concluded 6 cases of money laundering with prosecutor's penal order (out of court resolution) issued against 6 persons for stand alone money laundering.



Text of issue for follow-up 16(c):

c) The application of the corporate liability provisions in CL Section 701, including in cases of failure to exercise supervision or control, especially whether the burden on the prosecution to prove the “failure to exercise supervision or control” presents challenges in practice [Convention Article 2, Phase 2 Follow-up issues 16(g)];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

In regard to this follow up issue the Prosecutor’s General Office would like to present as an example the foreign bribery case. In the given case two provisions provided for by the Section 70¹ of the Criminal Law served as grounds for the application of the procedural coercive measure to the legal person, namely, a natural person has committed the offence in the interests of the company and as a result of insufficient supervision of the legal person. It was not difficult to prove the “insufficient supervision” in the given case, it was proven both by the testimonies and also by the non-existence of the control and oversight documents in the company. This criminal procedure was lodged with the Court on 10 December 2020.

The Prosecutor’s General Office also would like to refer to examples from other national cases, for example, the criminal case, within which the proceedings against a legal person company were initiated for the application of the coercive measure for the criminal offence provided for by the Section 146(2) of the Criminal Law, namely, due to insufficient supervision and control by the company the person died in the construction pit located in company construction site. The criminal procedure was completed by applying Prosecutor’s penal order.

Moreover the insufficient supervision and control as the grounds for the procedure against a legal person was applied in the criminal case, where due to lack of supervision and control the safe working environment was not ensured and a person suffered the injuries dangerous to life and died.

Text of issue for follow-up 16(d):

d) Whether successor liability can be applied before the legal predecessor has been finally convicted of foreign bribery or in the absence of existing proceedings at the time of corporate restructuring [Convention Article 2];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

There is no case law yet in regard to successor’s liability. Since Phase 3 none of legal persons’ against which the proceedings have been initiated have been subjected to the corporate restructuring process.

Text of issue for follow-up 16(e):

e) The determination of aggravated and further aggravated foreign bribery and the application of corresponding level of sentence [Convention Articles 1 and 3];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

In the case the Court judgment has entered into legal force on application of coercive measure to a legal person for aggravated bribery of a foreign public official. The Court applied to the legal person a monetary fine in amount of 180 minimal monthly wages in Latvia, namely, 77 400 EUR for the bribe given in its interests of the legal person in amount not exceeding 11 000 EUR.

The criminal offence which the natural person committed in the interests of the legal person was giving of bribes stipulated in Section 323, Para 2 of the Criminal Law (giving of bribes on a large scale as in accordance with Section 20 of the Law On the Procedures for the Coming into Force and Application of the Criminal Law liability for an offence, provided for in the Criminal Law, which has been committed on a large scale, shall apply if the total value of the property which was the object of the offence was not less than the total of fifty minimum monthly salaries specified in the Republic of Latvia at that time). As Section 323, Para 2 of the Criminal Law stipulates the applicable deprivation of liberty for a period up to eight years therefore, in accordance with Section 7, Para 4 this criminal offence is considered as a serious crime (an intentional offence for which the deprivation of liberty for a period exceeding three years but not exceeding eight years is provided for in the Criminal Law). According to Section 70.⁶Para 1.¹ (3) a monetary fine proportionate to the harmfulness of the criminal offence and the financial status of the legal person shall be determined for a serious crime - in the amount of twenty and up to seventy five thousand minimum monthly wages in Latvia.

Please see the translation of the said decision attached in Annex, *file: foreign bribery_ENG*.

Text of issue for follow-up 16(f):

f) Whether the sanctions imposed in practice for foreign bribery and money laundering predicated on foreign bribery against natural and legal persons are effective, proportionate and dissuasive [Convention Articles 3 and 7];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

In the case the Court judgment has entered into legal force on application of coercive measure to a legal person for the bribery of a foreign public official. The Court applied to the legal person a monetary fine in amount of 180 minimal monthly wages in Latvia, namely, 77 400 EUR for the bribe given in its interests of the legal person in amount not exceeding 11 000 EUR.

Text of issue for follow-up 16(g):

g) The impact of the recent reform of the court organisation in Latvia on the adjudication of foreign bribery and related money laundering cases [Convention Article 5];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

On 31 March 2021 the new specialised court for economic and financial matters (both civil and criminal) (the first instance court) started its work – the Economic Affairs Court. Within the competence of the Economic Affairs Court are also corruption related cases, as well as money laundering cases. Since 31 March 2021 and until 7 June 2021, 18 criminal cases (7 of them are agreements between a prosecutor and an accused) and 58 proceedings regarding criminally acquired property (non-conviction based confiscation) have been submitted to the Economic Affairs Court. Of these 76 cases the Court has adjudicated 14 cases: 11 proceedings regarding criminally acquired property and 3 criminal cases where an agreement between a prosecutor and an accused has been concluded. From 11 proceedings regarding criminally acquired property (non-conviction based confiscation) in 8 cases the court decided that the property has been criminally acquired and confiscated in total 2 846 806,57 EUR; 60 889,27 GBP and 4056 RUB, as well as real estate and printers. In one case the court took a decision to terminate proceedings as it was not proved that the property is criminally acquired. In 2 cases the court decided to transfer the case to another court according to jurisdiction.

In regard to criminal cases the court has convicted:

- 1) a person for committing crimes stipulated in Section 180, Para 1 (Theft, Fraud, Misappropriation on a Small Scale), Section 193, Para 2 (Illegal Activities with Financial Instruments and Means of Payment) and Section 195, Para 1 (Money Laundering).
- 2) A person for committing a crime stipulated in Section 195, Para 2 (Money Laundering).
- 3) In one case a decision was taken to send back the case to a prosecutor for elimination of the deficiencies.

In regard to the training of judges of the Economic Affairs Court it should be noted that since March 2021, when the Court started to work, the Latvian Judicial Training Centre is providing a comprehensive training programme specifically elaborated for judges of the Economic Affairs Court which includes also specific training related to improving the adjudication of financial and economic cases. Various training sessions have been conducted also in cooperation with the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance, and Training (OPDAT) and the European Rights Academy (ERA) and this cooperation will continue after June 2021 (for example, in July it is planned to have a training session on using circumstantial evidences in proving the case in cooperation with OPLAT and in August in cooperation with ERA on financial crimes).

Text of issue for follow-up 16(h):

h) The coordination role played by the FIU and its effectiveness [Convention Article 5; 2009 Recommendation III.ii and V];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

The harmonisation of efforts, coordination and cooperation between the FIU and LEAs on policy-making and operational level is significantly enhanced and continues to improve, executing various actions described below.

Guidelines

In 2020, set of guidelines was approved to further improve interinstitutional cooperation:

- Guidelines for the FIU cooperation with the bodies performing operational activities, investigating institutions and the Office of the Prosecutor were developed and are in force starting with 17 September 2020, upon approval by the Prosecutor General, providing set of requirements to the requests of the information. Guidelines, inter alia, ensure better cooperation and allows the FIU Latvia to incorporate feedback from LEAs into its work (please see the translation of the document in Annex, *file: FIU_PGO_guidelines*).
- In order to ensure a common understanding of investigation and prosecution of ML offences and prioritise ML cases that mostly correspond to Latvia's risk profile, guidelines "The Priorities of Investigation of Criminal Offences in ML Cases" were developed and approved on 17 September 2020 (please see the translation of the document in Annex, *file: ML priorities guidelines*).

Cooperation Coordination Group (CCG)

According to Article 55 of the AML/CFT/CFP Law:

- The FIU coordinates the cooperation between the bodies performing operational activities, investigating institutions, the Office of the Prosecutor, the State Revenue Service (hereinafter - the involved institutions), as well as obliged entities. Cooperation is coordinated by convening a CCG. The CCG is convened by the FIU upon its own initiative or if it is suggested by at least one of the involved institutions. If necessary, a representative from the supervisory and control authority of the obliged entities may be invited to the CCG.
- The purpose of cooperation is to promote efficient execution of the tasks specified in the laws and regulations for the involved institutions, obliged entities, and the supervisory and control authorities in order to terminate the business relationship with the customer, provide a report on a suspicious transaction, to request information in accordance with the laws and regulations, or to prepare for the execution of other tasks specified in laws and regulations.
- The involved institutions, obliged entities, and the supervisory and control authorities, upon their initiative, are entitled, within the scope of the CCG, to exchange information which is related to ML/TF/PF, or an attempt to carry out such actions, or another associated criminal offence, or suspicious transaction. The information provided by the obliged entities within the scope of cooperation shall be deemed as information provided to the FIU for the achievement of the purposes of the AML/CFT/CFP Law.
- Within the scope of the CCG the involved institutions, obliged entities, and supervisory and control authorities are entitled also to examine specific situations in which inspections or investigations are taking place, and to exchange information in accordance with the laws and regulations determining conducting of the relevant inspection or investigation.

The CCG is recognised as effective, flexible and fast tool to enhance FIUs cooperation with LEAs, Prosecutors Office and obliged entities. It should also be emphasized that the CCG has successfully continued its operation also throughout 2020 and 2021 despite COVID-19 restrictions. The grand total of CCG meetings in 2020 was 170, including meetings upon the FIU initiative.

CCG meeting by request from (2019 – 2021*)	2019	2020	2021*
FIU	64	98	69
LEA or prosecutor office	25	30	10
Reporting entity/bank	15/13	33/8	12/8
Supervisory and control institution	4	9	5
Total meeting by request	44	72	27
Grand total	108	170	96

*5 months

Reason of CCG meeting	2019	2020	2021*
Operational questions/ FIU operational case	65/58	73/39	66
Feedback	17	15	8
General issues of cooperation	24	79	17
Special group	2	3	5
Grand total	108	170	96

*5 months

Within the framework of the CCG, Working Group on Preventing and Combating Corruption was established in 2021. The main objective of the relevant working group is to develop methodological material with typologies / scenarios that would primarily be used by banks, but also by the FIU and LEAs, to help identify patterns that indicate possible corruption-related crime. For detailed explanation please refer to description provided under recommendation 4(b).

Training and seminars

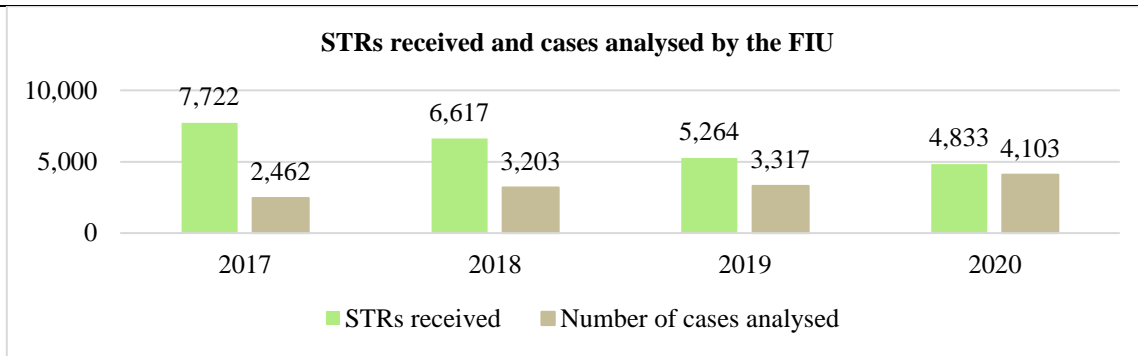
The quality of cooperation has also been improved through training. On 29 and 30 October 2020 FIU Latvia organized online training for law enforcement officials, prosecutors and judges regarding matters relating to investigations and trials of ML cases. In total, more than 330 participants attended the training, incl. representatives from the State Police, KNAB, prosecutors and judges.

Other coordination arrangements

- The Advisory Board of the FIU continued its work to facilitate the efforts of the FIU and to coordinate its cooperation with LEAs, the Prosecutors Office, courts, and the obliged entities.
- In 2020, 10 meetings of Coordination Platform for Supervisory and Control Authorities were convened with all supervisory and control authorities participating, discussing multiple topics and issues.

1. Increase in quality of STRs

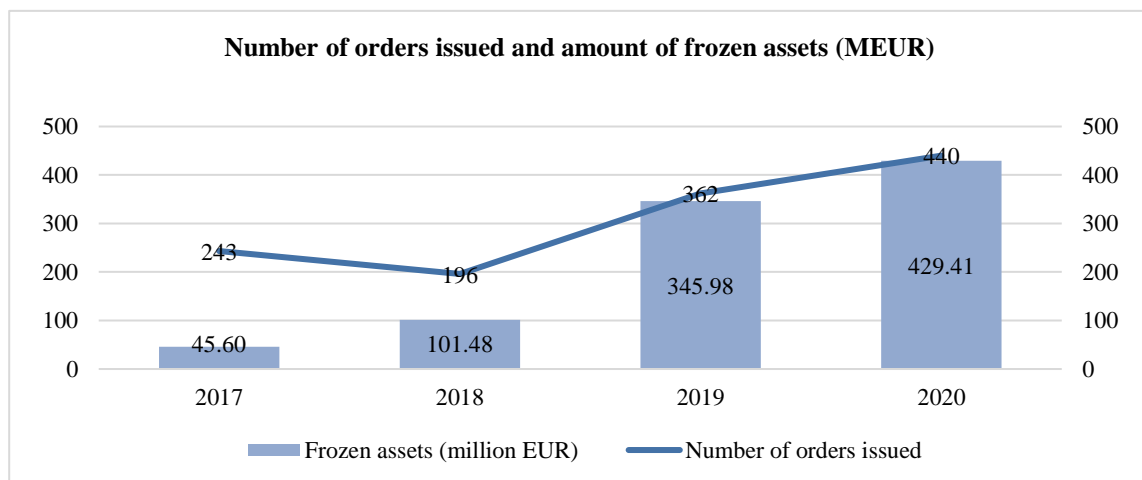
In 2020, the FIU Latvia received 4833 STRs, and further financial analysis was performed in 4103 (84.9%) cases, demonstrating 21.9% increase of cases analysed in 2020 in comparison with 2019 despite the fact that the number of STRs received has significantly decreased.



2. Increase in the amount of funds frozen

The total amount of funds frozen by the FIU Latvia in 2020 was 429,412 MEUR, exceeding the results of 2019. It should be noted that 349.10 MEUR are frozen in credit institutions undergoing liquidation process, with whom close cooperation is established to ensure that submitted STRs are of a high quality. Results of freezing of funds in credit institutions undergoing liquidation process indicate Latvia's efforts to tackle risks corresponding to 1st risk profile, i.e., risks inherent to regional financial centres that mainly concerns predicate offence, incl. foreign bribery, committed abroad with funds predominantly transiting Latvian financial system.

Nevertheless, in more instances obliged entities have submitted STRs to the FIU Latvia before funds are transferred (STR on refraining from executing a transaction)¹² from the accounts demonstrating their enhanced comprehension of the adverse effect of delayed/defensive reporting.



3. Cases disseminated to LEAs

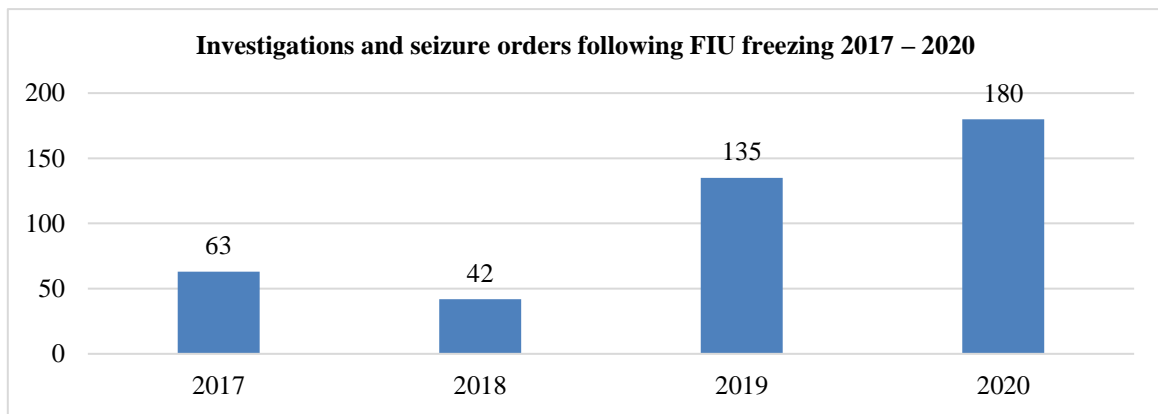
The amount of cases disseminated by the FIU Latvia to the LEAs has gradually increased - in 2020 the FIU Latvia disseminated 235 cases.

¹² Section 32 of the AML/CFT/CFP Law.

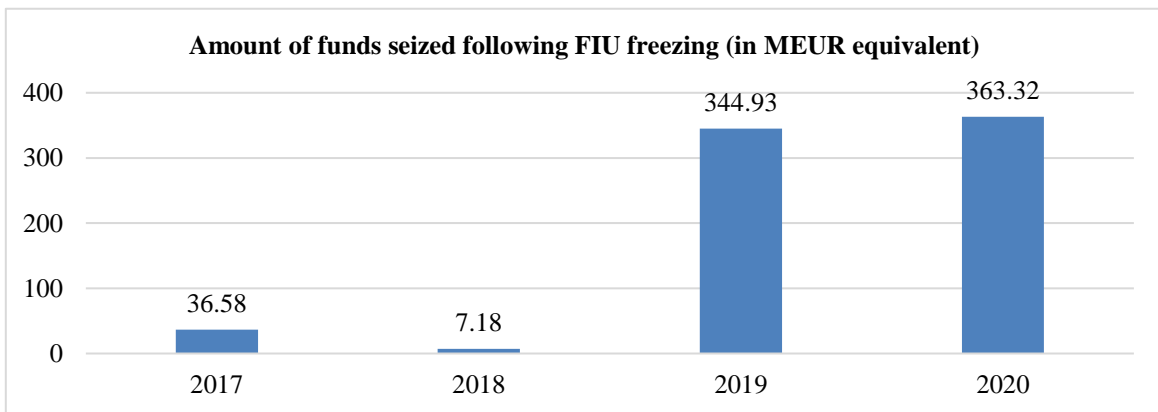
Year	Number of disseminations / conclusions of the competent authority ¹³	Risk information reports ¹⁴	Additional information reports ¹⁵
2019	199	202	96
2020	235	234	153

4. Investigations following FIU freezing

The high volume of criminal proceedings involving seizure orders following FIU freezing continued in 2020 and even increased by 33% compared to 2019, demonstrating increased efficiency of FIU reports that are disseminated to LEAs as well as increased quality of STRs reported to the FIU.



Along with the increase in number of cases, the amount of funds seized grew accordingly, increasing ten times in 2019 compared to 2017 and continued to increase in 2020.



The efficiency of FIU disseminations is also demonstrated by increased use of risk information reports. Such reports are sent in cases where the information available to FIU is insufficient to raise reasonable suspicions that the relevant person has committed a criminal offence, however the information might be used by relevant LEA in context with other information available to it.

In 12 cases in 2019 and 12 cases in 2020 risk information reports were added to existing criminal proceedings or used to initiate new criminal proceedings. 35.33 MEUR equivalent were seized in 2019

¹³ Section 55(1) of the AML/CFT/CFP Law.

¹⁴ Section 55(1¹) of the AML/CFT/CFP Law.

¹⁵ Additional information is information that the FIU Latvia has received, compiled and, as a result of the analysis, has determined that it should be sent to the LEA for attachment to one of the previously sent conclusions of the competent authority or to criminal proceedings initiated by the LEA.

and 24.48 MEUR equivalent were seized in 2020 in criminal proceedings where risk information reports were added or used to initiate the criminal proceedings. In first 5 months of 2021 4 risk information reports were added to existing criminal proceedings or used to imitate new criminal proceedings.

[Additional Information]

As per information at the disposal of the FIU, number of generated investigations are shown in Table 4.

In regard to follow up issue 16(h) the FIU points out that during the period from 1 January 2019 to 1 July 2021, 21 Cooperation Coordination Group meetings with the participation of KNAB were held (2019 – 4; 2020 – 9; 2021 – 8). KNAB confirms that the meetings of the Cooperation Coordination Group have served discussions on the foreign bribery investigations (Case study 1, 2 and 3).

Text of issue for follow-up 16(i):

i) The practical application of non-trial resolutions in foreign bribery cases, in order to ensure the predictable and transparent nature of the procedure and that the sanctions imposed in such resolutions are effective, proportionate and dissuasive [Convention, Articles 3 and 5];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

In the criminal procedure in the case during its judicial review stage Prosecutor entered into agreement with the legal person on applying the coercive measure to company, and the Court approved it. The Court judgment has entered into legal force. According to that agreement approved by the Court to the legal person for the bribe given in its interests, amount of which did not exceed 11 000 EUR, is imposed the monetary collection in amount of 180 minimal monthly wages, namely, 77 400 EUR.

Text of issue for follow-up 16(j):

j) The application of the obligation of external auditors to report suspicions of foreign bribery to the competent authorities under Section 33(32) LSA [2009 Recommendation III.iv, IX.i and X.B.v)];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

During the reporting period external auditors have reported suspicions of bribery to the KNAB on three occasions in accordance with Section 33, Para 3.² of the Law on Audit Services.

Text of issue for follow-up 16(k):

k) Latvia's ability to provide a broad range of MLA including (i) tracing, seizure, and confiscation of proceeds of crime, (ii) bank information, (iii) information when requested in foreign bribery-related civil or administrative proceedings against a legal person by a foreign state whose legal system does not allow criminal corporate liability and (iv) the use of CPL Section 850 to decline MLA and extradition requests [Convention Article 9; 2009 Recommendation XIII.iii, v];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

During the reporting period the Prosecutor General's Office received 15 legal assistance requests on providing the bank information, all requests are fulfilled.

As regards the practical example: in August 2020 the Prosecution Office of the Republic of Latvia entered into agreement with the Czech Republic on setting up the joint investigation team *Jahtar*, it is planned that the investigation team will be operational until 31 August 2022.

The Ministry of Justice has received and executed 10 MLA requests in regard to seizure and confiscation of proceeds of crime – two from the UK, 7 from Lithuania and 1 from Germany.

Text of issue for follow-up 16(I):

1) Whether the SRS is routinely informed of bribery convictions [2009 Tax Recommendation I(ii)];

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

During the reporting period the SRS was informed on two occasions related to bribery convictions :

1. In 2020 KNAB submitted a request to the SRS to perform a tax calculation within the criminal proceedings in which a person has been convicted for giving a bribe paid to a foreign official in a large amount in order to promote the company's IT products on the world market. In accordance with the received materials of the criminal case, the SRS performed a tax calculation (SRS 08.02.2021, No. VID.4.2 / 17.26.1 / 680 “Action when performing tax calculation at the request of the person conducting the criminal proceedings”) for the period from 2011 till 2016, in which bribe payments were identified. In the tax calculation, the bribe was recognized as a payment not related to the company's business activities and corporate income tax in the amount of EUR 512,741.54 was calculated for the company's spent funds on not related to the business activities. Opinion on tax calculation provided on 01.10.2020. The tax calculation has been performed on the basis of the Law “On Corporate Income Tax” (valid until 31 December 2017):

- Section 5, Paragraph four (in force until March 28, 2013), which stipulates that expenses not related to economic activities also including donations or gifts to other persons, guarantee amounts which the taxpayer as a guarantor must pay in accordance with a guarantee contract, deductions from profit, turnover or other basic amount made by the taxable person on his own initiative, at the order of its owner or in accordance with the law, and such expenses which are not economically related to the taxable person's economic activity.
- Article 5, Paragraph nine (in force as of March 29, 2013), which stipulates that expenses that are not directly related to economic activity shall include material value, property or other benefits used for the commission of a criminal offense, including as a bribe for public official or an employee of a state or local government institution who is not a public official, or the same person authorized by a state institution for the performance of illegal activities, or a private person for the purposes of commercial bribery.

2. In 2021 the Ministry of Justice informed the SRS and transferred the decision of the Court on application of coercive measure to a legal person for foreign bribery in the case against company.

Text of issue for follow-up 16(m):

m) Whether members of Latvia's diplomatic missions report foreign bribery allegations [2009 Recommendation III.iv, IX.i, ii]; and

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

During the reporting period members of Latvia's diplomatic missions have not reported foreign bribery allegations.

Text of issue for follow-up 16(n):

n) The implementation of the whistleblower legislation and whether adequate steps are taken to raise awareness of the protections available and whether easily accessible reporting channels are available to whistleblowers both in the public and private sectors [2009 Recommendation IX.iii].

With regard to the issue identified above, describe any new case law, legislative, administrative, doctrinal or other relevant developments since the adoption of the report. Please provide relevant statistics as appropriate:

Since adoption of the WGB report on 10 October 2019, following relevant developments took place in the area of Whistleblowing legislation.

The Whistleblowing Law was amended to include administrative penalties. Amendments entered into force on 1 July 2020 together with the new Law on Administrative Liability. Two types of administrative violations were included for reprisal against the whistleblower and his relatives, as well as for providing false information in:

Section 17. Administrative Liability for Causing Adverse Effects

For causing adverse effects to a whistleblower or his or her relative, a fine from six to one hundred and forty units of fine shall be imposed on a natural person, a fine from eight to one hundred and forty units of fine shall be imposed on an official, and a fine from fourteen to two thousand and eight hundred units of fine shall be imposed on a legal person.

Section 18. Administrative Liability for Providing False Information

For knowingly providing false information by using whistleblowing mechanisms or by providing information publicly, a fine from six to one hundred and forty units of fine shall be imposed.

Section 19. Competence within the Administrative Offence Proceedings

(1) Administrative offence proceedings for the offences referred to in Section 17 of this Law shall be conducted by the State Labour Inspectorate (for offences in the field of employment relationship and State civil service).

(2) Administrative offence proceedings for the offences referred to in Section 18 of this Law shall be conducted by the State Police.

<https://likumi.lv/ta/en/en/id/302465-whistleblowing-law>

The Contact Point of whistleblowers (the State Chancellery) has prepared two annual reports on whistleblowing and whistleblowers protection. In 2019 (1May-31 December), 435 submission were received and there were all together 119 whistleblower's reports (submissions corresponding to criteria set out in the law). In 2020 (12 months), 517 submissions were received and there were all together 127

submissions recognised as whistleblower's reports. In 2019 reports were received by 54, but in 2019 by 49 public institutions. Corruption is not the only one area of Whistleblowing Law. However, it is one of the key areas. The three most popular institutions approached by whistleblowers both years were the State Revenues Service, the Corruption Prevention and Combating Bureau, Prosecutor General Office, State Police and inspections in areas such as labour, language, environment. The central authority - The Contact Point of whistleblowers (the State Chancellery) – is also an important reporting channel (70 reports in 2019, 62 – in 2020).

In terms of whistleblowers protection, in 2020, consultations on protection were provided 4 times by the Contact Point of whistleblowers (the State Chancellery), 7 times by the State Labour Inspectorate. In 2020, 4 times state legal aid was provided to whistleblowers. On 25 March 2021, amendments to Civil Procedure Law entered into force strengthening provisional protection for whistleblowers.

Regarding court practice, in 2020, 10 court decision were taken, 7 of them in civil cases, but 3 - in administrative cases. There were 3 cases about whistleblowers in private sector and 3 – in public sector.

Annual reports and statistics: <https://www.trauksmescelejs.lv/>

Regarding awareness-raising, second campaign was conducted by the State Chancellery in the beginning of 2021 called “Employee is not nothing”. It involved radio, TV, written materials and was aimed at promoting internal reporting mechanisms and reaching out to broader public informing about importance to report wrongdoing at the workplace.

In 2021 and 2022 KNAB is implementing the project “Support for the establishment of a whistleblowing system in Latvia” co-funded by the European Economic Area (EEA) grant. The overall goal of the project is to promote public involvement in reporting corruption and other latent crimes, while simultaneously providing the public with a safe and convenient reporting channel, as well as improving the KNAB competence in detecting and investigating corruptive criminal offences.

According to the current project implementation schedule, the online reporting platform is planned to be made available to the public by the end of 2021. The main difference from existing reporting platforms is that the information provider will be able to follow the progress of their report, including in cases where the information will have been provided anonymously.

More info at: https://www.knab.gov.lv/en/knab/news/551798-knab_shall_improve_anti-corruption_mechanisms.html.

The amendments to the Whistleblowing Law were developed following entering into force of the EU Directive 2019/1937 on the protection of persons who report breaches of Union law. The amendments were announced at the State Secretaries Meeting on 6 August 2020. Since then the work on the amendments continues. It is envisaged to submit the amendments to the Cabinet in coming months. The amendments introduce a new sanction for hindering reporting, more elaborated list of possible forms of retaliation, more strict procedure for internal reporting channels, extends protection to persons related to reporting person etc.

PART III: ADDITIONAL ISSUES FOR INFORMATION

Foreign bribery and related enforcement actions since Phase 3

To this end, we would kindly ask you to please provide information on:

- *The foreign bribery investigations and prosecutions mentioned in paras. 17 – 29 of the [Latvia Phase 3 Report](#); and*
- *The foreign bribery cases in the Matrix extract attached below.*

Please update the information contained in these documents and add information on any additional

investigations underway or terminated since Phase 3.

Information may be provided below or in a separate document.

Action taken as of the date of the follow-up report:

See also Annex III below.

The court decision in the *company* case is publicly accessible, at <https://manas.tiesas.lv/eTiesasMvc/lv/nolemumi>

Please copy/paste the following number in the first row at the webpage provided:

ECLI:LV:RVPT:2020:1130.16870001619.1.S

Efforts made to publicise and disseminate the Latvia Phase 3 report, for example, through public announcements, press events, sharing with relevant stakeholders, particularly those involved in the on-site visit [*Phase 3 Monitoring Information Resources, para. 49*]

Action taken as of the date of the follow-up report:

The Ministry of Justice published a press release on the Latvia's Phase 3 report on 16 October 2019 with the link to the Phase 3 Report. The press release is still available on the website of the Ministry of Justice at <https://www.tm.gov.lv/en/node/1328>.

In order to inform about Latvia's Phase 3 evaluation and respective recommendations, the Ministry of Justice elaborated the informative report. The recommendations were translated into the national language and included in the report. The said report includes a detailed action plan for implementation of the Phase 3 recommendations. During the Government's (the Cabinet of Ministers) regular meeting the informative report together with the action plan was presented to the Government and adopted. It has been also made publicly available at the webpage of the Government (http://tap.mk.gov.lv/doc/2020_05/TMZin_230320_WGBP3.514.docx).

The information on Phase 3 evaluation Report and on the informative report and the action plan were provided at the following websites:

<https://lvportals.lv/norises/315607-stiprinas-latvijas-spejas-atklat-parrobezu-korupciju-2020>

<https://www.mk.gov.lv/lv/jbordans-oecd-pretkorupcijas-darba-grupas-izteikto-rekomendaciju-izpilde-butiska-loma-bus-generalprokuraturai-un-nakamajam-generalprokuroram>

<https://www.lsm.lv/raksts/zinas/latvija/oecd-latvijas-korupcijas-apkarosanas-rezultati-joprojam-nav-proporcionali-riskiem.a335336/>

ANNEX I. Regulation of the Criminal Justice Department of the Prosecutor General's Office of 16 June 2021

APPROVED

Prosecutor General J. Stukāns

16th of June, 2021

Regulation of the Criminal Justice Department of the Prosecutor General's Office

CHAPTER I

Subject matter

1. Regulation of the Criminal Justice Department of the Prosecutor General's Office (hereinafter – Department) sets out functions, tasks, and organization of inner work of the Department.
2. Head Prosecutor of the Department is responsible for performance of tasks mentioned in the Regulation.
3. Head Prosecutor of the Department and the specially authorized prosecutors of the Department shall meet the requirements of the Law “On Official Secret”, Section 9, Paragraph two, and shall receive the security clearances for access to an official secret.

CHAPTER II

The functions and tasks of the Department

For ensuring the appropriate functioning of the Prosecution Office, the Department shall carry out the following tasks:

[...]

5. The Division for Coordination the Combatting with Money Laundering

- 5.1. To perform the functions of higher-ranking prosecutors of a Judicial Region under Criminal Procedure Law Section 45(2), point two and Section 46, in criminal procedures which meet requirements under Criminal Law Section 195(2) and (3) in respect of money laundering (only if the source of money laundering is not known – *stand alone* cases) and under Criminal Law section 195¹(3).
- 5.2. To perform the functions of higher-ranking coordinating prosecutor, providing methodical support to prosecutors of Divisions of the Prosecution Office in criminal proceedings concerning money laundering, financing of terrorism and proliferation, as well as under the authority of Head Prosecutor of the Department, perform the functions of higher-ranking prosecutor in the specified cases.
- 5.3. Within the competence applicable, as the result of performing the functions of higher-ranking prosecutor, to familiarise himself or herself with all files of a criminal proceedings and complaints

examination results, to prepare the summaries, including reports on examination results, to take procedural decisions and prepare answers, to inform Head Prosecutor of Division or Department about the course and results of inspections, as well as to assess the need for applying Prosecutor's response measures, if during the deciding of the complaints filed by the persons a breach of law is found.

- 5.4. To coordinate the work of investigating institutions, criminal-intelligence entities and the Prosecution Office for ensuring productive cooperation in order to achieve effective progress of pre-trial criminal proceedings and judicial review of criminal cases.
- 5.5. To organize and manage the meetings for discussing the advancement of the pre-trial criminal proceedings, to coordinate the advancement of the criminal proceedings, ensuring efficient applying of the Criminal Law provisions and fair settlement of the criminal-legal relationships.
- 5.6. Under the authority of Head Prosecutor of the Department, according to the competence of the Division and in situations described in the Order of Prosecutor General No. 130 "On Compliance with the Law on Compensation for Damage Caused in Criminal Proceedings and Administrative Violations Cases", to prepare the draft of an opinion on the justification of the termination of the criminal proceedings, as well as evaluate the information received from the Ministry of Justice according to Section 26(2) of the Law on Compensation for Damage Caused in Criminal Proceedings and Administrative Violations Cases. In the case of necessity, to initiate deciding on holding the prosecutor accountable for causing the damage.
- 5.7. Under the authority of Head Prosecutor of the Department, in accordance with the competence of the Division, to evaluate submissions on initiation of criminal proceedings against a judge or the ombudsman and to prepare drafts of the procedural decisions.
- 5.8. To compile the analytical statistical information for the purpose of fulfilling the functions of the Division.
- 5.9. To develop drafts of legislation, informative letters, methodological materials, and internal regulatory enactments of the Prosecution Office, including in cooperation with other units of the Prosecution Office, which are related to the area of prevention and combating of money laundering and financing of terrorism and proliferation, as well as in other areas separately prescribed by Prosecutor General.
- 5.10. To coordinate the implementation of the recommendations of MONEYVAL, OECD and other international organizations, in the practice of the Prosecution Office, and to coordinate the cooperation of the Prosecution Office with the investigation and other authorities, as well as with the media in relation with this area.
- 5.11. To develop international cooperation projects and new training programs, to improve the existing programs, and to conduct the training, including through cooperation with other units of the Prosecution Office, investigation authorities, and other institutions operating in the area of prevention and combating of money laundering and financing of terrorism and proliferation, as well as in the areas separately assigned by Prosecutor General or Head Prosecutor of the Department.
- 5.12. To participate in the preparation and provision of the opinion of the Prosecution Office in interinstitutional working groups, commissions, and meetings, in questions related to the area of prevention and combating of money laundering and financing of terrorism and proliferation, as well as in the areas separately assigned by Prosecutor General or Head Prosecutor of the Department.
- 5.13. Until the 1st February of each year, to prepare and submit to Prosecutor General an overview of the achievements of the Division throughout the previous year.

6. The Division for Coordination of the Corruption Combatting

- 6.1. To exercise the functions of a prosecutor in all stages of criminal proceedings:
 - 6.1.1. with respect to all criminal offences committed in the whole territory of the state, which are prescribed in Chapter XXIV of the Criminal Law, as well as criminal offences committed in aggregation with the prior offence, which have been committed by officials mentioned in Section 316(2) and (3) of the Criminal Law, if the criminal proceedings are especially complicated;
 - 6.1.2. if it is instructed so by Prosecutor General or Head Prosecutor of the Department.
- 6.2. To perform the functions of the higher-ranking Prosecutor within the scope that is set out by the Criminal Procedure Law, as well as in the criminal proceedings separately assigned by Prosecutor General or Head Prosecutor of the Department.
- 6.3. To provide methodological support within the scope of coordination to prosecutors of the units of the Prosecution Office in criminal proceedings regarding criminal offences provided for in Chapter XXIV of the Criminal Law.
- 6.4. Within the competence applicable, as the result of performing the functions of higher-ranking prosecutor, to familiarise himself or herself with all files of a criminal proceedings and complaints examination results, to prepare the summaries, including reports on examination results, to take the procedural decisions and prepare answers, to inform Head Prosecutor of Division or Department about the course and results of inspections, as well as to assess the need for applying Prosecutor's response measures, if during the deciding of the complaints filed by the persons a breach of law is found.
- 6.5. To organize and manage the meetings for discussing the advancement of the pre-trial criminal proceedings, to coordinate the advancement of the criminal proceedings, ensuring efficient applying of the Criminal Law provisions and fair settlement of the criminal-legal relationships.
- 6.6. To organize, prepare and manage the training of prosecutors on the criminal offences prescribed in Chapter XXIV of the Criminal Law.
- 6.7. To provide opinions on draft regulatory enactments and other documents, as well as by the instructions of Prosecutor General or Head Prosecutor of the Department, with respect to the questions that are within the competence of the Division, to represent the Prosecution Office, including in interinstitutional meetings and working groups.
- 6.8. To develop the methodological documentation (standards, guidelines, templates of procedural documents) in matters being in the competence of the Division.
- 6.9. Under the authority of the Prosecutor General, to decide on the handing over the criminal proceedings to another investigation authority from the Corruption Prevention and Combating Bureau or on handing over the criminal proceedings to the Corruption Prevention and Combating Bureau from another investigation authority.
- 6.10. Under the authority of Head Prosecutor of the Department, according to the competence of the Division and in situations described in the Order of Prosecutor General No. 130 "On Compliance with the Law on Compensation for Damage Caused in Criminal Proceedings and Administrative Violations Cases", to prepare the draft of an opinion on the justification of the termination of the criminal proceedings, as well as evaluate the information received from the Ministry of Justice according to Section 26(2) of the Law on Compensation for Damage Caused in Criminal Proceedings and Administrative Violations Cases. In the case of necessity, to initiate deciding on holding the prosecutor accountable for causing the damage.

- 6.11. Under the authority of Head Prosecutor of the Department, in accordance with the competence of the Division, to evaluate submissions on initiation of criminal proceedings against a judge or the ombudsman and to prepare drafts of the procedural decisions.
- 6.12. Head Prosecutor of the Division shall ensure the on-call duty of prosecutors outside of working hours, during weekends and holidays, for the purpose of deciding on giving permission to the performance of procedural actions (searches, special investigative actions, imposing of arrest etc.) as a matter of urgency in criminal proceedings within the competence of the Division.
- 6.13. Until the 1st February of each year, to prepare and submit to Prosecutor General an overview of the achievements of the Division throughout the previous year.

[...]

CHAPTER III

Work organization of the Department

8. The work of the Department shall be managed by Head Prosecutor of the Department.
9. Head Prosecutor of the Department can give direct assignments to any Prosecutor or Head Prosecutor of the subordinated Division.
10. Head Prosecutor of the Division shall manage, organize and coordinate the work of the unit, as well as shall supervise the fulfilment of the tasks assigned to the unit.

CHAPTER IV

General Provisions

11. Secretary of Prosecutor General shall insert this Regulation into the Prosecution Office Information System module “Methodological Documents” with the resolution to familiarize with it to all Prosecutors and employees of the Prosecution Office.

16th of June, 2021 in Riga

Head Prosecutor of the Criminal Justice Department

A.Kalniņš

Approved by Prosecutor General

J.Stukāns

DOCUMENT IS SIGNED WITH THE SAFE ELECTRONIC SIGNATURE AND CONTAINS THE
TIMESTAMP.

ANNEX II. Foreign bribery and related enforcement actions since Phase 3

Case #1 –

On 7 May 2019 KNAB initiated proceedings on the application of coercive measures to a legal person - IT company, in relation to the bribery of a foreign public official.

The evidence obtained during the pre-trial investigation revealed that from 2011 until 2016 the IT company employee gave bribes in the total amount of 2 262 339.35 EUR to a public official of Belarus. The employee gave bribes in order to ensure beneficial decisions in favour of the IT company – a legal person registered in Latvia. The pre-trial investigation has also established that the IT company employee concluded fictitious agreements on behalf of the legal person for services, enabling the company to transfer bribes to the public official of Belarus. The fictitious agreements allowed the legal person registered in Latvia to evade the payment of corporate income tax, causing 512 741.64 EUR losses to the State.

On 1 December 2020 KNAB sent to the Prosecutor General's Office criminal case materials for initiating criminal prosecution against one legal person registered in Latvia, for foreign official bribery (Section 323, Para 2 of the Criminal Law) and tax evasion (Section 218, Para 2 of the Criminal Law). The case is currently being adjudicated. The authorities have provided the translation of the Decision for submitting the case to the prosecutor for prosecution (please see the translation in Annex 6 of Latvia's WFUR), however, Latvian authorities would like to inform that the information have to be considered as confidential and we would appreciate if this particular information is not circulated among the WGB members.

Case#2

On 6 June 2019 KNAB commenced criminal proceedings regarding an alleged foreign bribery against a legal person in whose interests its representative committed a crime as provided for in Section 323 of the Criminal Law ("Giving of bribes"). The evidence of the criminal case contained information that the representative of the legal person in 2016 bribed a Lithuanian public official. The bribe total amount did not exceed 11 000 EUR. On 10 August 2020 KNAB sent to the Prosecutor General's Office the criminal case to initiate criminal prosecution against one legal person registered in Latvia, for the alleged bribery of a foreign public official. On 30 November 2020 the company agreed to plead guilty in an agreement reached with the prosecutor. The Court approved the agreement with prosecutor and imposed a fine in amount of EUR 77 400. In addition, according to Section 42 of the Public Procurement Law the company will not be able to participate in public procurement for three years since the date when the decision was adopted.

The translation of the court decision is provided in Annex to the Latvia's WFUR.

Case #4

In addition to the information reflected in Latvia's Phase 3 Report it should be noted that in February 2020 the State Police took a decision to initiate a proceeding in relation to illegally obtained assets (non-conviction based confiscation procedure). In February 2021 the court adopted a decision recognising assets in amount of more than 13 million EUR as criminally acquired and confiscating them. The decision has entered into force. In May 2020 criminal proceedings against a natural person for alleged money laundering were terminated due to *ne bis in idem* principle as the court judgement was received from Uzbekistan on conviction of a natural person for money laundering.

Case #5

In early 2018, KNAB conducted a preliminary investigation and the case was forwarded to the State Police which opened a formal investigation in September 2018 for aggravated money laundering. The investigation involved one foreign shell company and one Latvian bank in relation to financial transactions in 2011-2013.

Unfortunately, in this case no confiscation of assets was done due to the fact that all bank accounts were already closed at the stage of investigation. The State Police requested a court judgement in relation to a natural person from the US. The criminal proceedings were terminated last year in December after the court decision was received from the US on conviction of the natural person. It was established that the natural person has been convicted for the same offence in the US and following *ne bis in idem* principle the case for the same offence in Latvia was terminated according to Criminal Procedure Law.