

Latvian Government Looks To Repair Reputation With AML Overhaul

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Legal experts believe there are already signs of progress in Latvia's attempts to tackle money laundering and terrorist financing, after the government responded to damning criticism with a "comprehensive" action plan.

The country was rocked in July when the influential Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, more commonly known as MONEYVAL, published its assessment of the country's approach to financial crime.

The report acknowledged that Latvia has made significant strides in terms of anti-money laundering (AML) and counter-terrorist financing (CTF) but stressed that significant gaps still remained — not least around non-resident deposits.

"Certain Latvian authorities have demonstrated rather broad understanding of the risks within the AML/CTF system," the report said.

"However, there is uneven and overall inadequate appreciation of the threats emanating from large financial flows passing Latvia as a transit point in its capacity of a regional financial centre."

The country made international headlines earlier this year when ABLV Bank went into liquidation after being accused by US authorities of handling vast sums of illicit funds, bringing immediate pressure onto the financial sector.

The government responded in September by unveiling an action plan, which it said "merges existing initiatives and provides a robust framework for all government institutions involved, as well as the private sector, to implement reforms identified by MONEYVAL's evaluation system".

The key areas of interest for the government included strengthening risk-based supervision and introducing preventive measures, harmonising regulatory approaches and increasing authorities' resources.

The government also plans to introduce technology-based solutions to help facilitate efficient data sharing among the country's institutions and improve the cooperation between financial institutions and the government.

The plan sets out ambitions to introduce the EU's 5th Anti-Money Laundering Directive (5th AMLD) before its transposition deadline of early 2020.

It sets an ambitious target of submitting the necessary transposition law by June 1 next year, although pointed out that many of the payments-related features of the directive are already in place.

“Latvia has already adopted a number of measures required under the 5th AMLD - the centralised bank account registry, the cryptocurrency regulation, the principle of transparency of the real beneficiaries and lowering of supervisory threshold of electronic money circulation by decreasing it to €150,” the announcement said.

The Cabinet of Ministers has called on all government institutions and financial firms to implement the reforms swiftly.

Marta Cera, an associate at Ellex Klavins law firm, emphasised the importance to industry of doing so in an effective way — not least to avoid the risk of the country being added to an EU-wide “blacklist” of high-risk jurisdictions.

In recent months five jurisdictions — Sri Lanka, Trinidad and Tobago, Tunisia, Ethiopia and Pakistan — have been added to the existing list, prompting concerns about the ability of firms to maintain their connections to the formal financial system.

“While developments have already been made since the period of evaluation reflected in the report, a lot of improvement has to be ensured within next year to ensure progress and prevent potential negative consequences to the Latvian financial sector,” the lawyer said.

Cera echoed the sentiment of the MONEYVAL report, which stated that the culture of AML and CTF in Latvia was one of indifference and that those matters were not considered priority.

However, she said the “overall view of the concept of AML/CTF in Latvia is changing, and so is the Latvian banking sector”.

“In the past year, private entities have put a lot of their focus and resources on dealing with AML/CTF-related matters and issues, while the authorities have put battling money laundering as one of the main priorities of the financial sector,” Cera said.

The lawyer added that certain Latvian institutions, such as the Financial Intelligence Unit, are currently undergoing significant restructuring and that significant progress has been made in reducing foreign deposits held by the Latvian financial sector.

However, there are other critical factors singled out in the MONEYVAL report that Latvia could struggle to implement or reform in the short term.

It singled out “high corruption levels” within the government, the historical presence of organised crime groups and the financial sector’s ties with Russian businesses as serious points of concern.

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