

Requirements for the Prevention of Money Laundering and Terrorism and Proliferation Financing and Sanctions Risk Management upon the Purchase and Sale of Cash in Foreign Currencies

Issued pursuant to Section 7, Paragraph 1.¹, Section 22, Paragraph four, and Section 47, Paragraph three of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, and Section 13, Paragraph 4.⁹ of the Law on International Sanctions and National Sanctions of the Republic of Latvia

I. General Provision

1. The Regulation prescribes the requirements for capital companies holding a licence issued by Latvijas Banka for the purchase and sale of cash in foreign currencies (hereinafter – the capital company):

1.1. for the fulfilment of the obligations laid down in the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing regarding the assessment of the risk of money laundering and financing of terrorism or manufacture, storage, movement, use, or proliferation of weapons of mass destruction (hereinafter – the proliferation), internal control system and its establishment, customer due diligence and supervision of the transactions executed by customers;

1.2. for the fulfilment of the obligations laid down in the Law on International Sanctions and National Sanctions of the Republic of Latvia regarding the establishment and control of the internal control system for the management of international sanctions and national sanctions of the Republic of Latvia (hereinafter – the sanctions).

II. Assessment of the Risk of Money Laundering and Financing of Terrorism and Proliferation, and Sanctions Risk

2. In order to identify, assess, understand and manage the risk of money laundering and financing of terrorism and proliferation, and sanctions risk inherent in its activities and customers, the credit institution shall, in accordance with its type of activity, undertake and document the assessment of the following risks:

- 2.1. the risk of money laundering;
- 2.2. the risk of terrorism financing;
- 2.3. the risk of proliferation financing;
- 2.4. sanctions risk.

3. The assessment of the money laundering and terrorism and proliferation financing risk and sanctions risk shall be approved by the board of directors of the capital company, if established, or by the senior management body of the capital company.

4. The money laundering and terrorism and proliferation financing risk is a possibility that the capital company may be used for the money laundering or financing of terrorism or proliferation.

5. The sanctions risk is a possibility that the capital company may be involved in the violation, circumvention or non-fulfilment of the requirements of sanctions.

6. When assessing the money laundering and terrorism and proliferation financing risk and sanctions risk, the capital company shall take into account the risks which:

6.1. have been identified in the money laundering and terrorism financing risk assessment of the European Union;

6.2. have been identified in the national money laundering and terrorism financing risk assessment;

6.3. have been identified in the sectoral risk assessment;

6.4. are characteristic to the activities of the relevant capital company.

7. Upon assessing the risks inherent in its activities, the capital company shall take into account the risks arising from the transactions of purchase and sale of foreign currencies executed and planned by the capital company. At least the following information shall be used for the assessment of the money laundering and terrorism and proliferation financing risk and sanctions risk inherent in the capital company:

7.1. the number and scale of the transactions executed and planned by the capital company;

7.2. the number and scale of such transactions of the capital company which have been executed without identifying the customer;

7.3. analysis of the factors affecting the money laundering and terrorism and proliferation financing risk and sanctions risk related to the customers of the capital company, their countries of residence (registration), economic or personal activity of the customers, the services and products to be used and their supply channels, and also to the transactions executed thereby, covering the following factors affecting risk:

7.3.1. the customer risk inherent in the customer, including the situation where the customer is a legal person or legal arrangement – its legal form and ownership structure, and also the economic or personal activity of the customer or the beneficial owner of the customer;

7.3.2. the country and geographical risks, including the risk that the customer or the beneficial owner of the customer is associated with the country or territory whose economic, social, legal or political circumstances may be indicative of a high money laundering or terrorism financing risk inherent in the country;

7.3.3. the risk of the services used by the customer, i.e., the risk that the customer can use the service of purchasing or selling cash in foreign currency for money laundering, terrorism or proliferation financing, or violation, circumvention or non-enforcement of the restrictions specified in the sanctions;

7.3.4. the risk of the service provision type which is associated with the manner in which the customer receives or used the service of purchasing or selling cash in foreign currency.

8. The most important factors increasing the money laundering and terrorism and proliferation financing risk and sanctions risk associated with the customer are as follows:

8.1. the business relationship with the customer is maintained or an individual transaction with the customer is made in unusual circumstances;

8.2. the customer is a legal person or legal arrangement which is a private asset management company;

8.3. the customer is a legal person which issues or is entitled to issue bearer shares (equity securities) or has nominal shareholders;

8.4. the customer regularly executes large-scale transactions;

8.5. the ownership or shareholding structure of the customer – legal person or legal arrangement – seems unusual or overly complicated, considering its type of activity;

8.6. the customer is a legal person or legal arrangement the ownership or shareholding structure of which makes it difficult to determine its beneficial owner;

8.7. the customer is an association, foundation, or a legal arrangement equivalent thereto which does not have a profit-making nature.

9. The most important factors increasing the money laundering and terrorism and proliferation financing risk and sanctions risk associated with the economic or personal activity of the customer are as follows:

9.1. the economic activity or personal activity of the customer is not related to the Republic of Latvia;

9.2. the economic activity of the customer is related to:

9.2.1. organisation of gambling;

9.2.2. provision of cash-in-transit services;

9.2.3. intermediation in immovable property transactions;

9.2.4. trade in precious metals and precious stones;

9.2.5. trade in weapons and ammunition;

9.2.6. provision of cash services;

9.2.9. purchase and sale of scrap metal;

9.3. transactions in a foreign currency are not characteristic to the economic activity of the customer.

10. The most important factors increasing the money laundering and terrorism and proliferation financing risk and sanctions risk associated with the country of residence (registration) or geographical area of the economic or personal activity of the customer are as follows:

10.1. a country or territory which has been indicated in a credible source, for example, a mutual assessment or accurate assessment reports, or referred to in the inspection reports as a country or territory which does not have adequate systems for the prevention of money laundering or terrorism or proliferation financing, including such country which the international Financial Action Task Force has identified as a high-risk country or jurisdiction where the measures implemented for the combating of money laundering or terrorism or proliferation financing do not conform to the international requirements;

10.2. a country or territory to which sanctions, embargo or similar measures have been applied, including the financial or civil legal restrictions that have been imposed, for example, by the United Nations Organization, the European Union, or another international organization of which Latvia is a member state and that are directly applicable to or introduced in Latvia;

10.3. a country or territory which has been indicated in a credible source as a country or territory having a considerable level of corruption and other criminal activities;

10.4. a country or territory which has been indicated in a credible source as a country or territory which provides financing or support for the activity of terrorists or in which terrorist organisations indicated in a credible source are operating;

10.5. a country or territory which is included in the list of a low-tax or tax-free countries or territories approved by the European Union or the Cabinet;

10.6. a country or territory in which active military operations are taking place;

10.7. a country or territory which has been indicated in a credible source as a country or territory which ensures or supports proliferation.

11. The most important factors increasing the money laundering and terrorism and proliferation financing risk and sanctions risk associated with the service used by the customer or the type of its provision are as follows:

11.1. individual transactions without identifying the customer;

11.2. remotely existing business relationship or individual transactions.

12. The most important factors reducing the money laundering and terrorism and proliferation financing risks associated with the country of residence (registration) of the economic or personal activity of the customer are as follows:

12.1. efficient systems for the prevention of money laundering and terrorism and proliferation financing are operating in the country;

12.2. such requirements are laid down in the country in the field of combating money laundering and terrorism and proliferation financing which conform to the international standards laid down by the organisations determining standards in the field of preventing money laundering and terrorism and proliferation financing, and the country is actually implementing the aforementioned requirements;

12.3. low corruption risk in the country;

12.4. low level of such criminal offences in the country as a result of which proceeds may be acquired from crime.

13. The capital company shall, on a regular basis according to the money laundering and terrorism and proliferation financing risk and sanctions risk inherent therein, but not less than once every three years, review and update the assessment of the money laundering and terrorism and proliferation financing risk and sanctions risk. In any event, the capital company shall review and update the assessment of the money laundering and terrorism and proliferation financing risk and sanctions risk before it plans to make changes in its operational processes, governance structure, provided services and products, supply channels of services and products, customer base, or geographical regions of operation, including prior to the introduction of new technologies or services.

III. Internal Control System and Its Establishment

14. The capital company shall establish an internal control system for the prevention of money laundering and terrorism and proliferation financing and sanctions risk management (hereinafter – the internal control system) based on its last assessment of the money laundering and terrorism and proliferation financing risk and sanctions risk, including by developing and documenting the relevant policies and procedures which are approved by the board of directors of the capital company, if such has been established, or the senior management body of the capital company.

15. The internal control system is the set of measures implemented by the capital company which includes actions directed towards ensuring the fulfilment of the requirements of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing and the Law on International Sanctions and National Sanctions of the Republic of Latvia by providing adequate resources therefore and training employees in order to prevent the involvement of the capital company in money laundering or terrorism or proliferation financing, or the violation, circumvention or non-fulfilment of the requirements of sanctions as much as possible.

16. Upon the establishment of the internal control system, the capital company shall provide for and document therein:

16.1. the procedures for the assessment of the money laundering and terrorism and proliferation financing risk and sanctions risk of the capital company and the procedures by which the money laundering and terrorism and proliferation financing risk and sanctions risk associated with the customer, its country of residence (registration), economic or personal activity of the customer, used services and products and their supply channels, and the executed transactions shall be assessed, documented, and reviewed;

16.2. the procedures by and extent to which the customer due diligence shall be carried out based on the assessment of the money laundering and terrorism and proliferation financing risk and sanctions risk of the customer made by the capital company and complying with the minimum requirements for the customer due diligence laid down in the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, Law on International Sanctions and National Sanctions of the Republic of Latvia and other laws and regulations;

16.3. the procedures for the supervision of the transactions executed by customers;

16.4. the procedures for discovering suspicious transactions;

16.5. the procedures for the enforcement of sanctions;

16.6. the procedures by which the capital company shall refrain from executing such transaction which is associated with or regarding which or regarding the monetary funds involved in which there are reasonable suspicions that the transaction is associated with money laundering or terrorism or proliferation financing, or there are reasonable suspicions that the monetary funds involved in the transaction have been directly or indirectly acquired as a result of a criminal offence or are related to terrorism or proliferation financing, or an attempt at such criminal offence;

16.7. the procedures by which the capital company shall report to the Financial Intelligence Unit on suspicious transactions, including on suspicions of circumvention of sanctions or an attempt of such circumvention in the enforcement of financial restrictions;

16.8. the procedures by which the capital company shall report to the State Security Service on the violation of sanctions or such an attempt and funds frozen as a result thereof, and inform Latvijas Banka thereof;

16.9. the procedures by which the capital company shall submit the threshold declaration to the Financial Intelligence Unit;

16.10. the procedures by which the capital company shall store and destroy the information and documents obtained in the process of the customer due diligence and while supervising transactions executed by the customer;

16.11. the rights, obligations, and responsibility of the employees of the capital company, as well as the professional qualification and compliance standards of employees of the capital company upon fulfilling the requirements of the laws and regulations governing the prevention of money laundering and terrorism and proliferation financing and enforcement of the restrictions imposed by sanctions;

16.12. the procedures by which the capital company shall ensure anonymous internal reporting on the violations of the requirements of the laws and regulations governing the prevention of money laundering and terrorism and proliferation financing and the enforcement of the restrictions imposed by sanctions, and the assessment of such reports if such reporting is possible considering the number of employees of the capital company;

16.13. the procedures by which the independent audit function shall be ensured for the verification of the conformity of the internal control system of the capital company with the requirements of the laws and regulations governing the prevention of money laundering and terrorism and proliferation financing and the enforcement of the restrictions imposed by sanctions and for the assessment of the operational efficiency of the internal control system, where appropriate considering the money laundering and terrorism and proliferation financing risk and sanctions risk, and the extent and nature of the economic activity of the capital company;

16.14. the requirements and procedures for the regular review of the policies and procedures for the prevention of money laundering and terrorism and proliferation financing and the enforcement of the restrictions imposed by the sanctions in accordance with the changes in the laws and regulations or operational processes, provided services, governance structure, customer base, or regions of operation of the capital company.

17. The capital company shall, on a regular basis, but at least once per each 18 months, assess the operational efficiency of the internal control system through documentation, including by reviewing and updating the assessment of the money laundering and terrorism and proliferation financing risk and sanctions risk associated with the customer, its country of residence (registration), economic or personal activity of the customer, used services and products and their supply channels, and the executed transactions, and, if necessary, shall implement measures for improving the operational efficiency of the internal control system, including shall review and adjust the policies and procedures for the prevention of money laundering and terrorism and proliferation financing and the enforcement of the restrictions imposed by the sanctions. In any case, the capital company shall assess the operational efficiency of the internal control system and shall implement measures for the improvement of the operational efficiency of the internal control system if it has grounds to assume that its internal control system has deficiencies, including upon a request of Latvijas Banka to eliminate the deficiencies found in the internal control system, and also prior to that it plans to make changes in its operational processes, governance structure, provided services and products, supply channels of services and products, customer base, or geographical regions of operation, including before the introduction of new technologies or services.

IV. General Requirements for Undertaking the Customer Due Diligence

18. The capital company shall undertake the customer due diligence in the following cases:

- 18.1. before establishing a business relationship with the customer;
- 18.2. before conducting an individual transaction the amount of which or the total sum of several seemingly linked transactions exceeds EUR 1500;
- 18.3. if there are suspicions of money laundering, terrorism or proliferation financing or an attempt of such actions;
- 18.4. upon executing a transaction with a customer in relation to which, economic or personal activity, country of residence (registration) of economic or personal activity of which, transactions executed or services used by which, or types of their provision, the capital company has found significant increased risk factors;
- 18.5. upon executing a transaction with a politically exposed person, a family member of a politically exposed person, or a person closely associated with a politically exposed person;
- 18.6. if there are suspicions that the previously obtained customer due diligence data is not true or appropriate.

19. The customer due diligence is a set of measures based on risk assessment within the framework of which the capital company shall:

- 19.1. perform identification of the customer and verification of the obtained identification data;
- 19.2. ascertain the information identifying the beneficial owner of the customer and, on the basis of the risk assessment, verify that the relevant natural person is the beneficial owner of the customer;
- 19.3. obtain information regarding the purpose and intended nature of the business relationship or individual transaction;
- 19.4. supervise the transactions executed by the customer, including perform inspections to confirm that transactions are being executed according to the information at the disposal of the capital company regarding the customer, its economic activity, risk profile, and origin of funds;
- 19.5. ensures the storage, regular assessment and updating – at least once per each five years – of the documents, personal data and information obtained during the course of the customer due diligence based on their inherent risks.

20. Upon determining the extent of and procedures for customer due diligence, as well as the regularity of assessment of the documents, personal data, and information obtained in the process of the customer due diligence, the capital company shall take into consideration the factors affecting the money laundering and terrorism and proliferation financing risk and sanctions risk that are characteristic to the customer, its country of residence (registration), economic or personal activity of the customer, used services and products and their supply channels, as well as the transactions executed by the customer.

21. Upon determining the extent and regularity of the customer due diligence, the capital company shall also take into account the following indicators affecting the money laundering and terrorism and proliferation financing risk and sanctions risk associated the customer:

- 21.1. the purpose of the business relationship;
- 21.2. regularity of the transactions planned and executed by the customer;
- 21.3. duration of the business relationship and regularity of transactions;
- 21.4. extent of the transactions planned and executed by the customer.

22. The capital company shall take at least the following actions within the scope of the customer due diligence:

22.1. verify information available to the public in order to ascertain that the customer or its beneficial owner is not associated with money launder or participation in terrorists acts or proliferation or sanctions have not been imposed thereon;

22.2. obtain information regarding the economic or personal activity of the customer;

22.3. using the information provided by the customer and available to the public find out whether the customer or its beneficial owner is a politically exposed person, a family member of a politically exposed person, or a person closely associated to a politically exposed person;

22.4. to ascertain, as far as possible, through the use of information available to the public whether the customer, its authorised person, or its beneficial owner has not been previously prosecuted for or is not suspected of fraud, money laundering, terrorism or proliferation financing, or or the violation, circumvention or non-fulfilment of the requirements of sanctions, or an attempt at such actions.

23. The capital company must be able to prove that the extent of the customer due diligence carried out thereby conforms to the existing money laundering and terrorism and proliferation financing risk and sanctions risk.

24. If in the cases referred to in Paragraph 18 of this Regulation the capital company cannot carry out the customer due diligence measures specified in Paragraph 19 of this Regulation and it does not have grounds to apply the simplified customer due diligence, the capital company shall not establish a business relationship with such customer, shall terminate the established business relationship, as well as shall not execute an individual transaction. The capital company shall document and assess each such case, reporting to the Financial Intelligence Unit in case of suspicions of money laundering or terrorism or proliferation financing.

V. Procedures for Customer Identification and Verification of the Identification Data

25. The capital company shall identify a natural person on the basis of the following personal identification documents and making their copies:

25.1. for a resident – the passport or identity card in accordance with the Personal Identification Documents Law;

25.2. for a non-resident – a personal identification document valid for entry into the Republic of Latvia.

26. When verifying the identity of a natural person based on the personal identification document of the customer, the capital company shall ascertain that the personal identification document has not been included in the Register of Invalid Documents.

27. The capital company shall identify a legal person or legal arrangement on the basis of the documents referred to in the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing. The capital company may identify a legal person or legal arrangement by obtaining information regarding the legal person or legal arrangement from a credible and independent source available to the public.

28. If the capital company uses other sources of information for the identification of the customer in addition to the documents submitted by the customer, the capital company shall document the source of information used and shall store the information received therefrom.

29. During the process of customer identification, the capital company shall establish whether the customer establishes a business relationship or executes an individual transaction on its own behalf or on behalf of another person. If the customer is represented by an authorised representative, the capital company shall identify this authorised representative in accordance with the procedures referred to in Paragraph 25 of this Regulation and ascertain its right to represent the customer by obtaining a document or a copy of the relevant document certifying its right to represent the customer.

VI. Determination of the Beneficial Owner and Ascertaining the Conformity of the Determined Beneficial Owner

30. In cases when the customer due diligence is to be carried out, the capital company shall determine the beneficial owner of the customer and, on the basis of the risk assessments, shall implement the measures necessary to ascertain that the determined beneficial owner is the beneficial owner of the customer.

31. Upon determining the beneficial owner of the customer, the capital company shall obtain the following information regarding him or her:

31.1. regarding a resident – the given name, surname, personal identity number, date, month and year of birth, citizenship, country of the permanent place of residence, as well as the specific share of the capital shares or stock belonging to the customer and also directly or indirectly controlled by such person, including the direct and indirect shareholding, in the total number, as well as the type of directly or indirectly implemented control over the customer;

31.2. regarding a non-resident – the given name, surname, date, month and year of birth, number and date of issue of the personal identification document, the country and body issuing the document, citizenship, country of the permanent place of residence, as well as the specific share of the capital shares or stock of the customer belonging to the person and being directly or indirectly controlled, including the direct and indirect shareholding, in the total number thereof, as well as the type of directly or indirectly implemented control over the customer;

31.3. if the persons referred to in Sub-paragraphs 31.1 and 32.2 of this Regulation are implementing control indirectly, regarding the person with whose intermediation the control is being implemented – the given name, surname, personal identity number (if the person does not have a personal identity number – the date, month, and year of birth), and regarding the legal person or legal arrangement – the name, registration number, and registered address. If intermediation is implemented with the intermediation of a legal arrangement, the given name, surname, personal identity number (if the person does not have a personal identity number –

the date, month, and year of birth) of the authorised person or person holding an equivalent position shall also be determined.

32. The capital company shall use the information registered in the registers kept by the Enterprise Register of the Republic in Latvia to determine the beneficial owner of the customer. In addition, based on risk assessments, the capital company shall determine the beneficial owner of the customer through at least one of the following methods:

32.1. by receiving a notice on the beneficial owner approved by the customer;

32.2. by using information or documents from the information systems of the Republic of Latvia or foreign country;

32.3. by determining the beneficial owner of the customer on its own if the information regarding him or her cannot be obtained in any other way.

33. The capital company may, by appropriately justifying and documenting the actions taken to determine the beneficial owner of the customer, assume that the beneficial owner of a legal person is a person who holds a position in the senior management body of such legal person, if the capital company has used all possible means of determination and it is not possible to determine any natural person in accordance with the explanation of the term “beneficial owner” included in the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, as well as doubts have been excluded that the legal person might have another beneficial owner.

34. Upon establishing that the information regarding the beneficial owner that has been ascertained in the scope of the customer due diligence does not correspond to the information registered in the registers kept by the Enterprise Register of the Republic of Latvia, the capital company shall immediately, but not later than within three working days, report thereon to the Enterprise Register of the Republic of Latvia, explaining the nature of the established non-conformity and indicating that the information might be substantially false or that a typing error has been found.

VII. Procedures for the Enforcement of Sanctions

35. Upon carrying out customer due diligence and supervision of transactions, the capital company shall take into account at least the following indications increasing sanctions risk:

35.1. the customer, cooperation partner of the customer, or transactions of the customer are related to the territory or country to which sanctions are applicable, or the border area of such territory or country;

35.2. the economic or personal activity of the customer, beneficial owner, or cooperation partner of the customer is related to the military sector, to trade, production, export, or import of goods specified in sectoral sanctions or of dual-use goods, or to specialised foreign agencies (military design offices, space technology research agencies, etc.);

35.3. the activity and transactions of the customer do not correspond to its declared economic or personal activity, or information regarding the counterparty of the customer does not correspond to its economic or personal activity;

35.4. it is characteristic for the customer to cooperate with undertakings which demonstrate actual economic activity indications and activities of which serve to conceal illegal financial activity, including the beneficial owner or economic activity (front companies), or cooperation with companies which are not engaged in active economic activity for a longer period of time and shareholders, directors, or secretaries of which are not active undertakings (shelf companies);

35.5. the third party which is a resident of such territory or country to which sanctions are applicable makes a payment instead of the cooperation partner of the customer, or the

customer makes payments instead of a third party which is a resident of the such territory or country to which sanctions are applicable;

35.6. the customer uses a service as a result of which goods of the customer are transported across the territory or country to which the sectoral sanctions are applicable, or in the border area of such country or territory;

35.7. the customer cooperates with a service provider regarding which there is publicly available information that it provides services to companies operating in the territory or country on which sanctions have been imposed;

35.8. carriage of goods involved in the transactions of the customer takes place in the territory or country to which sectoral sanctions are applicable, or in the border area of such territory or country, using vehicles the routes of which cannot be accurately traced by means of publicly available Internet resources;

35.9. the price of goods or services involved in transactions significantly differs from the average market price, the type of transport or storage, route, packaging, or other indications of the goods involved in the transactions do not correspond to the general practice in the sector;

35.10. the customer submits the same documents for the purpose of justifying several unrelated transactions;

35.11. the documents justifying transactions submitted by the customer contain indications of falsification which attest to possible evasion of the enforcement of the sanctions.

VIII. Simplified Customer Due Diligence

36. If there is a low money laundering, and terrorism and proliferation financing risk and sanctions risk, and measures have also been taken to determine, assess, and understand the the money laundering and terrorism and proliferation financing risk and sanctions risk inherent in the operation and customers of the capital company, the capital company is entitled to carry out a simplified customer due diligence in the cases referred to in Paragraph 37 of this Regulation by taking the following actions:

36.1. the customer identification activities referred to in Chapter V of this Regulation;

36.2. the customer due diligence measures referred to in Chapter IV of this Regulation in such extent which is appropriate for the business relationship or nature of an individual transaction and the level of money laundering and terrorism and proliferations financing risk and sanctions risk.

37. The capital company is entitled to carry out a simplified customer due diligence in the following cases:

37.1. the customer is a derived public person of the Republic of Latvia, a direct administration or indirect administration institution, or a capital company controlled by the State or a local government characterised by a low money laundering and terrorism and proliferation financing risk and sanctions risk;

37.2. the customer is a merchant whose stocks are admitted to trading on a regulated market in one or several European Union Member States;

37.3. upon executing the transaction referred to in Sub-paragraph 18.2 of this Regulation if:

37.3.1. the transaction does not give rise to suspicions or no information is available that would indicate to money laundering, terrorism or proliferation financing, or the the violation, circumvention or non-fulfilment of the requirements of sanctions, or an attempt at such actions;

37.3.2. the customer does not conduct economic activity in high-risk third countries.

38. A simplified customer due diligence shall not be applied if, on the basis of risk assessments, the capital company establishes or there is information at its disposal regarding money laundering, terrorism or proliferation financing, or the violation, circumvention or non-fulfilment of the requirements of sanctions, or an attempt at such actions, or increased risk of such actions, including if the risk increasing factors specified in this Regulation exist.

39. Upon executing a simplified customer due diligence, the capital company shall obtain and document information certifying that the customer conforms to the provisions of Paragraph 37 of this Regulation.

IX. Enhanced Customer Due Diligence

40. An enhanced customer due diligence are actions based on risk assessments which must be carried out by the capital company in addition to the customer due diligence, including to ascertain additionally that the natural person who has been determined as the beneficial owner is the beneficial owner of the customer and to ensure increased supervision of the transactions executed by the customer.

41. The capital company shall carry out the enhanced customer due diligence by following the approach based on risk assessments, including one or several of the following activities:

41.1. obtain and assess additional information regarding the customer and its beneficial owner, as well as ascertain the veracity of the additional information obtained;

41.2. obtain and assess additional information regarding the intended nature of the business relationship;

41.3. obtain and assess additional information regarding the conformity of the transactions executed by the customer with the indicated economic activity;

41.4. obtain and assess information regarding the origin of the funds and welfare of the customer and its beneficial owner;

41.5. obtain and assess information regarding the justification of the intended and executed transactions;

41.6. receive a consent from the senior management for the establishment or continuation of the business relationship;

41.7. perform in-depth monitoring of the business relationship by increasing the number and frequency of controls and specifying the types of transactions for which reverification is necessary;

41.8. to apply other measures which are necessary to ascertain the legal and economic nature of a business relationship or an individual transaction.

42. The capital company has the obligation to carry out the enhanced customer due diligence in the following cases:

42.1. upon establishing and maintaining a business relationship or executing an individual transaction with a customer who has not participated in the identification procedure in person, except when the following conditions are fulfilled:

42.1.1. the capital company ensures adequate measures for mitigating the money laundering and terrorism and proliferation financing risks and sanctions risks, including the development of policies and procedures and training of employees regarding the performance of remote identification;

42.1.2. the customer identification, by means of technological solutions, including video identification or secure electronic signature, or other technological solutions, is being carried out to the extent and in accordance with the procedures stipulated by the Cabinet;

42.2. upon establishing and maintaining a business relationship or executing an individual transaction with a customer who is or whose beneficial owner is a politically exposed person, a family member of a politically exposed person, or a person closely associated to a politically exposed person;

42.3. in other cases when establishing and maintaining a business relationship or executing an individual transaction with the customer, if an increased money laundering or terrorism and proliferation financing risk or sanctions risk exists.

43. Upon establishing that the customer is from a high-risk third country within the scope of business relationships or individual transaction prior to the establishment of business relationship, the capital company shall carry out the customer due diligence measures to the extent and in accordance with the procedures laid down in the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing.

X. Procedures for Establishing and Maintaining a Business Relationship with a Politically Exposed Person, a Family Member of a Politically Exposed Person and a Person Closely Associated to a Politically Exposed Person

44. The capital company shall document the procedures by which it determines whether the customer or its beneficial owner is a politically exposed person, a family member of a politically exposed person, or a person closely associated with a politically exposed person.

45. Before establishing a business relationship with a customer who is or whose beneficial owner is a politically exposed person, a family member of a politically exposed person, or a person closely associated to a politically exposed person, an employee of the capital company shall inform the board of directors of the capital company, if such has been established, or a member of the board of directors of the capital company especially authorised by it, or such employee of the capital company who has sufficient knowledge of the level of the capital company being subject to the money laundering and terrorism and proliferation financing risk and sanctions risk and has a position of sufficiently high level to take the decisions concerning the level of the capital company being subject to such risks, regarding the execution of a transaction with a politically exposed person, a family member of a politically exposed person, or a person closely associated to a politically exposed person, and receive a consent of the board of directors of the capital company, a member of the board of directors of the capital company especially authorised by it, or the employee of the capital company conforming to the aforementioned criteria for the establishment of the business relationship.

46. If prior to the establishment of a business relationship or during a business relationship it is found that the customer or its beneficial owner is a politically exposed person, a family member of a politically exposed person, or a person closely associated with a politically exposed person, the capital company shall take and document measures based on risk assessments in order to determine the origin of funds and the origin of wealth characterising the financial situation of the politically exposed person, the family member of the politically exposed person, or the person closely associated with the politically exposed person.

47. When maintaining a business relationship with a politically exposed person or a family member of a politically exposed person, or a person closely associated with a politically exposed person, the capital company shall continuously supervise the transactions executed by the customer.

48. The capital company shall, on the basis of risk assessments, terminate the application of the enhanced customer due diligence in relation to his or her compliance with the status of a

politically exposed person, a family member of a politically exposed person or a person closely associated with a politically exposed person if:

48.1. the politically exposed person has died;

48.2. the politically exposed person does not hold a prominent public office anymore for at least 12 months and business relationship of whom does not cause increased money laundering risk anymore.

XI. Right to Terminate the Customer Due Diligence

49. The capital company has the right to terminate the commenced customer due diligence if it grows suspicious of money laundering or terrorism or proliferation financing or the violation, circumvention or non-fulfilment of the requirements of sanctions, and there are grounds to assume that further application of the customer due diligence measures may reveal the suspicions of the capital company to the customer.

50. Upon discontinuing the customer due diligence in the case referred to in Paragraph 49 of this Regulation, the capital company shall report to the Financial Intelligence Unit on a suspicious transaction. The capital company shall also indicate in the report to the Financial Intelligence Unit the considerations forming the grounds for the conclusion that further application of the customer due diligence measures may reveal the suspicions of the capital company to the customer.

XII. Procedures for the Supervision of the Transactions Executed by Customers and Discovering Suspicious Transactions

51. The capital company shall ensure continuous supervision of the transactions – business relationship and individual transaction – executed by customers, including inspections to confirm that transactions are being executed according to the information at the disposal of the capital company regarding the customer, its economic or personal activity, risk profile, and origin of funds. The capital company shall continuously update the information regarding the customer, its economic or personal activity, risk profile, and origin of funds.

52. Within the scope of the supervision of transactions of customers, the capital company shall perform an independent analysis of the transactions executed by customers in order to ascertain that the transactions executed by customers do not cause suspicions of money laundering or terrorism or proliferation financing or violation, circumvention or non-fulfilment of the requirements of sanctions.

53. The capital company shall document the procedures for the supervision of transactions executed by customers, including by specifying the regularity of supervision of the transactions executed by customers, the actions taken within the scope of supervision of the transactions executed by customers and the way of corroborating them, as well as determine the person responsible for the supervision of the transactions executed by customers.

54. Upon supervising a business relationship or individual transactions, the capital company shall pay special attention to the following:

54.1. untypically large transaction, complex transactions, seemingly mutually linked transactions of the customer or a transaction of the customer which does not seem to have an apparent economic or clearly lawful purpose;

54.2. transaction involving a person from high-risk third countries.

55. On the basis of the information obtained during the customer due diligence, as well as the information provided by the Financial Intelligence Unit and other law enforcement authorities, the capital company shall determine measures for increased supervision of the transactions executed by customers:

55.1. that transactions with customers should be executed only with a consent of the board of directors of the capital company, if such has been established, or a member of the board of directors especially authorised thereby, or of such employee of the capital company who has sufficient knowledge of the level of the capital company being subject to the money laundering and terrorism and proliferation financing risk and sanctions risks and holds a position of sufficiently high level to take the decisions concerning the level of the capital company being subject to such risk;

55.2. limits on transactions of customers;

55.3. enhanced analysis of transactions of the customer;

55.4. supervision measures or restrictions of other kind.

56. The capital company shall, based on its money laundering and terrorism and proliferation financing risk assessment, determine and document the indications of the suspiciousness of the transaction.

57. The capital company shall, based on its sanctions risk assessment, determine the procedures by and regularity with which it verifies the enforcement of the sanctions by the customer, including by documenting the indications which may point to the violation, circumvention or non-fulfilment of the requirements of sanctions.

XIII. Refraining from Executing a Transaction, Freezing of Funds and Reporting to the State Security Service

58. The capital company shall document the procedures by which its employees act upon when establishing that the transaction applied by the customer or commenced by the capital company is associated with or there are reasonable suspicions that it is associated with money laundering or terrorism or proliferation financing or violation, circumvention or non-fulfilment of the requirements of sanctions, or there are reasonable suspicions that the funds have been directly or indirectly acquired as a result of a criminal offence or are related to terrorism or proliferation financing, or violation, circumvention or non-fulfilment of the requirements of sanctions, or an attempt at such criminal offence.

59. If the transaction is associated with or there are reasonable suspicions that it is associated with money laundering or terrorism or proliferation financing, or there are reasonable suspicions that the funds have been directly or indirectly obtained as a result of a criminal offence or are related to terrorism or proliferation financing or an attempt at a criminal offence, the capital company shall take a decision to refrain from executing the transaction, detaining the funds and notifying the Financial Intelligence Unit thereof without delay, but not later than on the following working day.

60. When refraining from executing a transaction, the capital company shall not take any actions with the funds involved in the transaction until receipt of an order of the Financial Intelligence Unit to terminate the refraining from executing a transaction.

61. If the Financial Intelligence Unit has issued an order to the capital company on the freezing of the detained funds, the capital company shall act in accordance with the procedures laid down in Chapter V of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing.

62. If the refraining from executing such transaction in relation to which there are reasonable suspicions that it is associated with money laundering or terrorism or proliferation financing may serve as information that would help the persons involved in money laundering or terrorism or proliferation financing to avoid the responsibility, the capital company has the right to execute such transaction, reporting it to the Financial Intelligence Unit after execution of the transaction without delay.

63. If financial restrictions have been imposed in relation to the person involved in the transaction, the capital company shall act in accordance with the procedures laid down in Section 5 of the Law on International Sanctions and National Sanctions of the Republic of Latvia, freezing the funds.

64. The capital company shall immediately, but not later than on the next working day, report to the State Security Service and Latvijas Banka on the violation of sanction or an attempt at such action and the funds frozen as a result of such action.

XIV. Registration of Transactions Executed by Customers, Reporting to the Financial Intelligence Unit, as well as Storage and Destruction of Information and Documents

65. The capital company shall document the procedures by which the data on the customers of the capital company, its beneficial owners and transactions executed by customers shall be registered, stored and protected, and also the procedures by which information on suspicious transactions shall be reported to the Financial Intelligence Unit, including also regarding suspicions of the circumvention or an attempt at circumvention of the sanctions within the enforcement of financial restrictions.

66. The capital company shall prepare a report to the Financial Intelligence Unit on a suspicious transaction, including suspicions of the circumvention or an attempt at circumvention of the sanctions within the enforcement of financial restrictions by complying with the requirements laid down in the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing. The reporting obligation shall also apply to the funds creating suspicions that they have been directly or indirectly obtained as a result of a criminal offence or are related to terrorism and proliferation financing, or an attempt of such criminal offence, but are not yet involved in a transaction or its attempt, as well as to the cases when there were sufficient grounds for establishing a suspicious transaction, however, the reporting obligation has not been fulfilled due to insufficient attention or negligence.

67. The capital company shall, without delay, submit the report referred to in Paragraph 66 of this Regulation to the Financial Intelligence Unit in accordance with the procedures laid down in the Cabinet regulations approving the procedures by which the reports on suspicious transactions shall be provided and the sample form of the report.

68. The capital company does not have the right to inform the customer or third party that information regarding the customer or its transaction executed, applied, commenced, or suspended has been provided to the Financial Intelligence Unit.

69. The capital company shall ensure the availability of all information related to the internal control system of the customer and also information and documents related to the customer due diligence and transaction supervision, and the documents referred to in this Chapter to Latvijas Banka.

70. Upon a written request if the Financial Intelligence Unit, the capital company shall provide thereto information and documents at its disposal regarding the customer of the capital company, their beneficial owners and the transactions of customers that have been executed, applied, commenced or suspended in accordance with the procedures laid down in the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, registering the respective requests and reports not later than on the next working day and ensuring their availability to Latvijas Banka.

71. In the cases and in accordance with the procedures stipulated by the Cabinet, the capital company shall submit to the Financial Intelligence Unit the threshold declaration, registering it not later than on the next working day and ensuring its availability to Latvijas Banka.

72. The capital company shall ensure the storage of the copies the documents and information obtained in the process of the customer due diligence and while supervising transactions executed by a customer regarding a person, including the reports sent to the Financial Intelligence Unit and State Security Service, for five years after the date when the capital company has terminated the business relationship with the customer or on which it has executed the last registered individual transaction.

73. After expiry of the time period for the storage of documents and information specified in Paragraph 72 of this Regulation, the capital company shall destroy the documents and information regarding the person, unless it has received an instruction to extend the aforementioned time period in accordance with the conditions provided for in the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing. If the capital company has received such an instruction, it shall destroy the documents and information regarding the person after the time period specified in the instruction which may not exceed the time period specified in Paragraph 72 of this Regulation by more than five years.

XV. Requirements of the Internal Control System in Relation to the Rights, Obligations and Responsibility of Employees of the Capital Company

74. The board of directors of the capital company, if such has been established, or the senior management body of the capital company shall ensure efficient implementation of the internal control system in everyday work.

75. The capital company shall appoint one or several employees, including from the senior management, who are entitled to take decisions and are directly responsible for the conformity with the requirements of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing and the Law on International Sanctions and National Sanctions of the Republic of Latvia and that exchange of information with Latvijas Banka is ensured (hereinafter – the responsible employee). The capital company shall ensure the evaluation of the conformity of the responsible employee in accordance with the procedures laid down in the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing. The capital company shall submit the information regarding the appointed responsible employee to Latvijas Banka together with an application for the first licence for the purchase and sale of cash in foreign currencies. If the responsible employee changes, the capital company shall inform Latvijas Banka thereof within 30 days.

76. The capital company is prohibited from disclosing information regarding the appointed responsible employee to third parties.

77. The responsible employee of the capital company:

77.1. shall have good knowledge of the requirements of the laws and regulations governing the prevention of money laundering and terrorism and proliferation financing and imposition of sanctions and the risks associated with money laundering and terrorism and proliferation financing and imposition of sanctions;

77.2. shall regularly inform the board of directors of the capital company or the senior management body of the capital company of the operation of the internal control system in the capital company and, if necessary, provide proposals for the improvement of the operation of the internal control system.

78. The responsible employee of the capital company shall be responsible for:

78.1. the operation of the internal control system of the capital company;

78.2. informing and training of employees of the capital company in issues related to the operation of the internal control system and ensuring efficiency of training;

78.3. ensuring supervision of the transactions executed by customers;

78.4. fulfilment of the reporting obligation regarding the submission of the report to the Financial Intelligence Unit and State Security Service, and also the submission of the threshold report to the Financial Intelligence Unit;

78.5. storage, protection, and destruction of information and documents obtained in the process of the customer due diligence and while supervising transactions executed by a customer after expiry of the time period for their storage;

78.6. registration, recording, and protection of requests of the Financial Intelligence Unit regarding customers of the capital company and transactions executed by customers.

79. The capital company shall develop:

79.1. the policy for the evaluation of the responsible employee and document the evaluation which certifies that the respective responsible employee meets the requirements laid down in the laws and regulations governing the field of the prevention of money laundering and terrorism and proliferation financing and imposition of sanctions, and the internal policies and procedures of the capital company in order to ensure the conformity of the operation of the capital company with the requirements of the laws and regulations;

79.2. the procedure where the allocation of the powers and duties of the responsible employee in the field of the prevention of money laundering and terrorism and proliferation financing and imposition of sanctions shall be determined, and the procedures by which the supervision of the activities of the employee responsible for the compliance with the aforementioned requirements shall be ensured.

80. An employee of the capital company who executes transactions with customers shall be responsible for:

80.1. the fulfilment of the requirements laid down in the policy and procedure documents of the internal control system in relation to the customer due diligence and registration of the transactions executed by customers;

80.2. the discovery of a suspicious transaction and informing of the responsible employee of the capital company regarding the discovered suspicious transactions.

XVI. Requirements of the Internal Control System for Ensuring the Professional Qualification and Conformity Standards of Employees of the Capital Company

81. The capital company shall ensure:

81.1. training of the new employees of the capital company in issues related to the internal control system;

81.2. continuous training of employees and regular improvement of their professional skills in issues related to the internal control system.

82. The training referred to in Sub-paragraph 81.2 of this Regulation shall be conducted at least once a year, and the following topics shall be included therein:

82.1. the laws and regulations governing the prevention of money laundering and terrorism and proliferation financing and imposition of sanctions;

82.2. risks associated with money laundering and terrorism and proliferation financing and imposition of sanctions;

82.3. the basic principles of operation of the internal control system of the capital company;

82.4. detection of suspicious transactions and their indications.

83. The capital company shall document information regarding the conducted trainings. The fact that the employee has participated in the training referred to in Paragraph 81 of this Regulation shall be certified by the signature of the trained employee. The fact that the responsible employee of the capital company has ascertained the efficiency of training and has assessed the level of knowledge of the trained employee in the issues referred to in Paragraph 82 of this Regulation shall be certified by the signature of the responsible employee.

XVII. Requirements of the Internal Control System for Anonymous Internal Reporting on Violations of the Requirements of the Laws and Regulations Governing the Prevention of Money Laundering and Terrorism and Proliferation Financing and Imposition of Sanctions

84. The capital company shall determine and document the procedures by which employees of the capital company may provide an anonymous internal report on violations of the requirements of the laws and regulations governing the prevention of money laundering and terrorism and proliferation financing and imposition of sanctions in the capital company.

85. The capital company need not determine the procedures provided for in Paragraph 84 of this Regulation if, upon establishing the internal control system or assessing the efficiency of its operation, it assesses that due to the number of employees anonymous internal reporting on violations of the requirements of the laws and regulations governing the prevention of money laundering and terrorism and proliferation financing and enforcement of the restrictions imposed by sanctions in the capital company is not possible. The capital company shall document the abovementioned assessment and its justification.

86. If the capital company has determined the procedures provided for in Paragraph 84 of this Regulation, it shall document the procedures for the assessment of anonymous internal reports on violations of the requirements of the laws and regulations governing the prevention of money laundering and terrorism and proliferation financing and enforcement of the restrictions imposed by sanctions in the capital company.

XVIII. Requirements of the Internal Audit System for Ensuring an Independent Internal Audit Function

87. The capital company shall determine and document the procedures by which the independent audit function shall be ensured in the capital company for the verification of the conformity of the internal control system of the capital company with the requirements of the laws and regulations governing the prevention of money laundering and terrorism and proliferation financing and the enforcement of the restrictions imposed by sanctions and for the assessment of the operational efficiency of the internal control system, where appropriate

considering the money laundering and terrorism and proliferation financing risk and sanctions risk, and the extent and nature of the economic activity of the capital company.

88. The capital company need not determine the procedures provided for in Paragraph 87 of this Regulation if, upon establishing the internal control system or assessing the efficiency of its operation, it assesses that due to the money laundering and terrorism and proliferation risk and sanctions risk, and the extent and nature of the activities of the capital company the introduction of an independent audit function is not appropriate. The capital company shall document the abovementioned assessment and its justification.

XIX. Closing Provisions

89. Regulation No. 158 of Latvijas Banka of 30 October 2017, Requirements for the Prevention of Money Laundering and Terrorism Financing in Purchasing and Selling Cash Foreign Currencies (*Latvijas Vēstnesis*, 2017, No. 222; 2019, No. 64), is repealed.

90. The obligation provided for in the Regulation to submit the threshold declaration to the Financial Intelligence Unit shall be applicable from 17 December 2019. Until 16 December 2019, the capital company shall apply the list of unusual transaction indications and procedures by which the reports on unusual transaction shall be submitted that have been stipulated by the Cabinet.

President of Latvijas Banka

I. Rimšēvičs