



Cabinet of Ministers
Republic of Latvia

Latvian Financial Sector Update

No. 2 27 August 2018



Message from the Government

Latvia has proved that despite difficult times, it has the courage and the will to do things that may seem impossible to others, but later serve as a model for them to emulate. Our priority is a clean, sustainable, and modern financial sector, and we have a plan to achieve it.

Dana Reizniece – Ozola
Minister of Finance

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Financial Sector Transformation

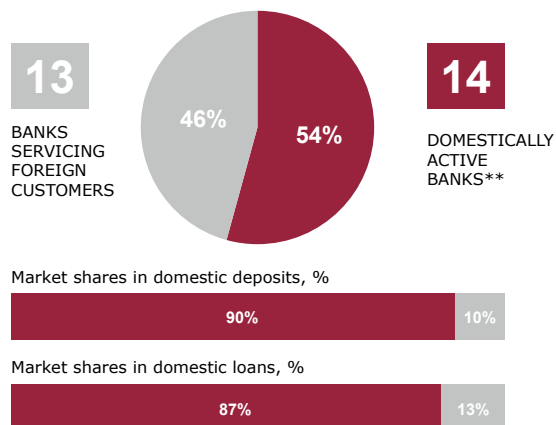
De-risking the banking sector: outflow of foreign deposits reflects the Government's commitment to discontinue servicing high-risk customers

The Latvian government continues to strengthen the legal framework and regulatory standards for AML/CTF.

FCMC in close cooperation with other stakeholders continues to pursue a major reform program, including key measures regarding Banks Servicing Foreign Customers (BSFC). So far, it has resulted in:

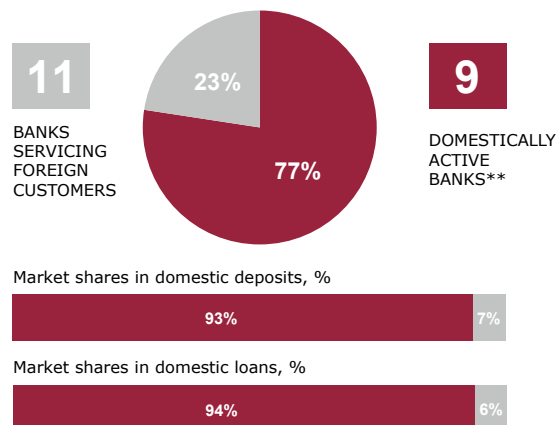
- careful auditing of the customer base of banks and refusal to handle high-risk client segment since 2016.
- a significant decrease in foreign deposits originating from CIS countries. Majority of deposits are now held by domestic or EU customers. The level of deposits held by foreign customers is now down to 20% in 2018.
- disposing of unwanted/banned shell companies business servicing since 2018.

Market shares in banking sector assets, % (2015)



**Including branches of foreign banks

Market shares in banking sector assets, % (2018*)



*End of June 2018, excluding ABLV **Including branches of foreign banks

Latvian monetary financial institution results H1, 2018

Latvian monetary financial institutions, mostly banks, earned EUR 132.1 million in aggregate profit in January-June 2018, a 19.8 % decrease on the 1st half of 2017, according to the Bank of Latvia's data. This past June, the monetary financial institutions earned EUR 0.9 million in aggregate profit. The total value of monetary financial institutions' assets was EUR 23.256 billion as of June 30 – a 16 % or EUR 4.433 billion decrease from June 2017, when monetary financial institutions' total assets stood at EUR 27.689 billion. See more data [on the FCMC website](#).

AML Risk Management & Compliance

Moneyval report

On August 23, the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval) published its 5th Round Mutual Evaluation Report on Latvia, which details the Anti-Money Laundering and Terrorist Financing (AML/CTF) measures in place in Latvia for the reporting period to November 2017.

Assessment and recommendations

The committee found that the Latvian government has cooperated effectively with its foreign counterparts to share financial and legal intelligence and to launch joint investigations on AML/CTF.

The committee also found that Latvian measures in place around "Legal persons and arrangements" and the "proliferation of financial sanctions" had not been adequate.

In particular, Moneyval recommended that Latvia should continue improving measures to ensure that authorities collect relevant beneficial ownership (BO) information, with particular attention to the LLC sector. It also recommended that Latvia establish a mechanism to compel Financial Institutions and Designated Non-Financial Businesses and Professions (FIs/DNFBPs) to actively verify such information.

The report recommends increasing outreach to reporting entities to improve internal control systems and providing additional resources to supervisory authorities to improve enforcement.

Daniel Thelesklaf, Moneyval Chairman, commented during his visit to Riga in a meeting with representatives of FSDC on 23 August, "Moneyval's evaluation procedures are more stringent than ever before. The main task for the Latvian government and the sector as a whole is to improve the efficiency of the AML/CTF system. In order for Latvia to continue developing as a recognized financial center, it's necessary to

effectively manage all risks that are related to this sector.”

Way forward

The Latvian government has welcomed the report as a high-quality audit that will help guide and direct reform of the Latvian financial sector and ensure that the changes the government has planned will meet the latest global AML/CTF standards.

Since the Moneyval plenary in July this year, when the report on Latvia was considered, the responsible Latvian authorities with the representatives of the Latvian financial industry have begun an extensive consultation process in order to approve a detailed action plan to address deficiencies in AML/CTF measures. They will approve this plan on 11 September this year, during a meeting of the Financial Sector Development Council (FSDC), and it will supplement the government’s existing action plan.

Latvia will now submit a progress report ahead of the second Moneyval Plenary meeting, expected near the end of 2019. The government will submit further progress reports on an annual basis until the next on-site Moneyval evaluation which is currently expected in 2022. Latvia can request a move from the enhanced follow-up process to the regular follow-up process, once it can demonstrate sufficient progress to Moneyval. The Moneyval Mutual Evaluation Report of Latvia has been published [on Moneyval’s website](#).

AML days in FIU Latvia

FIU Latvia organized a four-day seminar which took place on August 20-23, during which various discussions and workshops are held related to AML.

On August 21, a workshop on successful measures against professional money laundering was held, where several topics were discussed:

- The role of the FIU in Effective fight with Money laundering
- How to demonstrate effectiveness in investigation, enforcement and adjudication
- Cooperation between FIU and LEAs as a basis for effective fight with money laundering
- FATF Report on Professional money laundering

On August 22, Daniel Thelesklaf, President of Moneyval, together with FIU and foreign experts, discussed the improvements needed for Latvia to show substantial progress until October 2019.

On August 23, Daniel Thelesklaf met with Latvian government ministers and heads of LEAs to discuss Moneyval’s assessment results.

Controlled liquidation of ABLV Bank

Under the supervision of the Financial and Capital Market Commission (FCMC), ABLV's controlled liquidation process is led by an approved liquidator's team. The liquidators of ABLV have appointed an international team of sworn auditors from EY as independent consultants whose task is to create, implement and monitor the compliance processes of the creditors' funds of ABLV Bank. They will develop a methodology to prevent money laundering and circumventing of sanctions in the course of pay-outs to creditors, and will also assist in the implementation and monitoring of this approach.

The EY team will be headed by the EY Poland Office.

Indicators on ABLV Liquidation as of 31st July 2018:

- Assets recovered in July by liquidators – EUR 21.052 million
- The sum total recovered since the start of the liquidation process on June 13, 2018 has thus reached EUR 32.995 million
- Liquidation costs in July – EUR 1.93 million (totalled EUR 6.876 million so far)

Suspended VAT scam and money laundering grouping

This August, Tax and Customs Police officials of the State Revenue Service (SRS) stopped a fraudulent Value Added Tax (VAT) scam scheme involving 7 real and at least 50 fictitious companies. The loss to the state budget has been valued at about EUR 2 million. One person has been arrested in the investigation of a case.

The SRS has confirmed that the criminal scheme operated from January 2016 until June 2018. The participants avoided paying VAT, and also legalized proceeds from criminal activity. The investigation revealed that interrelated parties had established business chains and recorded the input tax on electronic sales transactions for which reverse or reverse charge VAT is not applied.

Financial sector development

Latvia achieves the IMF's highest standards on data dissemination

As of 1 August 2018, Latvia achieved compliance with the IMF's Special Data Dissemination Standard Plus (SDDS Plus), becoming the seventeenth country in the world that implements the highest tier in the IMF's data dissemination standards initiatives.

All countries adhering to the SDDS Plus have a similarly structured [National Summary Data Page](#), which provides user-friendly information on major economic and financial data categories and on the institution responsible for each data category. Read more [on the website of the Bank of Latvia](#).

The Association of Latvian Commercial Banks expands its activities and becomes the Finance Latvia Association

Reflecting the development of the financial services industry and growing cooperation between institutions in the sector, as well as sustained innovation in financial technology, the Association of Latvian Commercial Banks has expanded its activities and has become the Finance Latvia Association.

The Association aims to become a broad platform for cooperation in finance, technology and related industries, as well as to represent the interests of the sector in Latvia, the Baltics and Europe. The Finance Latvia Association has invited fintech start-ups, experienced finance companies and businesses in related industries to join the organisation by becoming members or associate members. Read more [on the website of Finance Latvia Association](#).

Swedbank economist becomes new member of Bank of Latvia Council

Earlier this summer, Latvia's Saeima approved Mārtiņš Kazāks as a member of the Bank of Latvia Council. Kazāks was appointed to replace Edvards Kušners, after a majority of the Saeima's voted not to re-approve Kušners for another term. Kazāks has started performing his duties starting with 1 August. Kazāks is Swedbank chief economist and a member of the Fiscal Discipline Council. Read more about Kazāks [on the website of Bank of Latvia](#).

Ministry of Finance reports on the development of virtual currencies

The Ministry of Finance has issued an informative report on the benefits and risks of using virtual currencies and further actions to promote the development of the area and reduce identified risks. According to the report, based on the information available to date, virtual currencies currently do not create systemic risks for the Latvian payments system or for overall financial stability.

The Cabinet of Ministers reviewed this report on August 14, and agreed on the following:

- the FCMC should produce guidelines on the application of existing financial market regulations to Initial Coin Offerings (ICOs)
- the State Revenue Service should produce guidelines on the application of tax and accounting regulations to virtual currency service providers and ICOs
- Amendments to the Personal Income Tax Law will be necessary to clarify the tax status of income from transactions with virtual currencies.
- the Ministry of Economics needs to establish a working group to develop proposals to support the safe and effective use of blockchain technology in both public and private sectors.

European Parliament TAX3 Committee mission to Latvia

Delegation of the Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance (TAX3) of the European Parliament will conduct a mission to Latvia on August 30-31. The visit has been scheduled to allow the committee to discuss Latvian financial and customs policies, as well as recent developments in financial sector with both their political counterparts and sector experts.

The delegation will meet with the responsible committees of the Latvian Parliament; the Minister of Finances; State Revenue Service; Anti Money Laundering authorities, National Supervisory Authority – FCMC, and the association of financial sector, the Finance Latvia Association.

Contributing Institutions



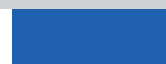
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Financial and Capital
Market Commission



Office for Prevention
of Laundering of Proceeds
Derived from Criminal Activity

