

# Saeima imposes the ban on servicing shell companies

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[Cabinet of ministers](#)



The banks registered in Latvia will be banned from cooperating with shell companies and servicing their accounts, as provided for in the amendments to the Law on the Prevention of Money Laundering and Terrorist Financing adopted by the Saeima on Thursday 26 April.

The amendments to the law were initiated to prevent the use of the Latvian financial system for money laundering, and the prohibition will apply to credit institutions, given that the turnover of shell companies accounts for a significant share of the total turnover of credit institutions, as specified in the annotation to the draft law by the drafters from the Ministry of Finance.

The prohibition will also apply to payment institutions, electronic money institutions, investment brokerage companies, as well as to managing the individual portfolios of clients and the distribution of certificates of open investment funds to investment management companies.

According to the Law on the Prevention of Money Laundering and Terrorist Financing, shell companies are deemed to be companies that cannot justify their economic activity, and are registered in countries that do not require financial statements. The shell companies are also characterized by the lack of location for economic activity.

In order to ensure stricter surveillance of the financial system in the area of money laundering and the prevention of terrorist financing, the Financial and Capital Market Commission (FCMC) will have to set the minimum measures to be taken by credit institutions to make sure that the respective company does not carry out any economic activity.

The FCMC has found that the shortcomings in the banks' internal control system are indicative of the risk of money laundering, in particular the one related to foreign customer servicing; consequently, it does not make it possible to prevent the involvement of the banking sector of Latvia in money laundering.

Thus, the vulnerability of the servicing of foreign customers' cash flow in money laundering is moderate, and it significantly

increases the risk that the banks of Latvia can be involved in money laundering, as mentioned in the annotation to the amendments.

According to the FCMC's data, in the first quarter of 2017, the share of turnover of shell companies' loans in the credit institutions of Latvia made up 27.8% of the total credit turnover. In turn, in credit institutions, which are mainly servicing high-risk customers, the share of these companies' credit turnover made up 44.52% of the total customer credit turnover.

The ban on servicing the shell companies will come into force the day after the promulgation of the amendments.

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