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EUROPEAN COMMITTEE ON CRIME PROBLEMS (CDPC)

COMMITTEE OF EXPERTS ON THE EVALUATION OF ANTI-MONEY LAUNDERING MEASURES (MONEYVAL)

THIRD ROUND DETAILED ASSESSMENT REPORT ON

LATVIA[1]

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

Summary

[1] Adopted by MONEYVAL at its 20th Plenary meeting (12-15 September 2006)

EXECUTIVE SUMMARY

1. **Aspects of Latvia's financial services market expose it to a high risk of money laundering but concerted steps are being taken to mitigate those risks.** There are welcome indications that money laundering risks have been reduced substantially due to strong preventive measures being implemented by the authorities and the financial institutions. Latvia is a regional financial center of some significance and acts as an important trade and financial gateway between CIS countries (mainly Russia) and Western countries. The high volume of throughput of transactions in accounts in Latvian banks reflects, in part, the financing of trade, but also contains a substantial component related to capital flows and transactions designed to minimize the impact of tax and currency control requirements in the originating countries, mainly in the CIS. It is difficult to separate out these flows statistically, but they are estimated by the Financial and Capital Market Commission (FCMC) to represent approximately 25 percent of the total assets of the banking system at end-2005, although the level has been dropping somewhat in recent months–a trend that is not unconnected to the AML/CFT measures taken recently.

2. **The authorities and the financial institutions are working to restore the international reputation of the Latvian financial sector, which was damaged by the poor practices and weak AML/CFT controls in the past.** Within the recent past Latvia had a reputation for widespread lax due diligence in relation to the opening and operation of accounts, particularly for nonresident clients, and the use of unregulated intermediaries to source corporate business from CIS countries. Accounts of these corporates were (and still are) typically operated in Latvian banks in the names of shell companies registered in offshore or other jurisdictions, the requirements of which often protected the anonymity of the beneficial owner of the company. It is unclear to what extent the Latvian banks originally knew the identity of the true owners of the funds maintained in or transferred through Latvia. While the international reputation of Latvian banks was questioned, there is little indication that this impacted their domestic business. Nor has there been any impact from a prudential perspective, as resident and nonresident business are perceived to be distinct and independent business lines and the banking system is highly liquid.

3. **International pressure contributed to strengthening the resolve of the authorities to take remedial action.** In a process which has been building in intensity, particularly over the last three to four years, the authorities and financial institutions have acted to clean up the Latvian financial system. Additional momentum was added by the naming of two small Latvian banks by US Treasury in a proposal for rule-making under US law as "financial institutions of primary concern for money laundering". The US announcement had a severe impact on the businesses concerned. Beyond these targeted actions, the informational demands of US-based correspondent banks arising under the US PATRIOT Act probably had an even broader and more sustained impact because Latvian banks depend directly or indirectly on them for US$ clearing and settlement.

4. **Led by the initiative of the Prime Minister, the authorities acted strongly in 2005 to address the deficiencies in the system.** An AML Council was established, chaired by the Prime Minister, and with representatives from the relevant government ministries and agencies, as well as of the Bank of Latvia (BoL), to decide on a program of legislative,

administrative, and other measures to ensure that Latvia put in place a robust AML/CFT regime. This level of political support has proven crucial in achieving amendments of a range of relevant legislative acts in a short period of time. These concerted efforts are now bearing fruit. As a further incentive to the banks to strengthen their due diligence, the FCMC has conducted an extensive range of thorough AML/CFT on-site inspections (including repeat inspections), and applied a range of monetary and other sanctions to banks found not to be fully compliant with AML/CFT requirements. At one point, 13 of Latvia's 23 banks were subject to intensified supervision[2] for AML/CFT deficiencies. Other sanctions included threats to remove all members of the Board of a bank or its AML/CFT compliance officer, and requirements to prohibit certain banks from opening new accounts for nonresidents. Almost all of the deficiencies identified during these inspections were well on the way to being resolved by end-2005.

5. **The response of the banks to the changes in law, requirements, and guidance, while slow in some cases initially, has been dramatic overall.** In accordance with improvements introduced into the AML Law in June 2005, and beginning with the higher-risk accounts (which typically includes nonresident accounts), banks have acted on a large scale to re-identify clients and request documentary evidence to support transactions. They have taken steps to ensure that they have documentation to establish as far as practicable the ultimate beneficial owner of their corporate accounts (including offshore companies) and any cases of accounts being operated by third parties. Where customers were unwilling or unable to provide the requested information, or did not respond in time, the accounts were closed. The banks informed the assessors that, of the total of 250,000 bank accounts closed by banks in 2005 for whatever reason, probably more than 100,000 accounts were closed as a result of the AML/CFT compliance initiative. However, the balances on many of these accounts were low. In accordance with Latvian legal requirements, the balances were transferred to other banks in Latvia or to banks in other European Economic Area countries.

6. **The improvement in the implementation of AML/CFT measures has been substantial, but the task is not yet complete.** Most banks, particularly the larger banks, appear to be well advanced in the reform of their AML/CFT internal control systems and customer due diligence (CDD). Some smaller banks are still in the process of improvement and implementation, though the FCMC indicated that there has been substantial progress in all cases. A concern was expressed to the assessors that some banks, particularly small banks largely dependent on nonresident business, may be focusing excessively on collecting documentation to avoid sanctioning and not giving adequate attention to understanding the true nature and purpose of the accounts or transactions. This is a factor that needs to be taken into account by the FCMC in the conduct of its next round of AML/CFT inspections, many of which should take place during 2006. These inspections should reveal to the supervisors the extent to which banks have successfully followed through on the necessary control measures. Overall, as high-risk nonresident business continues to be a feature of the Latvian financial system (particularly so for more than half of the banks), sustaining ongoing vigilance will be essential to protecting Latvia and its banks from further reputational

[2] A status provided by the law which is a precursor to a variety of available serious sanctions

damage. It is interesting to note that strong growth is being experienced by many of the banks, based on new resident accounts and diversification of business lines, reflecting the strong underlying growth of the Latvian economy.

A. Legal Systems and Related Institutional Measures

7. **The AML/CFT legal framework has been strengthened and expanded over the last two years.** There are three main laws: the Law on the Prevention of Laundering of Proceeds Derived from Criminal Activity (AML Law), the Criminal Law, and the Criminal Procedure Law. The preventive measures for the financial sector and the designated nonfinancial businesses and professions (DNFBPs), the establishment of the financial intelligence unit (FIU) and its powers, the reporting of suspicious and unusual transactions, and the duties of supervisory and the monitoring authorities are contained in the AML Law, while money laundering and terrorist financing are criminalized in the Criminal Law. The powers to confiscate proceeds of crime and terrorist property and the related provisional measures and the ability to render mutual legal assistance and extradite persons in relation to money laundering and terrorism financing have been included in the Criminal Procedure Law.

8. **The AML/CFT provisions have been amended significantly in 2004 and 2005.** Amendments were adopted in a piecemeal fashion reflecting the need to respond to ongoing developments, deficiencies of the legal framework as they were identified, and evolving international standards. In reviewing the provisions of the various AML/CFT laws there are many indications that the revisions were undertaken in a hurried manner without attempting to reconcile the new provisions with existing provisions or to consistently amend provisions where needed. The fragmented amendments have resulted in gaps in the legal framework. Some of the gaps include the absence of necessary definitions of key terminology for the terrorist financing offences. There has also been a failure to amend the suspicious transaction reporting provision to specifically include the reporting of suspicious transactions relating to terrorist financing.

9. **Law enforcement, the courts, financial institutions, and other covered parties are all having some difficulties implementing and interpreting the new provisions in legislation.** Key difficulties for law enforcement agencies include:

- The position of the authorities that a conviction for money laundering offence requires the conviction for a predicate offence;
- Determining whether confiscation powers extend to all proceeds of crime and terrorist property;
- Determining the extent to which requests for mutual legal assistance can be rendered.

DNFBPs are not covered by the law to the extent needed and differences in the requirements of the AML Law and the laws regulating them result in confusion as to their obligations.

10. **A comprehensive review of the AML/CFT legal framework is needed, with the objective of developing a more consistent, coherent, and comprehensive framework.** Particular attention needs to be placed on amending the AML Law with a view to

strengthening preventative measures (as noted in the discussion on financial institutions) and addressing:

- The reporting of suspicious transactions relating to terrorist financing; and
- The need to introduce powers for the relevant monitoring agencies of the DNFBPs to monitor compliance with the law.

Additionally, all the elements necessary for effectively criminalizing money laundering and terrorist financing and confiscating proceeds of crime and terrorist property should be included in the Criminal Law and Criminal Procedure Law. Particular care needs to be taken to ensure that definitions are included that reflect those used in Special Recommendation III on freezing and confiscating terrorist assets, to ensure clarity and fulfillment of international obligations.

11. **Legal persons are subject to a registration system that needs to be strengthened.** Legal persons who can be registered in Latvia include sole proprietorships, partnerships, companies, foundations, and cooperatives. All these entities acquire their status upon registration with the Register of Enterprises. For registration, entities are required to submit a range of documentation and the information is then kept in the Register of Enterprises. However, the arrangements to verify the details provided during the registration process are weak as the Registrar relies entirely on notaries to perform the verification function, but the notaries only conduct a pro-forma review by determining whether the required legal documents are produced or not. Additionally, there is no requirement for the disclosure of beneficial owners, a situation that may hamper efforts by law enforcement agencies to obtain information needed for investigations, as well as pose problems for financial institutions and DNFBPs when complying with customer due diligence requirements under the law. To address these deficiencies, provisions should be included in the law to:

- Require the disclosure of beneficial owners of legal persons as part of the registration process or provide alternative means to ensure transparency regarding the beneficial ownership and control of legal persons;
- Designate and require a competent authority to conduct more due diligence when registering legal persons; and
- Improve the powers to ensure compliance with the commercial law with regard to company registration.

12. **Bearer shares can again be issued in Latvia, increasing the risk of abuse by money launderers.** The law has been amended to once again permit issuance of bearer shares by joint-stock companies. There were provisions in place for the dematerialization of bearer shares prior to the amendments passed to the Commercial Law in 2004. There is no information on the extent to which bearer shares have been issued. As bearer shares pose a potential risk of abuse by money launderers, the assessors recommended that Latvia dematerialize bearer shares and introduce a mechanism to ensure the effectiveness of this process.

FIU

13. **The effectiveness of the Control Service as Latvia's financial intelligence unit (FIU) continues to improve.** The FIU is established under the AML Law as a central national agency within the Prosecutor's Office's system. It is empowered to receive and analyze suspicious and unusual transactions from financial institutions and DNFBPs, and disseminate its information when it has a reasonable suspicion that a person has committed or is attempting to commit an offence or is laundering the proceeds of crime. It is currently adequately structured and organized and its staff are competent to carry out its role under the law. The head of the FIU provides strong leadership to the national AML/CFT initiative and has spearheaded efforts to create and raise awareness of the risks of ML and TF and the requirements of the AML Law among financial institutions and DNFBPs. The FIU has received substantial numbers of unusual (and some suspicious) transaction reports, mainly from the banks. In 2005, reports relating to 26,302 unusual and suspicious transactions were received by the FIU and, of these, 155 reports were forwarded to law enforcement agencies (relating to 2,561 transactions).

14. **An amendment to the AML Law is needed to eliminate the potential confusion of having two contradictory provisions dealing with the dissemination function of the FIU.** One provision empowers the FIU to disseminate its information to pre-trial investigative agencies while the other requires the FIU to send its analyzed information to the Prosecutor's Office. If the authorities wish to retain the current practice, Latvia should legislate for it unequivocally, by amendment of the AML Law to provide that the FIU disseminates its information to the Prosecutor's Office who will then forward the information to the relevant pre-trial investigative agency.

15. **While the Prosecutor's Office monitors the activities of the FIU, the latter appears to be autonomous in its day-to-day operations**. This monitoring is to ensure that the FIU has complied with legal provisions of the AML Law in the exercise of its powers, and to check the procedures of the FIU to ensure its efficient functioning and proper accountability. However, the role of the Prosecutor's Office is also to supervise pre-trial investigating agencies and, pursuant to this role, the Prosecutor's Office reviews the information of the FIU to determine whether the information is sufficient to indicate a criminal offence and, if so, what would be the suspected offence and, based on that determination, to send it to the relevant pre-trial investigating agency.

16. **The FIU will require more staff and other resources to carry out its role effectively as its workload increases.** The AML Law has recently been applied to DNFBPs and with the awareness-raising efforts of the FIU, it should receive more suspicious and unusual transaction reports in the future. To enable the FIU to deal with the increased volume of reports and to analyze more effectively and efficiently the reports received, and disseminate the information to law enforcement without delay, there will be a need for increased human and technical resources for the FIU. The assessors welcomed the ongoing interest shown by the AML Council to support the FIU, the Prosecutor's Office, and the law enforcement agencies and provide them with additional resources, where needed.

Law Enforcement

17. **The fight against money laundering and terrorist financing has been greatly assisted in Latvia by the introduction of new investigative, tracing and seizing powers.** These powers were introduced by the Criminal Procedure Law in October 2005. With the introduction of these new powers, the main law enforcement agencies have included money laundering and terrorist financing as part of their core operations in their action plans for 2006. This has led to a number of reorganizations within the law enforcement agencies to include financial investigators as part of the investigative teams.

18. **Since October 2005 there has been a welcome increase in the number of financial investigations and the number of cases that have been passed to the Prosecutor's Office to take to court.** Police departments are currently conducting investigations into underlying predicate offences and tracing the proceeds of crime. The investigative efforts have been concentrated on the main sources of criminal proceeds identified in Latvia, including evasion of duty, drug trafficking, trafficking in human beings, dealing in counterfeit goods, and illegal logging. The investigation of these predicate crimes has led to a number of money laundering investigations. The investigations have not only been local but have also involved cooperation with law enforcement agencies outside Latvia from a wide range of jurisdictions. The investigations have also included the use of special investigative techniques by the law enforcement authorities in Latvia. One technique that has been employed on more than one occasion is the controlled delivery of illicit drugs and counterfeit goods.

19. **The powers under the Criminal Procedure Law have been used to trace and seize assets.** The assets have been seized for the purposes of seeking confiscation in the event of conviction in the criminal courts. There has also been repatriation of assets in at least one case. Assets have been traced to Latvia and seized. Subsequently these assets were sent back to the country where a major fraud had been committed.

20. **The Prosecutor's Office informed the assessors that it has made money laundering and terrorist financing a priority** and has designated prosecutors to deal with specialist issues such as organized crime. There are currently a number of money laundering cases before the courts awaiting sentencing. In these cases, assets have been frozen when they have been identified. The Prosecutor's Office plans to ask for those assets to be confiscated when the matters are finally disposed of by the courts.

21. **The improvements in the effectiveness of the Prosecutor's Office and law enforcement agencies have been achieved only recently and much remains to be done.** The issue of adequate resourcing needs to be kept under ongoing review. There is a need for training for prosecutors and investigators. Training in the areas of identifying proceeds of crime and tracing and seizing assets for the purposes of money laundering and terrorist financing cases have been identified by the police as priorities.

22. **At the time of the assessment, Latvia had not yet implemented measures to detect physical cross-border transportation of cash** and other bearer negotiable instruments, such as a declaration system or disclosure systems called for under the standard. However, a new piece of legislation, the Law on Cash Declaration at the Border, has been adopted and entered into force on July 1, 2006. The new law sets out an obligation to declare

to the State Revenue Service of Latvia all physical transportation, out of or into Latvia, of cash and other financial instruments in an amount equivalent to or exceeding EUR10,000.

B. Preventive Measures—Financial Institutions

23. **The financial sector in Latvia is dominated by the 23 banks,** including one branch of a foreign bank, and includes a small number of insurance companies and brokers, capital-markets firms, as well as bureaux de change and the Post Office. The banks represent more than 90 percent of the total assets of the system. Nonresident business continues to represent close to 50 percent of the total assets of the banks, a few percentage points lower than in 2005.

24. **While, in the recent AML/CFT initiatives, emphasis has been placed appropriately on the banks, AML/CFT requirements are applied also to the other financial institutions, including insurance businesses, except for reinsurance.** There are specific requirements as to the location and/or rating of companies with which Latvian insurance companies may reinsure. However, while there are no rated reinsurance companies in Latvia, a small number of reinsurance businesses operates in Latvia, offering services mainly to clients in CIS countries. The FCMC informed the assessors that these companies are not subject to supervision and the assessors received no indication that they are implementing appropriate AML/CFT measures. Given the potential for abuse of reinsurance contracts for money laundering purposes, this situation could represent a reputational risk for Latvia. The assessors were informed by the authorities that the position is due to be regularized on the implementation by Latvia of the EU Directive on reinsurance.

25. **With regard to the legal basis for AML/CFT preventive measures, the latest amendments in 2005 introduced important new measures, particularly regarding beneficial owners.** However, the drafting of the legal provisions gives rise to some problems of consistency and interpretation, when viewed alongside the earlier provisions. While most of the fundamental preventive measures from the FATF Recommendations feature in the AML Law, a number lack the level of detail and precision needed to determine compliance with the FATF Recommendations. The AML Law is supplemented by the detailed Regulation of May 2006 and other earlier guidance issued by the FCMC, much of which uses wording from the FATF Recommendations and other relevant international source documents.

26. **The practice of the financial institutions (particularly banks), as evidenced to the assessors, appears not to be hampered by any shortcomings in the wording of the AML Law.** The assessors interviewed 13 financial institutions during the on-site visit, including a selection of seven banks from the total of 23. Overall, the level of awareness of AML/CFT risks and practices was found to be very high and the description of AML/CFT measures put in place was comprehensive. Some banks had only recently acted to improve their systems and the process was not complete, while the measures introduced by others were already mature. There was a general pattern of having engaged large accountancy firms as consultants to audit the AML/CFT systems, advise on needed enhancements, and in some cases to develop and implement solutions, including in the information technology area.

27. **Nonetheless, the assessors identified many points of the AML Law where amendments–albeit often technical or minor improvements–are needed to achieve full compliance with the FATF Recommendations.** As the assessors understood that the authorities plan to amend the AML Law in late-2006/early-2007 to fully implement the Third EU AML Directive, this will present an opportunity to address the problems noted. Examples of areas where changes are needed include:

- Convoluted and, in some respects, contradictory text in the provisions for customer identification, when considered alongside the recently-introduced provisions for beneficial owners; the requirements for timing and verification of identification are not sufficiently clear;
- The legislative requirement for enhanced due diligence for higher-risk customers does not meet the international standard, though it was clear to the assessors that this is a particular focus of FCMC supervision and of the supplemental due diligence currently being conducted by the banks;
- The measures specified in law and guidance for the conduct of financial business using new technologies needs to be improved; the assessors noted that, although new accounts cannot now be opened using the internet, the use of the internet for conducting banking business (for nonresident clients in particular) is prevalent. The assessors encountered no indication that, in practice, controls being applied are weak in this area; and
- The requirements for correspondent banking address most of the main points of the FATF Recommendation, but fall short of the detail required.

28. **Other deficiencies in or omissions from the AML Law are more significant, although they do not seem to be interfering with effective implementation.** For example:

- There is a need to clarify the requirements for reporting of suspicious transactions (as distinct from transactions identified by reference to a set of indicators and which may not in reality be regarded as suspicious by the reporting financial institution); also, the timing for reporting of 'real' suspicious transactions may need to be enforced more firmly, as the assessors encountered a variety of differing explanations from financial institutions on their practices for reporting to the Control Service, few of which seemed to be consistent with the terms of the AML Law; and
- For wire transfers—a key issue given the extent of the transactions passing through Latvian banks—the assessors could not locate a specific requirement to include originator information with the transfer. The authorities seem to be relying on a construction based on other related provisions. This does not imply that the practices of the banks were found to be deficient in this area.

C. Preventive Measures—Designated Nonfinancial Businesses and Professions and Nonprofit Organizations

29. **The AML/CFT regime for DNFBPs is new and still being bedded down.** While preventive measures obligations for DNFBPs have been in the AML Law for some time, it is only in the last year that organized efforts have been made to implement these requirements. Various organizations in the DNFBP sector have been mobilized to raise awareness of

AML/CFT obligations and to promote compliance. Key organizations involved include government agencies (Lottery and Gambling Monitoring Inspectorate, State Assay Supervision Inspectorate), self-regulatory organizations (SROs), which exist for Sworn Advocates, Sworn Notaries, and Sworn Auditors, as well as various trade associations that have issued guidelines or regulations covering AML/CFT preventive measures requirements for the respective covered sector. While the volume of such issuances is substantial, the quality is uneven and most of the guidelines are advisory only, because the legal authority for AML/CFT compliance has not been clarified.

30. **As a result of the awareness-raising campaign, DNFBPs have a reasonably good understanding of their general responsibilities under the law.** However, knowledge of detailed requirements is sketchy and it is difficult to evaluate the degree of compliance.

31. **There are significant gaps in the legal framework for DNFBPs.** In particular:

- The specification of the circumstances under which DNFBPs are subject to the AML Law's requirements for preventive measures is too narrow, leaving out some parties who should be covered and restricting the circumstances in which the requirements apply;
- Several of the specific CDD provisions of the FATF Recommendations are missing or apply at too high a threshold. Requirements for PEPs are missing and most professionals are only required to identify clients when they engage in transactions of EUR15,000 or more or when they arrange safekeeping of financial instruments, or when opening accounts;
- Many of the specific internal control and reporting requirements called for in FATF recommendations are missing or are not legally binding on DNFBPs;
- The transactions monitoring required of financial institutions does not apply to DNFBPs; and
- Essential elements of internal controls have been spelled out only in guidelines or regulations that are purely advisory, with no effective means of enforcement.

32. **The regime for monitoring and ensuring compliance by DNFBPs with their AML/CFT requirements is not well structured.** While numerous government agencies, SROs, and trade associations have been mobilized to promote compliance, in most cases the authority and capacity of these groups to ensure compliance is inadequate:

- None of the groups has been given explicit authority to act as a supervisory and monitoring authority for purposes of implementing the AML Law in its sphere of competence;
- Government agencies (the Lottery and Gambling Monitoring Inspectorate and the State Assay Supervision Inspectorate) have implemented effective compliance supervision regimes, although some clarification of legal authority would be useful;
- SROs (for Sworn Advocates, Sworn Notaries, and Sworn Auditors) have the potential to fulfill the role of supervisory and monitoring authority for purposes of implementing the AML Law but clarification of their legal authority, procedures, and capacity is needed; while

- Trade organizations appear to be unsuitable to take on a role as supervisory and monitoring authority for purposes of implementing the AML Law.

33. **The assessors believe it would be desirable to appoint some governmental agency, appropriately authorized and adequately resourced, to act as the default supervisor to ensure AML/CFT compliance by those DNFBPs that are not supervised effectively by some other governmental agency or SRO.**

34. **Money laundering vulnerabilities are evident in real estate transactions and in the use of corporate entities.** The DNFBP regime should be strengthened to address these vulnerabilities and some modification of market practices in the real estate sector would be desirable:

- Independent accountants and independent lawyers play an active role in organizing real estate transactions and in company formation and management. The AML regime for these professions needs to be strengthened. Independent accountants are not covered by the AML Law and independent lawyers are not subject to SRO oversight; and
- Real estate brokers have only a partial perspective on key components of real estate transactions. More attention needs to be given to the role of various other professionals involved in the financing, settlement, and recording of real estate transactions.

35. **More attention needs to be paid to the role played by lawyers, notaries, accountants and other business advisers, as well as the registry of properties, in the negotiation, settlement, and registration of real estate transactions.** Requiring all property transactions to be settled by bank transfer would be desirable.

36. **The legal framework applicable to nonprofit organizations (NPOs) has recently been amended.** With effect from 2004, a new Associations and Foundations Law came into force. In accordance with its provisions, all NPOs are required to re-register in new associations and foundations register. Registration is required whether or not the organization receives outside funding. Annual reports on NPO activities must be filed. As of March 2006, 10,097 NPOs were registered. Religious organizations are recorded separately by the Agency of Religious Issues. Drawing on a wide variety of information systems, the State Revenue Service monitors the financial assets of NPOs as well as donations to NPOs, including for tax compliance, and in case of suspicion of ML or FT, informs the FIU.

37. **Financial data on NPOs is also generated by a range of reporting requirements:** (a) NPO reporting of charitable donations (1,507 cases in 2004); (b) taxpayers' claims for charitable deductions on tax filings (claims regarding about 800 NPOs were filed in 2004); (c) applications from NPOs to be eligible to receive tax deductible charitable contributions (608 cases in 2004); (d) information on payment of social contributions by NPOs; and (e) review of all donations above US$8,000.

38. **In addition to the monitoring carried out by the State Revenue Service, an extensive public awareness campaign has been conducted to inform NPOs of their**

obligations to register and to educate the public of its responsibility to know to whom they are donating money and the intended use of the funds.

D. Legal Persons and Arrangements

39. **Legal persons and legal arrangements are subject to a registration system.** The following are the types of legal persons and legal arrangements that can be established or registered in Latvia: a company, a partnership, a sole proprietorship, a cooperative society, a political organization, a trade union, a foundation, an association, a farmstead, a fishing farm, a European commercial company, a European economic interest group, a branch of a foreign merchant, and a representative office of a foreign organization. All the entities except the last two acquire the status of a legal person upon registration with the Register of Enterprises and can own property. There is a central registration system for registration of all entities in the Register of Enterprises which is regulated by the law on the Register of Enterprises.

40. **Companies, including joint-stock companies, cooperative companies and European commercial companies are owned by shareholders where the company has a separate legal personality from its members while all the other entities are owned by their members.** Sole proprietorships, farmsteads, fishing farms, and members of political organizations and trade unions must be owned by natural persons. Founders and shareholders of European commercial companies must be legal persons. For registration with the Register of Enterprises, entities are required to submit different documentation and information but, at a minimum, all entities must submit names of founders, name of entity, members of the administrative institutions, legal address i.e., place of business and, in most cases, the founding documents, and this information is kept in the Register of Enterprises. Entities carrying on commercial activities, except for joint-stock companies, must disclose their shareholders/members/participants. Joint-stock companies and those entities established for nonprofit purposes need not declare their members or shareholders and only information relating to founders of the entities is kept with the Register of Enterprises. All legal persons including joint stock companies and cooperative companies are required to maintain information about their owners (members or shareholders), although joint stock companies which have issued bearer shares, political organizations, and trade unions are excluded from this requirement. Where information on owners is kept, it must be available to owners and law enforcement agencies. Entities are not required by law to obtain information on their beneficial owners though they may do so. As of March 2006, there were 7,512 individual merchants; 61,911 limited liability companies; 798 joint-stock companies; 204 partnerships; 2,001 cooperative societies; 17,170 proprietorships; 32,880 farmsteads; and 137 fishing farms. All these engage in commercial activities. Of the nonprofit entities, there are 5,432 associations, 394 foundations, 150 trade unions, and 70 political organizations.

E. National and International Cooperation

41. **Latvia is able to provide mutual legal assistance (MLA) in criminal matters on the basis of international, bilateral or multilateral agreements to which Latvia is a party.** Where there is no agreement on MLA, the Criminal Procedure Law provides the legislative basis for providing assistance. It provides that if there is no treaty or agreement with the country, MLA is provided on the basis of reciprocity. The competent authority for

international cooperation is the Ministry of Justice or the Prosecutor's Office depending on whether requests relate to pre-trial investigations or criminal proceedings. Latvia can provide assistance on a wide range of matters and MLA requests are not subject to unreasonable restrictions, though the provisions in the Criminal Procedure Law regarding confiscation should be expanded to specifically include the enforcement of foreign confiscation orders relating to all proceeds of crime, intended instrumentalities, and terrorist property.

Money laundering and terrorist financing are extraditable offences in Latvia. Extradition is possible on the basis of treaties and dual criminality is generally required.