Conference Report

Euro SIFMANet: European Sanctions and Illicit Finance Monitoring and Analysis Network
Riga Report
Euro SIFMANet: European Sanctions and Illicit Finance Monitoring and Analysis Network
Riga Report
192 years of independent thinking on defence and security

The Royal United Services Institute (RUSI) is the world’s oldest and the UK’s leading defence and security think tank. Its mission is to inform, influence and enhance public debate on a safer and more stable world. RUSI is a research-led institute, producing independent, practical and innovative analysis to address today’s complex challenges.

Since its foundation in 1831, RUSI has relied on its members to support its activities. Together with revenue from research, publications and conferences, RUSI has sustained its political independence for 192 years.

The views expressed in this publication are those of the author, and do not reflect the views of RUSI or any other institution.

Published in 2023 by the Royal United Services Institute for Defence and Security Studies.

This work is licensed under a Creative Commons Attribution — Non-Commercial — No-Derivatives 4.0 International Licence. For more information, see <http://creativecommons.org/licenses/by-nc-nd/4.0/>.

RUSI Conference Report, April 2023.
IN FEBRUARY 2023, the Centre for Financial Crime and Security Studies at RUSI convened a roundtable in partnership with the Latvian Institute of International Affairs in Riga. The discussion, held under the Chatham House Rule, gathered representatives from government ministries and agencies, and the private sector – including banking institutions, law firms and consulting companies. The roundtable was hosted by the Financial Intelligence Unit of Latvia (FIU Latvia). The event is part of RUSI’s ongoing study of EU sanctions implementation and wider responses to illicit finance (Euro SIFMANet), funded by the National Endowment for Democracy.

Background

The roundtable discussion opened by finding a consensus on how well prepared Latvia was for the sanctions. Representatives from the FIU Latvia described how in the past several years, Latvia has undergone a significant overhaul of its national Anti-Money Laundering, Countering the Financing of Terrorism and Proliferation Finance (AML/CFT/CPF) system, and its risk exposure to these threats has been at the top of the political and executive agenda. The process included rigorous transformations under the eye of the Financial Action Task Force and Moneyval’s International Co-operation and Review Group (ICRG) process. Through this process, Latvia worked to embed a high level of AML/CFT/CPF risk understanding and capacity by amending existing laws and supplementing them to comply with FATF Recommendations and enforcement measures, such as increasing the criminalisation of money laundering and predicate crimes (including ‘violation’ of sanctions), and setting up new institutional arrangements, such as a specialised Economic Affairs Court. Supervisors such as the Central Bank (Bank of Latvia) and the Financial and Capital Markets Commission worked to significantly improve guidance and feedback loops with supervised entities, and bolster internal control systems.

A representative from Latvia’s Central Bank noted that the reforms ensured that the financial sector was ‘combat-trained’ for the implementation of the Russia restrictive measures regime following Russia’s full-scale invasion of Ukraine in February 2022. Latvia built its current sanctions regime based on its experience with the post-2014 Crimean, Belarusian and Office of Foreign Assets Control (OFAC) sanctions. A representative from the Latvian Ministry of Foreign Affairs (MFA) described how the MFA created a sanctions division as a result of the Moneyval process, ensuring that sanctions were already front-and-centre in policy discussions at the time.
of the Russian invasion in 2022. The guidance and training that Latvia received throughout the ICRG process and from partners such as OFAC strengthened Latvia’s system to the point that it is now itself providing training to other countries.

Latvian authorities described the national sanctions implementation framework as highly decentralised, with multiple agencies sharing a wide range of responsibilities. Despite the challenges posed by this decentralised system, participants agreed that the sanctions regime has been effective, in large part due to the financial sector reform of the previous few years. Violation of sanctions (both of EU and UN sanctions) is a criminal offence in Latvia, the sanctioned person and entity list is publicly available, and regular public–private collaboration ensures everyone is on the same page. In 2022, Latvian banks identified 35 entities linked to sanctioned entities or persons and froze more than €80 million.¹ FIU Latvia received around 300 STRs, mostly linked to the evasion of sectoral sanctions. Supervisors have also conducted on-site inspections to ensure effective compliance. Tax and customs police initiated 114 criminal proceedings in relation to sanctions violation. The four major Latvian banks have stopped executing transactions to and from Russia.

**Latvia’s Challenges**

A representative of the financial sector association, Finance Latvia, noted two main challenges. The first major challenge of sanctions stems mainly from a lack of cross-border harmonisation on legislation and implementation. How the issue of ‘control’ over an entity is identified in different countries often varies, creating confusion in handling activities that may be deemed sanctions evasion. A further issue cited by the private sector was the challenge of how to treat the risk from Russian sanctions targets using Central Asian countries for evasion and circumvention, ‘contaminating’ business dealings in that region. In addition, private sector actors pointed to the lack of sanctions-evasion prevention capacity in corporate sectors subject to sectoral sanctions. A shortage of sanctions expertise has limited the ability of these industries to raise their capabilities. Finance Latvia explained their ongoing trainings and seminars with their members’ clients, but it is difficult to make them catch up and build capacity for a capability that the financial sector has been engaged in since even before 2014. With this lack of capacity in mind, while it is important to ensure a rapid build-up of implementation capacity, the application of this capacity should be monitored, in order to prevent a cascade of de-risking.

A representative from the Customs Authority highlighted that the main challenge is not in the checking of goods but checking the connections between persons. The Latvian border is naturally at a high risk of exposure to organised crime and drug and alcohol trafficking. The monitoring process is further complicated by the number of exceptions in the customs and trade sanctions regimes, together with the tendency for transporters to use double sets of documentation that hide the legitimate destination of goods and get swapped once they cross

---

the border to obfuscate trade between Russia, Central Asia and Latvia. In general, the customs representative highlighted that more could be done by the EU in this regard. For example, FRONTEX provides funds and support for building capacity to address people crossing the EU’s external borders, but not goods. Participants made a strong argument that as Latvia is among the few member states with direct exposure to Russia via a common border, more resources should be concentrated there to prevent sanctions breaches.

The representatives of the Employers Confederation emphasised that, in general, communication from the Latvian government has been very effective. However, they highlighted their experience with the overburdened systems of compliance of sanctions implementation, noting that members have repeatedly experienced funds getting seriously delayed in transactions with Central Asian counterparties. Participants found that more institutional collaboration between Latvia and Central Asia could result in better understanding of risks from this region.

There was a clear consensus among participants about the additional difficulty stemming from Latvia’s close geographical proximity to Russia and Belarus. Certain designated entities had a substantial economic presence in Latvia, generating doubts about the best way to proceed with paying salaries, taxes or the continuity of economic activity generally. These payment complications have resulted in a trend of Latvian businesses trying to find banking options outside Latvia (notably in Lithuania), making oversight even more difficult.

Participants from both public and private sectors noted on multiple occasions that effective sanctions compliance in Latvia was possible for numerous reasons, but that continued access to the Ultimate Beneficial Owner (UBO) Registry is an important one. The Registry started conducting analysis of ownership to support banks and businesses in complying with sanctions. The new power they received led the Registry to become a form of analytical centre in support of sanctions implementation. Unlike many other EU countries where beneficial ownership registries have been closed to public access as a result of a ruling by the Court of Justice of the EU (CJEU) in 2022, in Latvia, the government has been able to keep the Registry open. Latvia is one of the most open countries in the world regarding the availability of UBO data to the public and does not solely base its national legal framework on the legal norm currently repealed by the judgment of the CJEU. The Latvian framework was established before the 5th Directive came into force and had already assessed the balance of data privacy and public disclosure within the scope of other normative acts. As SIFMANet has found in other countries where registries have been closed, such action significantly complicates and impairs the effectiveness of sanctions implementation.

Recommendations

First, as sanctions become more sophisticated, the roundtable reached a consensus that the highly decentralised model followed by Latvia can be improved. FIU Latvia described the centralisation effort underway, via a newly designed body, to try to remedy this issue, and build a faster and more reliable feedback loop between the public and private sectors. The aim of this effort is to coordinate approaches and hold singular decision-making power, making it possible to support affected entities and make quick and effective judgements where necessary.

Latvian authorities also found the need for centralisation to be a key element at the EU level. The challenges posed by the current lack of harmonisation in the EU must be addressed. While sanctions evasion is a crime in Latvia, it is not wholly criminalised in the EU, resulting in different levels of prioritisation in sanctions evasion prevention among partners.

Second, participants also agreed that the current state of beneficial ownership registries in the EU needs to be remedied. Registries must include accurate, up-to-date and accessible data. Although open registries should be the goal, even countries with an open and accessible registry (for example, the UK) suffer from unreliability because their data is unverified and therefore untrustworthy.

Third, though the role of Latvia as a gateway of financial flows eastward has been largely restricted, trade between Latvia and its neighbours continues. Representatives from the public and private sectors asserted that resources and staffing must continue to be dedicated to ensuring compliance with sanctions; and more international collaboration will be required to bolster the strength of the Latvian and Baltic borders, as this is also the main external border of the EU with Russia.

Finally, there was consensus at the roundtable that the European Commission must communicate more thoroughly with the private sector in regard to sectoral sanctions, otherwise this duty of informing businesses in the EU falls solely on the financial sector, which may not be best equipped to carry this burden alone. In this sense, participants agreed that the EU and national competent authorities should engage more with the private sector during the design of sanctions and immediately following their publication, to ensure that the desired measures are effectively implemented by the relevant sectors.