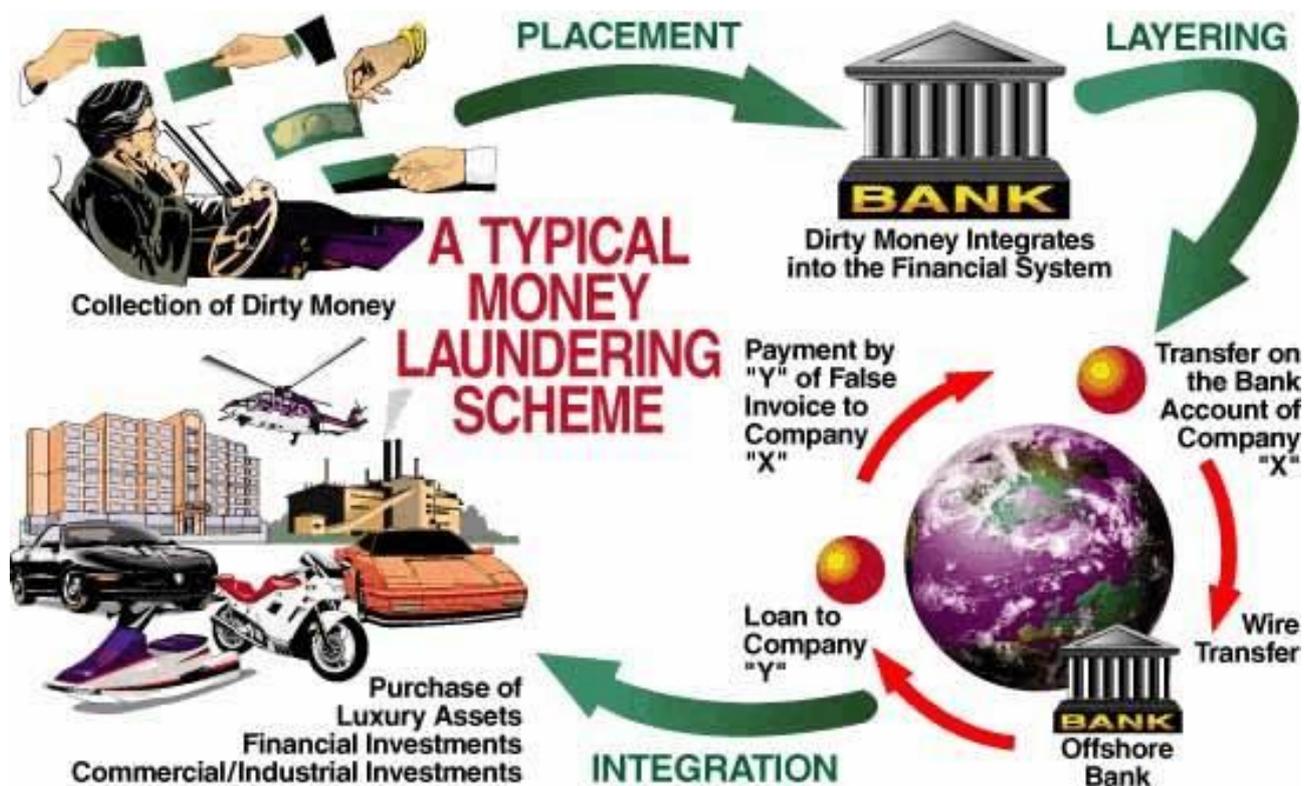


# ENHANCING THE TRANSPARENCY OF LATVIA'S FINANCIAL SYSTEM

In September 2016, TI began to analyze trends in money laundering, covering national, European and international level, with a particular focus on Latvia's non-resident banks' role in channelling flows of illegal money from Russia and Central Asia into the European Union. The organization Tax Justice Europe approved funding for a project presented by Delna concerning the new EU Anti-Money Laundering Directive and its implementation in Latvia, with a focus on the transparency of information regarding the Beneficial Owners of anonymous offshore shell companies and structures.

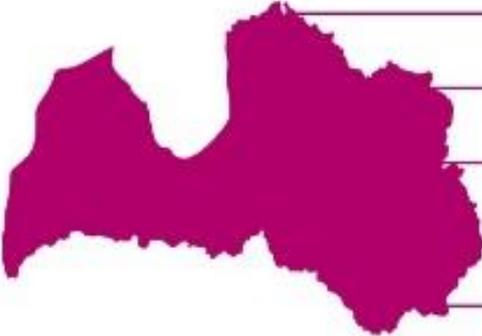


**Money laundering** is the process of concealing the origin, ownership or destination of the profit of corruption, fraud, drug trafficking and other crimes ("dirty money") by hiding it within legitimate economic activities to make it appear legal ("clean"). Corrupt and criminals need the illicit money to be clean so that they can enjoy the profits of their misdoings and perpetuate them without raising suspicions from banks and financial institutions where it is deposited. Money laundering can be carried out in many methods, varying in complexity, sophistication and geographic scope, and it thrives when assets can be hidden through anonymous companies and opaque ownership structures across multiple jurisdictions.

The common denominator of international agreements and standards on the fight against money laundering is the **prevention of the abuse of the financial sector for illicit purposes**. According to these standards, a key transparency requirement for an effective anti-money laundering system is the **identification of the beneficial ownership of corporate and legal entities** (i.e. companies, trusts, foundations). The beneficial owner is the natural person(s) who ultimately owns or controls

the asset or corporate entity and/or the natural person on whose behalf a transaction is conducted. Currently, the primary obligation of identification of beneficial ownership and the determination of the origin of the funds is placed on banks and financial institutions, with the obligation to report to regulatory authorities when transactions and patterns of client behavior are considered suspicious (risk-based approach). Cooperation between law enforcement authorities in different jurisdictions is also fundamental to uncover cross-border cases of money laundering and bring to law the perpetrators. In the European Union, the current legislative framework to address money laundering – largely based on international standards – is the so-called **4<sup>th</sup> Anti-Money Laundering Directive**, which has to be implemented by Member States by June 2017.

## Why Latvia?



- Geographical location
- EU – safe and regulated environment
- Possibility to provide banking services in the Russian and English languages
- Modern and qualitative services available at an affordable price

In the last decade, **Latvia's non-resident banks** (banks who primarily serve a foreign customer-base) have been involved in a series of money-laundering scandals – from the Magnitsky case in 2007 to the Moldovan bank Fraud in 2014, with total figures of \$20 billion or even more – that have cast a shadow on the overall reputation of the country's financial sector and raised doubts on the law enforcement's willingness to stop the flows of illicit money (mostly from Russia and Central Asia) and punish the individuals behind them. Complex webs of anonymous offshore companies, nominee directors and hidden beneficial owners all figure prominently in many of the money-laundering schemes conducted through Latvia's non-resident banks, as confirmed by the high number of connections between Latvia and the 2016 **Panama Papers** leak which have shown how secrecy in the global financial system can have serious consequences in terms of grand corruption, security, income equality and stability of markets and financial system. In this context, collaboration between hundreds of investigative journalists, NGOs and CSOs across the world was crucial to shed light on the global offshore business, demonstrating how coordination between civil society actors can be a force for the public good.

At the European Level, the European Commission has taken initiative to enhance the EU anti-money laundering legislation towards transparency, envisaging the institution of public registers of beneficial owners of companies and trusts in the EU. While the EU Parliament supports the move and proposes even bolder measures in terms of ownership transparency and monitoring of transactions, the EU Council/Member States seem to have rolled back from their initial commitments, not supporting public registers of beneficial owners and some of the most promising changes proposed by the EU Commission.

In this context, the aim of Delna's project and work on money laundering is to advocate for and support further transparency of the financial system, at the national and European level. At the national level, Delna will engage with political, institutional and law enforcement authorities, supporting their effort in cracking down on illicit flows passing through Latvian banks and the potential transformation of Latvia's non-resident banking sector towards a new business model founded on transparency, sustainability, stability and high-quality services. At the European level, Delna will strongly advocate and support the adoption of a new Anti-Money Laundering Directive entailing the institution of full and easily-accessible public registers of beneficial owners of companies and trusts in the EU, pushing the Latvia's government to adopt a favorable stance on the issue in the course of the negotiations. Furthermore, Delna will provide news, information and explanatory material on the broader issue of the link between global offshore secrecy and money laundering and the repercussions it has for grand corruption, tax evasion and global development.