Text consolidated by Tulkošanas un terminoloģijas centrs (Translation and Terminology Centre) with amending regulations of:

13 August 2002 (No. 357).

If a whole or part of a paragraph has been amended, the date of the amending regulation appears in square brackets at the end of the paragraph. If a whole paragraph or sub-paragraph has been deleted, the date of the deletion appears in square brackets beside the deleted paragraph or sub-paragraph.

Republic of Latvia

Cabinet
Regulation No 127
Adopted 20 March 2001.

Regulations regarding List of Elements of Unusual Transactions and Procedures for Reporting

Issued pursuant to Section 11, Paragraph one, Clause 1 of
the Law on Prevention of Laundering of the Proceeds from Crime

1. These Regulations prescribe a list of elements of an unusual transaction, in which the elements incorporated may testify to the laundering of the proceeds from crime or a laundering attempt, and the procedures for reporting thereof.

2. Credit institutions and financial institutions shall in compliance with the law notify the Prevention of the Laundering of Proceeds from Crime Service (hereinafter – Control Service) without delay regarding every transaction intended, commenced or performed, the elements of which correspond to at least one of the elements referred to in these Regulations, as well as regarding the facts discovered which do not correspond to the elements referred to in these Regulations, however, which due to other circumstances provide grounds for suspicion regarding the laundering of the proceeds from crime or a laundering attempt.

3. Notifications regarding the transactions and facts referred to in Paragraph 2 of these Regulations shall be submitted in written and electronic form in accordance with the sample specified by the Control Service.

4. In compliance with the Law on Prevention of the Laundering of Proceeds from Crime, credit institutions and financial institutions must provide a report regarding each financial transaction that conforms with the amount in lats set out in these Regulations or the equivalent thereof in any other currency.

5. In submitting to the Control Service the reports and the additional information requested, credit institutions and financial institutions shall ensure that the content and fact of the

submission thereof is not disclosed to third parties, as well as to those natural persons and legal persons regarding which the report is submitted.

6. A transaction shall be considered to be an unusual transaction if it complies with at least one of the following elements:

6.1. in all transactions:

6.1.1. a transaction made in cash the amount of which is 40 000 and more lats (except disbursement of salaries, pensions and social benefits and credits);

6.1.2. a transaction in the amount of 1000 and more lats, in which coins or banknotes of a low par value are exchanged for banknotes of a higher denomination (or vice versa) or for other banknotes of the same denomination;

6.1.3. a transaction in the amount of 10 000 and more lats which is related to the purchase and sale of traveller's cheques or other payment instruments in cash;

6.1.4. a client withdraws 40 000 and more lats in cash using credit cards or other accounting cards within a period of a month;

6.1.5. a transaction, utilising a transfer, in which 40 000 and more lats have been transferred without opening an account (transfer – a transfer of money that is performed by a client utilising postal, telegraph or electronic mail services (including Internet network), and which does not involve an inter-bank telegraph transfer in which the banks are clients – consignor and the real beneficiary);

6.1.6. an exchange of currency at a currency exchange point for an amount the equivalent of which is 5000 and more lats; or

6.1.7. a transaction, in which a client participates who is suspected of committing a terrorist act or of participation therein and is included on the list of persons regarding which the Control Service has informed credit institutions and financial institutions;

6.2. in gambling:

6.2.1. a client wins 5000 and more lats;

6.2.2. by exchanging the means for participation in a game (for example, chips), a client performs a non-cash transfer or exchanges the currency for the amount the equivalent of which is 5000 and more lats; or

6.2.3. a client obtains the means in a gambling hall for participation in a game (for example, chips) in the amount of 5000 and more lats;

6.3. in investments in securities :

6.3.1. for services received and in transactions in transferable securities, a client of a credit institution or brokerage company pays by making a single payment in cash the amount of which is 10 000 and more lats;

6.3.2. a commercial intermediary (except a credit institution) or a natural person purchases privatisation certificates, the market value of which is 10 000 and more lats, and they are transferred into the account of the commercial intermediary or a natural person by a single transfer, or privatisation certificates, the market value of which is 25 000 and more lats, have been transferred to the account of a natural person. The market value of property refund certificates and other privatisation certificates shall be determined in accordance with the average price of the purchase contracts entered into in tenders and stock exchange within a period of the last ten days published in the newspaper *Latvijas Vēstnesis* [the official Gazette of the Government of Latvia]; and

6.3.3. in the establishment and operation of brokerage companies:

6.3.3.1. the founders of a brokerage company do not represent any financial institution or undertaking (company), and monies in the amount of 25

000 and more lats are invested in securities, or clients are not being attracted, and information regarding services of this company does not appear on the market;

6.3.3.2. the number of clients is small (up to five clients), and they represent institutions registered in tax-free or low-tax countries and territories which have been determined as such by the Cabinet; or

6.3.3.3. transaction disbursements, commission or earned profit are unreasonably increased;

6.4. in insurance:

6.4.1. the premium for a life assurance contract or a part thereof has been paid in cash in the amount of 25 000 and more lats;

6.4.2. the payment of the insurance premium has been made by a company or other legal person registered in a tax-free or low-tax country or zone which has been determined as such by the Cabinet, and the amount of the premium is 25 000 and more lats;

6.4.3. an insurance contract is terminated before the expiry of the term, and the insurer makes a payment the amount of which is 10 000 and more lats;

6.4.4. a life assurance policy is utilised as a guarantee for a loan, and the insurance premium provided for in the insurance contract is 25 000 and more lats;

6.4.5. a property insurance contract is entered into, the insurance money for which is 200 000 and more lats, and the insurance policy holder is any natural person or such legal person that is registered in a tax-free or low-tax country or zone which has been determined as such by the Cabinet; or

6.4.6. a vehicle (an air, water or land vehicle) is insured for insurance money of 40 000 and more lats, and the insurance policy holder is any natural person or such legal person that is registered in a tax-free or low-tax zone which has been determined as such by the Cabinet.

[13 August 2002]

7. Cabinet Regulation No. 437 of 28 December 1999, Regulations on List of Elements of Unusual Transactions (*Latvijas Vēstnesis*, 1999, No. 444/445) is repealed.

Prime Minister A. Bērziņš

Acting for the Minister for Finance,
Minister for Special Assignments
for Co-operation with International Financial Institutions R. Zīle

CABINET OF MINISTERS OF LATVIA REPUBLIC

December 29, 1998
Rīga

Regulation Nr 497
(min. Nr 69 para 13)

Procedure pursuant to which public institutions furnish information to the Office for prevention of laundering of proceeds derived from criminal activity

Issued in accordance with
Article 31 of the Law On
Prevention of Laundering
of Proceeds derived from
criminal activity

1. The present Regulation shall specify the procedure pursuant to which public institutions furnish information to the Office for prevention of laundering of proceeds derived from criminal activity (hereinafter the Control Service).

2. The Control Service shall submit the information request in a written or electronic format with a description according to which the required data can be identified. The request shall be signed by the Head of the Control Service.

3. The Control Service shall not be obliged to substantiate the necessity of the requested information. Information shall also be furnished to the Control Service regardless of the informer considering it to be insignificant for the Control Service to perform its functions.

4. To ensure the fulfillment of the functions prescribed by law the Control Service shall be authorized to request public institutions to furnish information in a written or electronic format.

5. The Control Service and the informer shall agree upon the requirements and procedure according to which information is to be submitted in electronic format.

6. The informer shall not disclose the subject matter of the furnished information to the third persons as well as to the natural and legal persons on which the information is furnished.

7. Information shall be furnished to the Control Service free of charge should the law prescribe no other procedure.

8. State secret related information shall be furnished pursuant to the requirements of Regulation by the Cabinet of Ministers Nr 225 Regulation On Security of State Secret as of June 25, 1997.

9. The response to the request of the Control Service shall be furnished within 14 days from the day of receipt of the request.

Prime Minister V. Krištopans

Minister of Finance I. Godmanis

APPROVED BY
Council of Prosecutor General
of the Republic of Latvia
Decision 70
of June 17, 1998

BY-LAW OF FINANCIAL INTELLIGENCE UNIT (DISLOSURE OFFICE)

Issued in accordance with:

- Law on Prosecutor General of July 1, 1994;
- Anti-Money Laundering Law of December 18, 1997.

Amendments:

- Council of Prosecutor General Decision 78 of June 4, 1999 to amend Article 12 of Chapter II (June 4, 1999).

Chapter I

General

1. Financial Intelligence Unit, further "Disclosure Office", is a state institution working under supervision of Prosecutor General's Office. According to the legislation, Disclosure Office is responsible for collecting, processing and analysis of reports on unusual and suspicious financial transactions and forwarding of information to prosecution, investigation or court institutions in cases required by law.

2. Disclosure Office is a legal person funded from the state budget and having own balance section in Prosecutor General's budget, along with separate account. Disclosure Office has its own stamp, extended version of official coat of arms of the Republic of Latvia with full name of the institution *Financial Intelligence Unit.*

3. The overall objective of the Disclosure Office is to minimize use of Latvia's financial system for money laundering.

4. Functions of Disclosure Office are to:

4.1 follow recommendations of the Advisory Council in developing unusual financial transaction indicator list to be submitted to the Cabinet of Ministers and prepare necessary amendments to the list;

4.2 disclose unusual and suspicious financial transactions;

4.3 collect, register and analyze unusual and suspicious financial transaction reports;

4.4 use all legal intelligence gathering methods to disclose money laundering attempts or acts;
4.5 analyze collected transaction and persons information and decide whether to forward it to investigators or court, if the information is enough to form reasonable suspicion of money laundering attempt or act;
4.6 provide information about transactions registered in the data base upon request of institutions legally authorized to demand the information in cases and according to procedures prescribed by law;
4.7 assess the quality and effectiveness of received information and give feedback to credit or financial institution that submitted such information;
4.8 provide information and request legal assistance from counterparts in other countries having the same responsibilities as Disclosure Office according to international law and agreements;
4.9 cooperate with international organizations in training, organizing and participation at workshops on money laundering topics;
4.10 analyze and research money laundering attempt or act conducting methods to improve anti-money laundering measures;
4.11 cooperate with the Advisory Board and arrange its records according to the by-law of the Board.

Chapter II

Management and Staff

5. Disclosure Office is managed by Prosecutor's appointed Head who bears full responsibility for operations of the Office.

6. Head of Disclosure Office is entitled to hire or dismiss Office staff members.

7. In order to receive access to high confidentiality information, Head and staff of the Office shall comply with requirements of State Secrets Law.

8. Head of Disclosure Office is entitled and obliged to:
8.1 represent the Office without further authorization;
8.2 prepare and submit Prosecutor General Disclosure Office's budget estimates;
8.3 instruct Administrative Director about use of assigned funds;
8.4 prepare and submit staff salary rates for approval to the Advisory Board;
8.5 plan, organize and manage Office work;
8.6 give job descriptions to staff;
8.7 control subordinates;
8.8 apply disciplinary penalties and pay out bonuses to employees;
8.9 issue orders and instructions binding to staff members;
8.10 review complaints, claims and requests to reply to them pursuant to legislation;
8.11 organize and control implementing of Prosecutor General and other attorneys' orders on supervision functions;

8.12 implement or follow all other orders/instructions of Prosecutor General and recommendations/guidance of the Advisory Board;

9. Leave of the Head of Disclosure Office is approved by the Prosecutor General.

10. During vacation Head of Disclosure is substituted by the Deputy Head.

11. Except cases when legislation allows so, Disclosure Office employees, neither after working hours, nor after termination of work relationship, are prohibited to reveal work-related information.

12. Employees of Disclosure Office are obliged to give an oath to Code of Professional Ethics on the first day of work.

Chapter III

General Information Flow

13. Information sources:
13.1 credit and finance institutions;
13.2 international counterparts having the same field of operation;
13.3 data storage units of the Ministry of Interior;
13.4 other sources containing information vital for prevention, prosecution, pretrial investigation and court proceedings on money laundering and other criminal offences.

14. Disclosure Office shall register all information on scheduled, commenced, suspended and completed financial transactions.

15. Disclosure office is entitled to request from credit or finance institutions that have reported and/or are involved in transaction additional data or information necessary to decide if this is not key information for prevention, prosecution, pretrial investigation and court proceedings on money laundering and other criminal offences, therefore reported to supervising and prosecuting agencies.
Any information received from other countries, mass media or other sources is the basis for requesting additional information.

16. Disclosure office is obliged to comply with the following restrictions on access to information:
16.1 Information requested by the State Revenue Service from Disclosure Office is provided only to check the income declarations of government officials listed under Anti-Corruption Law, if there is reasonable evidence to believe that declaration contains false information on property and income.
16.2 Information requested by pretrial investigation agencies and courts is provided according to Article 33 of the Anti-Money Laundering Law.

16.3 Regular supervision information delivered by the Disclosure Office to the Prosecutor General and attorneys shall not be revealed to investigating agencies or court.

Chapter IV

Cross-Border Information Exchange

17. Disclosure Office may exchange information with international counterparts on voluntary or legal assistance basis.

18. National and international laws and agreements set forth the procedure for cross-border information exchange with foreign investigation and prosecution agencies.

19. Access to information:

19.1 when the other country can provide sufficient legitimacy in use of information and protection of privacy.
Information is subject to confidentiality equal to local information from sources protected by the national legislation of the country;

19.2 information is provided only for purposes on basis of which it was requested;

19.3 information is withheld when it may be used in investigation of the case to prosecute, punish or influence individuals for their political beliefs, nationality, race, wealth or social status and/or commit other types of human right offences;

19.4 information is withheld when it may be used in criminal investigation of cases against persons prosecuted and found innocent, released or convicted in Latvia;

19.5 information is also withheld in cases described under Latvian and international laws, including Convention of 1990 on Laundering, Search, Seizure and Confiscation of the Proceed from Crime after its ratification.

Chapter V

Other Rights and Obligations of the Disclosure Office

20. Head of Disclosure Office shall be present in meetings of Advisory Board as requested by the law.

21. Disclosure Office must report upon request of Advisory Board about the effectiveness of reporting procedure supervision and deliver any other information necessary for functioning of the Advisory Board.

22. Disclosure Office may ask Advisory Board to review any requests on operational matters.

23. Disclosure Office is entitled to require credit and finance institution supervision and control agencies ensure technical assistance to exercise powers under Anti-Money Laundering Law.

Chapter VI

Confidentiality of Content and Flow

24. Information flow at Disclosure Office is regulated by *Financial Intelligence Unit Manual for Registration, Processing, Storage and Termination of Information* commended by the Advisory Board and adopted by the Council of Prosecutor General.

25. Disclosure Office shall take all reasonable administrative, technical and other measures to ensure confidentiality of received, registered, stored and forwarded information, and prevent access violations, twisting of information, illegal dissemination of information or its termination.

26. Disclosure Office shall provide information only in circumstances set out by law.

27. General Prosecutor or attorneys are ensuring integrity and legitimacy of information in cases under Article 32-34 of the Anti-Money Laundering Law through explanatory notes attached to requested information to inform recipient about legal requirements on copying and rewriting of information to data basis, declassifying of information in case of criminal offence against individual.

28. Disclosure Office is prohibited to reveal identity of reporters who have disclosed information about unusual and suspicious financial transactions, furthermore, such information shall not be used as evidence in prosecution of credit or financial institutions and their employees in business relationship with client convicted of actual or attempted money laundering.
    Above provisions are not applicable in cases when credit or finance institutions and their employees have themselves been convicted of actual or attempted money laundering.

(Unofficial translation)

LAW "ON THE FINANCIAL AND CAPITAL MARKET COMMISSION"

In effect as of July 1, 2001

Note.
This Law will be effective as of July 1, 2001, except for Article 13, on the appointment of Chairperson and his/her Deputy, and Items 1, 2, and 4 of the Transition Rules that are effective as of the day following its promulgation.

With amendments passed by the Saeima of the Republic of Latvia on 8 November 2001, which took effect on 1 January 2002 [1].

SECTION I
GENERAL PROVISIONS

Article 1. This Law shall specify the provisions for the establishment and operation of the Financial and Capital Market Commission (hereinafter, the Commission).

Article 2. (1) The Commission shall enjoy full rights of an independent/autonomous public institution and, in compliance with its goals and objectives, shall regulate and monitor the functioning of the financial and capital market and its participants.
(2) The Commission shall make independent decisions within the limits of its authority, execute functions assigned to it by law, and be responsible for their execution. No one shall be entitled to interfere with the activities of the Commission, except institutions and officials authorised by law.

Article 3. (1) The Commission's legal ability and capacity shall comply with the objectives set forth in this and other laws. The Commission shall be assigned property owned by the state and have an independent balance sheet.
(2) The Commission shall have a seal bearing its full name, other corporate requisites and an account with the Bank of Latvia.

Article 4. Participants in the financial and capital market shall be issuers, investors, credit institutions, insurers, private pension funds, insurance brokers, stock exchanges, depositories, broker companies, brokers, investment companies, credit unions and investment consultants. [1]

SECTION II
COMMISSION'S GOALS, FUNCTIONS, AUTHORITIES AND RESPONSIBILITIES

Article 5. The goal of the Commission's activities shall be to protect the interests of investors, depositors and the insured, and to promote the development and stability of the financial and capital market.

Article 6. The Commission shall have the following functions:
1) to issue binding rules and regulations and directives setting out requirements for the functioning of financial and capital market participants and calculation and reporting of their performance indicators;
2) by controlling compliance with regulatory requirements and directives issued by the Commission, to regulate activities of the financial and capital market participants;
3) to specify the qualification and conformity requirement for the financial and capital market participants and their officials;
4) to establish the procedure for licensing and registration of the financial and capital market participants;

5) to collect and analyse information (data) relating to the financial and capital market and to publish it;

6) to ensure accumulation of funds with the Deposit Guarantee Fund, and Protection Fund for the Insured, their management and payment of compensation from these funds in accordance with the Laws on Deposits of Individuals and the Insurance Companies and their Supervision;

7) to ensure payment of compensations to investors in accordance with the Investor Protection Law; [1]

8) to analyse regulatory requirements pertaining to financial and capital market and draft proposals for their improvement and harmonisation with the regulatory requirements Community;

9) to engage in systemic studies, analysis and forecasting of the financial and capital market development;

10) to cooperate with foreign financial and capital market supervision authorities and participate in international organizations of the financial and capital market supervision institutions.

Article 7. (1) Executing the functions specified under Article 6 hereof, the Commission shall have authority:

1) to issue regulations and directives, governing the activities of the financial and capital market participants;

2) to request and receive information necessary for the execution of its functions from the financial and capital market participants;

3) in cases stipulated under the regulations, to set forth restrictions on the activities of the financial and capital market participants;

4) to examine compliance of the activities of the financial and capital market participants with the legislation, and regulations and directives of the Commission;

5) to apply sanctions set forth by the regulatory requirement to the financial and capital market participants and their officials in case said requirements are violated;

6) to participate in the general meeting of the financial and capital market participants to initiate convening of meetings of the financial and capital market participant management bodies, specify items for their agenda, and participate therein;

7) to request and receive, from the Commercial Register and other public institutions, any information required for execution of its functions free of charge;

8) to cooperate with foreign financial and capital market supervision authorities and, upon mutual consent, exchange information necessary to execute its functions set forth by law;

(2) In order to execute its functions specified by law, the Commission is entitled to carry out other activities permitted under the normative acts.

Article 8. Regulations and directives issued by the Commission are binding upon the financial and capital market participants. Regulations are effective as of the day following their publication in the government journal Latvijas Vestnesis, if same regulations do not provide for otherwise.

Article 9. The Commission shall be responsible for:

1) stability and development of the financial market;

2) promotion of free competition within the financial market.

SECTION III
Relation of the Commission with the Bank of Latvia and the Ministry of Finance

Article 10. (1) At least once per quarter the Commission shall submit information summary on the situation in the financial and capital market to the Bank of Latvia and the Ministry of Finance.

(2) Of short-term liquidity problems of a particular financial and capital market participant or its potential or actual insolvency, the Commission shall inform the Governor of the Bank of Latvia and the Minister of Finance in writing. The Commission shall be authorised to request the Bank of Latvia to extend a loan against collateral to any such credit institution.

(3) The Commission and Bank of Latvia shall share the statistic relevant to execution of their tasks.

Article 11. The Commission shall provide information on the financial status of specific credit-institutions upon a written request of the Governor of the Bank of Latvia.

Article 12. If not otherwise specified by regulatory requirements, the information referred to in this Section shall be considered restricted.

SECTION IV
Establishment and Management of the Commission

Article 13. (1) The Commission shall be governed by its Council.
(2) The Council shall be comprised of five members: the Chairperson of the Commission (hereinafter, Chairperson), his/her Deputy and three members, who are also directors of the Commission's Departments.
(3) The Parliament shall appoint the Chairperson and his/her Deputy for a period of six years upon a joint proposal of the Minister of Finance and the Governor of the Bank of Latvia.
(4) The Chairperson shall appoint and remove other members of the Council coordinating his/her decision with the Governor of the Bank of Latvia and the Minister of Finance.
(5) A person may be appointed to the position of Chairperson, Deputy Chairperson or a Council member provided that he/she:
1) is competent in financial management;
2) is of good repute;
3) has at least five years experience in the financial and capital market.
(6) The position of Chairperson, Deputy Chairperson or Council member shall not be taken by a person who:
1) has a criminal record for committing a deliberate offence, irrespective of its annulment or removal;
2) has been deprived of the right to engage in a particular or any type of entrepreneurial activity.

Article 14. The Parliament shall dismiss the Chairperson or Deputy Chairperson from his/her position before the end of their terms as specified under Paragraph 2 of Article 13 only if:
1) an application on resignation is submitted by the respective person;
2) a court judgement whereby the Chairperson or his/her Deputy is convicted for criminal offence becomes effective;
3) the Chairperson or Deputy Chairperson is not able to officiate for a period of six consecutive months due to illness or for any other reason;
4) an application submitted jointly by the Governor of the Bank of Latvia and the Minister of Finance, on his/her early dismissal has been received.

Article 15. (1) The meeting of the Council shall be convened and presided over by the Chairperson or, during his/her absence, by the Deputy Chairperson.
(2) The Council shall be considered competent if no fewer than four of its members are present at a meeting, provided that one of them is the Chairperson or Deputy Chairperson.
(3) Each member of the Council shall have the right to call a meeting of the Council by submitting a written application.
(4) Meeting of the Council shall be convened on an as-needed basis, however, not less frequently that once a month.

Article 16. (1) The Council shall pass resolutions by a simple majority. In case of vote parity, the vote of the chairperson of the meeting shall be decisive.
(2) The Governor or Deputy Governor of the Bank of Latvia and the Minister of Finance may participate in Council meetings in the capacity of advisors. Heads of the public organizations (professional associations) of the financial and capital market participants may also take part in Council meetings in such capacity, provided that these meetings have not been declared closed by a resolution of the Council.
(3) All Council members attending a Council meeting shall sign its minutes.
(4) If any Council member does not agree with a resolution of the Council and votes against it, his/her

individual opinion shall be recorded in the minutes and he/she shall not be held responsible for this resolution of the Council.

Article 17. The Council shall have the exclusive right:

1) to approve supervisory and regulatory policies for the financial and capital market;

2) to issue binding regulations and directives regulating the activities of the financial and capital market participants;

3) to issue special permits (licenses) or certificates authorising operation in the financial and capital market;

4) to suspend and renew the validity of the special permits (licenses) or certificates issued;

5) to annul any special permit (license) or certificate issued;

6) to take decisions on the applications of sanctions against persons in breach of any of the regulatory requirements pertaining to the financial and capital market;

7) to specify payments to be made by the financial and capital market participants to finance the activities of the Commission;

8) to approve the structure of the Commission, its Statutes and structural units;

9) to approve the annual budget of the Commission;

10) to establish remuneration for the Commission's staff;

11) to approve the Commission's performance and annual report;

12) to approve the procedure for registration, processing, storage, distribution and liquidation of information at the disposal of the Commission;

13) to pass resolutions on signing cooperation agreements with the Bank of Latvia and foreign financial supervision authorities on the exchange of information necessary for supervision and regulation of the financial and capital market;

Article 18. (1) The Chairperson shall represent the Commission and shall be responsible for the organization of its activity. In the Chairperson's absence, his/her duties shall be performed by the Deputy Chairperson.

(2) The Chairperson shall hire and dismiss the Commission's staff.

(3) The Chairperson shall represent the Commission in its relations with state institutions, the financial and capital market participants and international organizations.

SECTION V
Responsibility of the Officials and Staff of the Commission

Article 19. (1) The members of the Council, heads of its structural units, and other employees are officials of the Commission. The list of the employees to be ranked as government officials shall be approved by the Chairperson;

(2) To determine the restrictions on entrepreneurial activities, gaining income, combining positions and execution of tasks, as well as other related restrictions, duties and responsibilities of the officials of the Commission, the provisions of the Anti-corruption law apply.

Article 20. (1) The Council members as well as heads and employees of the structural units of the Commission are prohibited from publicly disclosing or disseminating in any other manner, both during the their office term, and after termination of their employment or any other contract relationship with the Commission, data or any other information related to the financial and capital market participants that has not been previously published in accordance with procedures set by law or whose disclosure has not been approved by the Council.

(2) The persons specified under Clause (1) of this Article, in compliance with the regulatory requirements, shall be held responsible for any illegal disclosure of restricted information as well as for any loss incurred by third parties as a result of unlawful actions of the Commission's employees.

SECTION VI
Consultative Council of the Financial and Capital Market Commission

Article 21. (1) Consultative Council of the Financial and Capital Market Commission (hereinafter, the Consultative Council) shall be established to promote the efficiency of the monitoring of the financial and capital market and promotion of its safety, stability and growth. It shall be a collegial, advisory body charged with the following tasks:

1) to review legislation drafted for the regulation of the financial and capital market participant activities;

2) upon a financial and capital market participant's request and prior to consideration by the Commission, to review the participant's complaints regarding the findings of the Commission's inspections;

3) to prepare policy recommendations for the Council relevant to the execution of the Commission's functions as set by law, and improvement and development of the financial and capital market regulation and monitoring;

4) to review the Commission' s annual budget and issue its opinion thereupon;

5) to submit proposals to the Chairperson of the Commission regarding improvement of the Commission's activities;

6) to supervise the accrual of funds with the Deposits Guarantee Fund and the Fund for the Protection of the Insured and compensation payments from these Funds.

(2) If the Council's decision does not agree with the opinion previously made by the Consultative Council on the same issue, the minutes of the Council meeting shall reflect the motivation for declining said opinion.

(3) The Consultative Council shall be comprised of representatives of the Commission and heads of the public organizations (professional associations) of the financial and capital market participants on the principle of parity.

(4) The Consultative Council shall be considered competent if at least half of its members are present at its meeting. It shall pass resolutions by a simple majority of vote of the members present. In case of vote parity, the resolution shall be considered not passed.

(5) The meeting of the Consultative Council shall be presided by the Chairperson or Deputy Chairperson of the Commission.

(6) The Commission shall be responsible for the record keeping of the Consultative Council.

SECTION VII
Financing of the Commission

Article 22. (1) Activities of the Commission shall be financed from payments of the participants of the financial and capital market made in the amounts specified by the Council and not exceeding the amount set by law. The participants' payments shall be transferred to the Commission's account with the Bank of Latvia and utilized solely for the purpose of financing its activities.

(2) Payments by permanent representative offices and branches of foreign undertakings (business enterprises) engaging in entrepreneurial activity in the Republic of Latvia as participants of the financial and capital market shall be made as provided for under Article 23 of this Law.

Article 23. (1) The Commission's revenue shall be comprised of:

1) insurers' payments calculated from the total sum of the received quarterly insurance premiums:

a) up to 0.4% (inclusive) of life insurance transactions related to the accrual of funds;

b) up to 0.2% (inclusive) of transactions related to the third party mandatory civil liability insurance of land vehicle owners;

c) up to 0.7% (inclusive) of other insurance;

2) private pensions fund payments of up to 0.4% (inclusive) of quarterly contributions made by or on behalf the pension plan members within pension plans licensed by private pension funds;

3) credit institutions' payments of up to 0.033% (inclusive) of the average quarterly value of their assets;

4) brokerage companies' payments of up to 1% (inclusive) of the average quarterly gross income from their transactions, but not less than 2,000 lats per year;

5) Stock Exchange payments of up to 2% (inclusive) of the average quarterly gross income from the Stock Exchange transactions, but not less than 5,000 lats per year;

6) Depository payments of up to 2% (inclusive) of the average quarterly gross income from the Depository's transactions, but not less than 5,000 lats per year;

7) investment companies' payments of up to 0.033% (inclusive) of the quarterly average asset value of investment funds managed by the investment companies, but not less than 2,500 lats per year;
8) income from services provided by the Commission as set by law;
9) payments of credit unions for financing the activities of the Commission of up to 0.033% of the average quarterly value of their assets. [1]

(2) Payments for the financing of the Commission are made by each participant of the financial and capital market in compliance with Paragraph 1 of this Article and Paragraph 2 of Article 22.

Article 24. (1) In accordance with the provision and terms set forth by the Commission, the financial and capital market participants shall file with the Commission reports as necessary for the calculation of payments determined by Article 23 and make payments for the financing of the Commission by 30th day of the first month following the end of each quarter.
(2) The Commission shall issue binding regulations on the filing of the reports specified under Paragraph 1 of this Article and on calculation of payments.
(3) The Payments made by the financial and capital market participants for the financing of the Commission shall be accounted for as their expenditure.

Article 25. (1) A delayed or incomplete transfer of payment to the Commission's account with the Bank of Latvia shall incur a penalty in the amount of 0.05% of the outstanding amount per each of delay.
(2) The financial and capital market participants shall transfer the calculated penalty for payment delay to the Commission's account with the Bank of Latvia.

Article 26. The end of the year balance of the Commission's accounts with the Bank of Latvia shall remain at the disposal of the Commission and shall be utilized in the succeeding year for the financing of the budget expenditure approved by the Council.

SECTION VIII
Control over the Commission's Activity

Article 27. The Commission shall annually - but no later than 1 July - file with the Parliament and the Ministry of Finance a written report on its performance during the proceeding year and full annual accounts audited by a sworn auditor. [1]

Article 28. The Commission shall publish its balance sheet statement and the opinion of the sworn auditor in the government journal Latvijas Vestnesis not later than on July 1 following the end of the reporting year.

Transition Rules

1. The Credit Institutions Supervision Department of the Bank of Latvia, the Securities Market Commission and the Insurance Supervision Inspectorate shall merge by June 30, 2001.

2. The Commission shall commence its activities on July 1, 2001.

3. The Commission shall be the legal successor of the rights, obligations and liabilities of the Securities Market Commission and the Insurance Supervision Inspectorate, rights pertaining to the management of the Deposits Guarantee Fund, and Bank of Latvia's rights, obligations and liabilities credit institution's supervision.

4. By August 31, 2000 the Chairperson shall set the Commission's draft budget for 2001. The expenses related to the establishment pertaining to the supervision of its activities shall be proportionally covered from the funds of the Bank of Latvia, Securities Market Commission and Insurance Supervision Inspectorate.

5. Within the period from July 1, 2001 to December 31, 2006, activities of the Commission shall be financed from payments made by the participants in the financial and capital market, the state budget and the Bank of Latvia as follows:

1) expenses related to the supervision of credit institutions:

a) in the years 2001, 2002 and 2003, 1,200,000 lats shall be provided by the Bank of Latvia;

b) in the year 2004, 960,000 lats shall be provided by the Bank of Latvia and the rest by credit institutions in compliance with the provisions set out in Section VII hereof;

c) in the year 2005, 600,000 lats shall be provided by the Bank of Latvia and the rest by credit institutions in compliance with the provisions set out in Section VII hereof;

d) in the year 2006, 240,000 lats shall be provided by the Bank of Latvia and the rest by credit institutions in compliance with the provisions set out in Section VII hereof;

2) expenses related to the supervision of insurance shall be covered by the insurers in compliance with the provisions set out in Section VII hereof;

3) expenses related to the supervision of securities market and private pension funds:

a) in the year 2001, 100% of the total shall be covered from the state budget;

b) in the year 2002, 80% of the total shall be covered from the state budget and 20% by the financial and capital market participants, except credit institutions and insurers, in compliance with the provision set out in Section VII hereof;

c) in the year 2003, 60% of the total shall be covered from the state budget and 40% by the financial and capital market participants, except credit institutions and insurers, in compliance with the provision set out in Section VII hereof;

d) in the year 2004, 40% of the total shall be covered from the state budget and 60% by the financial and capital market participants, except credit institutions and insurers, in compliance with the provision set out in Section VII hereof;

e) in the year 2005, 20% of the total shall be covered from the state budget and 80% by the financial and capital market participants, except credit institutions and insurers, in compliance with the provision set out in Section VII hereof;

f) in the year 2006, 250,000 lats shall be provided by financial and capital market participants in compliance with the provisions under Section VII hereof; [1]

4) expenses related to the supervision of credit unions shall be covered by credit unions in compliance with the provisions set out in Section VII hereof. [1]

6. The payment defined under Paragraph 1 of Article 5 of the Transition Rules shall be executed by the Bank of Latvia once per quarter by the 15th day of the first month of each quarter in an amount equal to one fourth of the amount that the Bank of Latvia is due to cover in the respective year.

7. Commencing with the year 2007, the activities of the Commission shall be fully financed from the payments of the financial and capital market participants.

8. Licenses (permits) and professional qualification certificates issued by the Securities Market Commission. Insurance Supervision Inspectorate and the Bank of Latvia for operation in the financial and capital market still valid on July 1, 2001 shall be valid until their expiration. Provisions for intensified supervision and restrictions on financial services applied by the Bank of Latvia in accordance with the Law "On Credit Institutions" that are effective on July 1, 2001 shall remain valid until the Commission resolves to abolish them.

9. Until the passage of the respective regulatory requirements of the Commission, yet not later than by January 1, 2002, the following Cabinet of Ministers Regulations shall remain effective, unless this law stipulates otherwise:

1) the Cabinet of Ministers Regulation No. 401 of October 6, 1998 for "Payments to the Protection Fund of the Insured";

2) the Cabinet of Ministers Regulation No. 421 of October 27, 1998 for the "Annual Reports of Insurance Companies";

3) the Cabinet of Ministers Regulation No. 436 of November 17, 1998 for the "Registration Rules for Insurance Companies and Insurers";

4) the Cabinet of Ministers Regulation No. 441 of November 24, 1998 for "Accounting for

Insurance Broker's Services in Insurance Brokerage Companies";

5) the Cabinet of Ministers Regulation No. 442 of November 24, 1998 for "Insurance Brokerage Companies Civil Liability Insurance";

6) the Cabinet of Ministers Regulation No. 18 of January 19, 1999 for the "Certification of Insurance Brokers";

7) the Cabinet of Ministers Regulation No. 91 of March 17, 1998 for "Special Permits (Licenses) for the Operation of Private Pension Fund";

8) the Cabinet of Ministers Regulation No. 234 of July 7, 1998 for the "Calculation of Additional Capital Accrued with Private Pension Fund ";

9) the Cabinet of Ministers Regulation No. 253 of July 14, 1998 for "Private Pension Fund's Annual Report".

10. Until the adoption of the respective regulatory documents by the Commission, but not later than January 1. 2002, binding regulations, issued by the Securities Market Commission, Insurance Supervision Inspectorate and the Bank of Latvia, governing the operation of the financial and capital market participants, calculation of their performance indicators and reporting shall remain effective unless this law stipulates otherwise.

11. As of July 1, 2001, the Law On Securities Market Commission shall be no longer in effect (Zinotajs of the Parliament of the Republic of Latvia and the Cabinet of Ministers, 1995, No. 20; 1997, No. 14; 1998, No. 23).

Riga, May 12, 2006 Regulations No. 93
(Minutes No. 21 Paragraph 2 of the Board of the Financial and Capital Market Commission)

Regulations for the Formulation of an Internal Control System for the Prevention of Laundering of Proceeds Derived from Criminal Activity and Financing of Terrorism

Issued pursuant to Section 7, Paragraph one, Clause 1
and Section 17, Clause 2
of the Law on the Financial and Capital Market Commission.

1. General Provisions

1. These Regulations determine the provisions which credit institutions, credit unions, investment brokerage companies, investment management companies, insurers, the Latvian Central Depository, organizers of a regulated market (stock exchanges), private pension funds and insurance intermediaries (hereinafter referred to as the Participant) shall take into account when formulating and documenting an internal control system for the purpose of identifying clients and verifying actual beneficiaries as well as unusual and suspicious transactions.

2. These Regulations are binding on the Participant insofar as the formulation of these Regulations may be applicable to the relevant Participant or its operation.

3. The Participant shall develop and document the adequate policy and procedures mentioned in these Regulations to comply with the provisions of the Law on the Prevention of Laundering of Proceeds Derived from Criminal Activity (hereinafter – the Law), to minimise the possibility for the Participant to co-operate with clients involved in transactions linked to the laundering of proceeds derived from criminal activity or financing of terrorism as well as to preclude damages for a rapid loss of confidence.

4. Terms used in these Regulations as follows:

4.1. groups of clients at risk – classification of clients by the Participant on a basis of indicators determined by internal control system documentation where the clients shall be classified pursuant to the assessment of the Participant in respect of the risks caused by the clients regarding the laundering of proceeds derived from criminal activity or financing terrorism;

4.2. high-risk client – a client who, or the indicators of transactions conducted by whom, testify to an increased risk with respect to the possible laundering of proceeds derived from criminal activity or financing of terrorism and such indicators are specified in the Participant's internal control system documentation;

4.3. politically exposed person – a foreign natural person who holds a position of the head of a state, head of a government, minister, Supreme Court Chairman, Constitutional Court Chairman, MP, family members of such persons (a spouse, parents, siblings and children) shall be deemed to be politically exposed persons, as well as persons who have left the said offices during the past year, and family members of such persons;

4.4. group of mutually associated clients – two or more persons who constitute one joint exposure for a credit institution because one of such persons controls another person or other persons directly or indirectly, except for cases where the persons who control another person or other persons directly or indirectly are the Latvian State or local governments, Member States of the European Union, Organisation for Economic Co-operation and Development and European Economic Area states, and local governments of the Member States of the European Union and European Economic Area states;

4.5. internal control system (for the purposes of these Regulations) – a set of policy and procedures of the Participant, their control and assessment mechanism for the purpose of ensuring operations of the Participant in the manner that the management of the Participant can be assured that the Participant is protected against the risk of being involved in the laundering of proceeds derived from criminal activity and transactions linked to the financing of terrorism, operational risks are constantly supervised and assessed, operations (transactions) are conducted pursuant to the procedures prescribed by the Participant, the Participant acts prudently, cautiously and efficiently in full compliance with the requirements of the Law and other regulatory enactments;

4.6 offshore business entity – a business entity registered with a low-tax or non-tax country as determined by the Cabinet of Ministers' Regulation No. 276 On Low-tax or Tax-free Countries and Territories of 26 June 2001, or any substitutive regulatory enactments

2. Core Elements of Internal Control System

5. The documentation of internal control system (policy and procedures) developed by the Participant shall include the following core elements:
5.1. determination of eligible potential clients;
5.2. identification of clients and verifying of an actual beneficiary;
5.3. identification of suspicious transactions;
5.4. identification of high-risk clients;
5.5. on-going monitoring of transactions performed by clients which size and regularity depend on the relevant risk group;
5.6. procedure for refraining from effecting suspicious transactions.

6. In the documentation of internal control system, the Participant shall determine the procedure according to which it commences and terminates business relations with intermediaries (agents), who under the order of the Participant carry out identification of clients and verifying of actual beneficiary, which prescribes mutual obligations, responsibilities and requirements set for such intermediaries (agents), incl. impeccable reputation, sound financial standing.

7. Staff members of intermediaries (agents), referred to in point 6, who perform identification of client and verification of actual beneficiary shall be identified by the Participant in accordance with the provisions of the Law in respect of identification of the client.

8. The use of services by intermediaries (agents), referred to in point 6, shall not release the Participant from responsibility for identifying of clients, verifying of actual beneficiary and managing economic activity.

9. In the documentation of internal control system, the Participant shall determine the procedure that regulates keeping of the documents related to a client.

2.1. Determination of Eligible Potential Clients

10. In the documentation of internal control system, the Participant shall determine eligible potential clients and define indicators characterising clients with whom the Participant does not wish to co-operate.

11. When determining eligible potential clients, the Participant shall consider the reputation of the client, the country in which the client is registered (country of residence), the general type of economic activity (transactions) of the client and the accessibility to information and documents on these transactions.

12. In the documentation of internal control system, the Participant shall define minimum criteria (procedures) for discontinuing co-operation with the client.

2.2. Identification of Client and Verification of Actual Beneficiary

13. In the documentation of internal control system, the Participant shall determine the procedure determining the client identification and actual beneficiary verification procedures.

14. Prior to commencing cooperation with the client the Participant shall require information from the client on scheduled transactions of which the Participant shall be involved, as well as types and volumes of transactions.

15. In the documentation of internal control system (procedures), the Participant shall determine the procedure for verifying actual beneficiary, including targeted, adequate and useful activities so that the Participant shall make sure that it possesses adequate information regarding the actual beneficiary, his or her personal or economic activity and the origin of funds.

16. To comply with requirements set in point 15 of these Regulations, the Participant may use (incl. requiring a client to submit the following documents):
16.1. statements or extracts from the registries of immovable properties or other properties (Land Registry, Road Traffic Safety Directorate, Ship Registry etc.);
16.2. statements or extracts from public registries on stocks and capital shares held by an actual beneficiary;
16.3. information from an account holder about the funds owned by an actual beneficiary;
16.4. statements or information of other kind on workplace, job positions, occupation, profession, education of actual beneficiary etc.;

16.5. declaration of income (tax) of actual beneficiary or documentary information of other kind on the income rate of actual beneficiary and ways of earning income (salaries and wages, dividends, income from corporate contracts (transactions), legacy, grant, income from confiscation of property, etc.);
16.6. other documentation or information which attest to the property status of actual beneficiary.

17. A natural person, non-resident, who has personally appeared before the Participant in Latvia, shall be identified only by the document valid for immigration into Latvia.

18. The Participant may rely on the identification of the client, verifying the actual beneficiary and managing of client's economic or personal activities conducted by another financial institution under supervision of the state authorized institution which is part of group of enterprises registered with the European Union (EU) Member State, a foreign state, which is a member state of the Organization for Economic Cooperation and Development or the Financial Action Task Force (FATF), if such procedures are documented in the procedures of the Participant.

19. If the Participant conducts activities referred to in point 18, it shall be responsible for the compliance with the law requirements for identification of the client, verifying of the actual beneficiary and managing of client's economic or personal activities.

20. In the documentation of internal control system , a credit institution shall define criteria for a foreign credit institution with which co-operation is not commenced.

21. In the documentation of internal control system, the Participant shall develop the procedure for a foreign credit institution which has opened an account with the Participant to evaluate efficiency and sufficiency of the internal control system in the area of prevention of laundering of proceeds derived from criminal activity and transactions linked to the financing of terrorism as well as the procedure for on-going monitoring transactions on the client's account.

22. If among the potential clients the Participant envisages co-operation with offshore-registered business entities or business entities whose registration (residence) country legislation in point of fact enables the business entity to carry out economic activity in common with an offshore-registered business entity, the Participant shall define methods in the documentation of internal control system which ensure that adequate information is available to the Participant regarding purposes for the use of account and origin of the funds.

23. To comply with the requirements of point 22, the Participant may use:
23.1. documented information about the previous economic activity of the business entity;
23.2. documented information about economic or personal activities of the newly founded business entity or his/her actual beneficiary, as well as his/her business co-partners;
23.3. schematic representation of cooperation between the business entity and co-partners;
23.4. other kind of reasonable and verifiable information which, under the procedure, the Participant uses for verifying the origin of the money.

24. The Participant is not authorized to commence providing financial services to a client until the identification of the client and verification of actual beneficiary have been accomplished pursuant to the Law.

25. In commencing provision of financial services to a client with whom the Participant establishes transaction relationship remotely through any electronic means of communication or post office services, the Participant may trust in the identification of a client conducted by a public notary. In this case, the public notary shall testify a will of a client to commence business relations with the Participant and a valid copy of document certifying the identity of a person.

26. Identification of the client or a potential client and verification of an actual beneficiary abroad may be carried out by a staff member of the Participant's representative office which is authorized to operate in the relevant foreign country pursuant to its regulatory enactments, or an intermediary (agent).

27. In the documentation of internal control system, the Participant shall determine and document the follow-up measures to be taken to ascertain the veracity of the submitted client identification data and information on actual beneficiary provided to the Participant by the client who has entered into transaction relationship remotely, instead of appearing before the Participant in person.

28. Complying with the provisions of point 27, the Participant may:
28.1. request a client to be physically present when entering into the first transaction;
28.2. carry out checking the indicated address and the phone number by sending documents to the address indicated by the client via courier or organising face-to-face visits, or contacting the client by the indicated phone number or otherwise checking the information provided;
28.3. check whether a client or an actual beneficiary is not put on lists of undesirable clients via internationally acknowledged and verified Internet sources which are stipulated by the Participant's procedure, or public and commercial data bases;
28.4. check whether the Participant has not terminated business relationship with the client in the past;
28.5. check the Internet home page and e-mail address of the client or actual beneficiary searching through the Internet;
28.6. make use of additional actions other than those mentioned in points 28.1. – 28.5. which are set in the Participant's internal control system documentation and which provide for equivalent checking of data and information as indicated in the said points of these Regulations.

29. A credit institution, investment brokerage company and investment management company shall require the client at least the following information on the actual beneficiary in a form of a statement:
29.1. the information identifying the client in accordance with the Law;
29.2. attestation by the client that the person indicated in the statement is the actual beneficiary of the client;
29.3. determination by the client to, without delay, inform the Participant in writing of any changes in the information concerning the actual beneficiary of the funds.

2.3. Identification of Suspicious Transactions

30. The Participant shall determine and document the procedure for identifying suspicious transactions.

31 The Participant shall determine indicators of suspicious transactions when assessing risks, which arise from the structure of its clients and economic activities, carried out by the client.

32. In the documentation of internal control system, the Participant shall determine the procedure for the action of the Participant when ascertaining that the client conducts a transaction which is untypical of the economic or personal activity of the client, or causes suspicion of the laundering of proceeds derived from criminal activity or financing of terrorism.

33. The following indicators may attest to the suspicious nature of a transaction of a client of a credit institution, a credit union, an investment brokerage company, an investment management company, the Latvian Central Depository, an organizer of a regulated market and a pension fund client:

33.1. the transaction is not apparently unlawful;
33.2. the type or volume of the transaction, which is untypical of the economic activity of the client and explanatory notes to transactions conducted by the client arise reasonable suspicion;
33.3. the transaction is not related to economic or personal activity;
33.4. the client effects a large number of identical transactions involving small quantities, which arises suspicion of a deliberate avoidance of conducting such a transaction as in accordance with the Law conforms to the indicators of an unusual transaction;
33.5. the transaction is related to another transaction, which has already been reported to the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity (hereinafter – the Financial Intelligence Unit) by a credit institution, credit union, investment brokerage company, investment management company, depository, organizer of a regulated market or pension fund;
33.6. changes in the turnover of the client's funds which are untypical of the economic activity of the client and explanations provided by the client arise reasonable suspicion;
33.7. the funds on the account, which is opened not for business but personal activity, are often deposited by a person other than the client, a family member of the client (spouse, parents, siblings and children), an actual beneficiary, or a person authorised by the client, and explanations provided by the client arise reasonable suspicion;
33.8. the number of accounts or payments of the client is disproportionately large for his or her economic activity;
33.9. the client hands over banknotes with a nominal value or packaging untypical of his or her economic or personal activity, and;
33.10. other indicators which are untypical of the payments effected erroneously f the economic or personal activity of the client.

34. The following indicators may attest to the suspicious nature of a transaction of an insurer and insurance intermediary of the client:
34.1. the insured risk does not exist;

34.2. the interests of the person to be insured do not exist;
34.3. the client expresses his or her desire that the place of entering into the contract stated in the insurance contract be different from the actual place of entering into the insurance contract,
34.4. unjustifiable involvement in transactions of third persons, incl. insurance payouts to a third person unambiguously not related to the client or to a third person not indicated in the insurance contract;
34.5. the client expresses his or her desire that the provisions regarding insurance premiums or payouts which are untypical of the economic or personal activity of the client be included in the insurance contract, or untypical, unclear use of means of payment of third persons for insurance premiums;
34.6. recurring termination of insurance contracts before expiry of their term;
34.7. an untypical or unclear change of credit institutions or credit unions' accounts of the client within the insurance transaction period;
34.8. activities of the client which do not facilitate the possibilities of the insurer to obtain adequate and true information concerning the contractual obligations of the client, including unclear (complex) information or information expensive for verification;
34.9. the use of cash for insurance transactions in an untypical manner to usual practice or lacking explanation from the client;
34.10. untypical or unclear use of insurance intermediaries in transactions (high or untypical insurance premiums or remuneration to insurance intermediaries, an untypical increase in sales etc.);
34.11. regular overpayment of insurance premiums and claim to repay the payments effected erroneously by the client;
34.12. the insurer determines other indicators specific to transactions of the client which he or she deems as untypical or unclear to the transaction.

2.4. Identification of High-risk Clients

35. In the documentation of internal control system, the Participant shall define indicators characterising high-risk clients.

36. At least one of the following indicators attests to the fact that the client is of high risk:
36.1. the country in which the client is registered (country of residence) is included in the internationally recognized list of countries which are related to the laundering of proceeds derived from criminal activity or financing of terrorism;
36.2. the country in which the client is registered (country of residence) is included in the Financial Action Task Force on Money Laundering (FATF) list of countries not cooperating in the fight against money laundering;
36.3. the client regularly enters into unusual and suspicious financial transactions, of which the Participant notifies the Financial Intelligence Unit;
36.4. the client, without reason, strives to decrease the amount of information to be provided to the Participant regarding verification of the actual beneficiary (the volume of his or her economic or personal activity, or transactions effected by him or her);
36.5. inquiries from law enforcement agencies or judicial authorities have been received regarding the client in relation to the laundering of proceeds derived from criminal activity or financing of terrorism;

36.6. the client that is a commercial company in which the actual beneficiary owns a majority of bearer shares, except in cases where the purpose of establishing the client and its economic activity are known to the Participant and properly documented, and the actual beneficiary of the client is not a high-risk client;
36.7. the client is a person regarding which no financial statements are available to the Participant in cases where such statements shall be prepared under the legislative enactments of the country in which the client is registered (country of residence);
36.8. a new client (for a period up to three months), who is registered as a business entity in an offshore or legal enactments of the country in which the client is registered (country of residence) in its terms entitles the client to carry out economic activity in the same manner as an offshore-registered business entity where the actual monthly turnover exceeds 200,000 lats or its equivalent in another currency;
36.9. the client's operations materially differ from the general type of operations declared by him or her and the client has not notified of causes for these differences;
36.10. the client is a politically exposed person.

37. In the documentation of internal control system, the Participants may determine additional criteria so as the provisions of point 35 shall be applied taking account of a risk degree deriving from the client activity as well as the relevance and significance of the client in the total client base.

38. In the documentation of internal control system, the Participant shall determine procedures as to how ascertain politically exposed persons. The Participant may rely on the information provided by the client himself/herself that he or she is a politically exposed person.
39. The Participant shall determine a client acceptance system based on risk assessment before commencing business relations with the client. The Participant shall commence providing services to high-risk clients after applying a due diligence process.

40. In the documentation of internal control system, the Participant shall determine periodicity as to how information regarding the economic or personal activity of high-risk clients is to be updated.

41. The Participant is obliged to verify the managerial structure of the high-risk client (legal person).

42. In the documentation of internal control system, the Participant shall determine methodology for visiting high-risk clients and the procedure for recording such visits. When determining necessity and regularity of visits, the Participant may take account of the client's relevance and importance within a joint clients' base of the Participant.

43. In the documentation of internal control system, the Participant shall determine the procedure as to how the Participant shall verify adequacy and veracity of the information about the sources of origin of the of the high-risk client's funds. The Participant shall determine criteria for verification whether the veracity and adequacy of information on high-risk clients (incl. politically exposed persons) whose accounts have been used mostly for personal activity - personal investments and saving funds, rather than for economic activities.

2.5. On-going Monitoring of Clients' Transactions

44. In the documentation of internal control system, the Participant shall determine the procedures and periodicity for on-going monitoring of transactions in accounts of clients. When applying the set procedure, the Participant may take account of client groups at risk, the client's relevance and importance within a joint clients' base of the Participant.

45. In the documentation of internal control system, the Participant shall determine the procedure as to how provide documenting of economic or personal activities of high-risk clients and groups of mutually associated clients.

46. For the client to whom an annual account is available on which a report from a certified auditor or certified auditor commercial company is submitted, the Participant, at minimum, shall periodically conduct a comparison of activities in the account with the data indicated in the respective annual report. In relation to the client on whom such annual account is not available to the Participant, the Participant shall analyse documentation certifying or explaining the most voluminous transactions in the account of the client or any other documentation, and make certain that and the transactions effected comply with economic or personal activities of the client and whether they do not arise suspicion of the laundering of proceeds derived from criminal activity or financing of terrorism.

47. The Participant shall determine the procedure for opening the accounts, performing transactions (and monitoring) transactions of the client who is registered with the country which is included on the list of countries that do not co-operate with FATF in the area of the prevention of laundering of proceeds derived from criminal activity and financing of terrorism, as well as other countries against which the sanctions of the United Nations Organization and European Union are taken, or the countries which are classified as "malicious tax heaven" by the Organization for Economic Cooperation and Development.

48. For the purposes to maintain an on-going monitoring, the Participant's management shall ensure the following:

48.1. the information system of the Participant shall allow to analyse and control accounts of the client and transactions conducted by the client;
48.2.. staff members of the Participant who are responsible for dealing or cooperation with the client shall know the scope of economic and personal activity of the client and pay attention to the transactions untypical of the client;
48.3. in the documentation of internal control system, the procedure shall be formulated for an on-going monitoring of transactions in the account of a foreign credit institution which has opened an account with the Participant and shall determine the criteria when the Participant requires additional information to a foreign credit institution about its client and transactions conducted;
48.4. in the documentation of internal control system, the procedure shall be formulated for the identification of unusual and suspicious financial transactions and reporting thereof to the Financial Intelligence Unit.

49. In the documentation of internal control system, the Participant shall determine the procedure for the registration and keeping of information regarding reports on suspicious transactions not presented by the Participant to the Financial Intelligence Unit, and the procedures as to how information that explains causes of the failure to report is to be documented.

2.6. Refraining from Effecting Suspicious Transactions

50. In the documentation of internal control system, the Participant shall determine the procedure under which it refrains from effecting a transaction, providing that the transaction of which the client has notified or which is effected by the client arises a suspicion of a possible use of the transaction for the laundering proceeds derived from criminal activity or financing of terrorism.

51. In the documentation of internal control system, the Participant shall determine the procedure for making a decision on refraining from effecting a suspicious transaction and the procedure for its documenting.

3. Supervision and Constant Improvement of an Internal Control System

52. The supervisory board and board of directors of the Participant shall ensure that the Participant's procedure shall contain policy and procedures for the prevention of laundering of proceeds derived from criminal activity and financing of terrorism based on the assessment of a particular Participant's client risk degree as well as ensure their effective implementation into day-to-day activities. The said policy and procedures shall be explained to the Participants' staff in order that they may duly ascertain suspicious transactions and report them to the staff member or the unit responsible for the compliance with requirements of the Law. The staff member or the unit responsible for the compliance with requirements of the Law and maintaining of contacts with the Financial Intelligence Unit, shall be granted an authorisation to familiarise himself or herself with all the information available to the Participant concerning the client, actual beneficiary, economic and personal activity of the client.

53. In the documentation of internal control system, the Participant shall determine that the internal audit (control) service in its on-site inspections shall also include the assessment of policy and procedures governing the prevention of laundering of proceeds derived from criminal activity and financing of terrorism, and the evaluation of their implementation into day-to-day activities. When ascertaining that the executive institution of the Participant fails to pay proper attention to the compliance with the said policy and procedures, and that the adequate financing for the implementation of the said policy and procedures is not envisaged in the annual budget of the Participant, the internal audit (control) service shall, without delay, notify the Participant's board which in turn, without delay, shall take the necessary steps for the prevention of the ascertained shortcomings.

54. The Participant shall ensure continuous training and regular improvement of professional skills of the staff. The Participant shall ensure that new staff members understand goals and the essence of the policy and procedures formulated by the Law and other regulatory enactments for

governing the prevention of laundering of proceeds derived from criminal activity and financing of terrorism.

55. The Participant shall document training programmes for the staff, as well as keep registration of the course of training and training aids in accordance with the procedure prescribed in the documentation of internal control system.

4. Closing Provision

56. With the coming into force of these Regulations, the Guidelines for the Formulation of an Internal Control System for the Prevention of Laundering of Proceeds Derived from Criminal Activity and Financing of Terrorism, approved by Decision No. 214 of the Board of the Financial and Capital Market Commission of 1 October 2004, are repealed.

Deputy Chairman
Financial and Capital Market Commission J. Brazovskis