

Regulations on the Establishment of Customer Due Diligence, Enhanced Customer Due Diligence and Risk Scoring System

Issued pursuant to Section 7, Paragraph two, Section 21.1, Paragraph two, Section 22, Paragraph four, Section 26, Paragraph seven, and Section 47, Paragraph two, Clauses 8 and 9 of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing

1. General provisions

1. "Regulations on the Establishment of Customer Due Diligence, Enhanced Customer Due Diligence and Risk Scoring System" (hereinafter – the Regulations) are binding to credit institutions, payment institutions and electronic money institutions, private pension funds, investment companies, investment management companies, alternative investment fund managers, insurance companies, insofar as they provide life insurance or other insurance services related to the accumulation of funds, insurance intermediaries, insofar as they provide life insurance or other insurance services related to the accumulation of funds, reinsurance companies and to the branches of all of these subjects of Member States and third countries in the Republic of Latvia, as well as credit unions (hereinafter all together – the institution).

2. The requirements of the Regulations on the performance of customer due diligence and enhanced customer due diligence are applicable to insurance intermediaries, insofar as they provide life insurance or other insurance services related to the accumulation of funds, if it emanates from the content and nature of the requirements that in particular circumstances it is reasonably necessary to apply them to insurance intermediaries.

3. The Regulations prescribe the minimum requirements for customer due diligence, including enhanced customer due diligence and transaction supervision, as well as for the establishment of the customer's risk scoring system. The institution shall prescribe detailed requirements in its policies and procedures based on the evaluation of the institution's risk of money laundering and terrorism and proliferation financing (hereinafter also – the risk), including the risk exposure of the institution which it considers to be possible to take (risk appetite). The institution is obliged to justify and document that the customer due diligence measures taken by it are in accordance with the inherent risks of cooperation with the customer.

4. The Regulations prescribe the following:

- 4.1. requirements of customer due diligence, including enhanced due diligence and transaction supervision;
- 4.2. requirements for establishing and using the customer risk scoring system;
- 4.3. cases when the institution shall conduct enhanced customer due diligence, upon the start of a business relationship, as well as during the business relationship or when executing a casual transaction, and the procedures for enhanced due diligence and the minimum scope;
- 4.4. enhanced monitoring requirements of customer transactions.

5. Terms used in the Regulations:

- 5.1. a risk increasing factor – a factor that increases the risk of money laundering and terrorism and proliferation financing inherent to specific business relationships, existing between the institution and the customer, or individual transactions;
- 5.2. a risk decreasing factor – a factor that decreases the risk of money laundering and terrorism and proliferation financing inherent to specific business relationships or individual transactions;
- 5.3. a customer risk profile – the overall risk of money laundering and terrorism and proliferation financing inherent to the customer formed out of the aggregate amount of money laundering and terrorism and proliferation financing risk increasing factors and risk decreasing factors inherent to the customer;

5.4. a risk based approach – an approach by which the institution identifies, evaluates, documents and provides a clear understanding of the risk of money laundering and terrorism and proliferation financing to which the institution is exposed, and takes measures for the risk prevention of money laundering and financing of terrorism and proliferation correspondingly with the existing risks;

5.5. a customer risk scoring system – a system that, by using a risk-based assessment approach, reflects the money laundering and terrorism and proliferation financing risk connected with the business relationship or casual transaction in a numerical way (scoring system);

5.6. customer risk scoring – numerical assessment of the overall money laundering and terrorism and proliferation financing risk level inherent to an individual customer and the services used by them, obtained based on the evaluation of the set of risk factors (customer, geography, delivery channels for services and products) inherent to the cooperation with the customer;

5.7. a group related to the customer – customers of the institution, the interrelation whereof may be justified by one or several of the following criteria, taking into consideration the actual circumstances and observing that which is prescribed in the internal regulatory enactments of the institution in accordance with the recommendations by the Financial and Capital Market Commission, as well as observing the purpose of the identification and due diligence of the group related to the customer:

5.7.1. one structure of the beneficial owner or participants;

5.7.2. transactions carried out mutually form at least 30 per cent of the customer's monthly turnover;

5.7.3. beneficial owners have a first degree family relationship (if the relationship is identified during due diligence);

5.7.4. the same authorised persons (if the relationship is identified during due diligence);

5.7.5. the representative of one customer and another customer's beneficial owner is one and the same person;

5.7.6. the customer uses a loan, the collateral whereof is another customer's financial instruments;

5.7.7. the customer uses a loan, the collateral whereof is another customer's trust;

5.7.8. two customers – legal persons which are not related have at least one common card user;

5.7.9. customers have one means of identification for the use of the remote services of the institution;

5.7.10. the borrower and the guarantor, if the credit granted is related to the professional activity of the borrower;

5.7.11. during customer due diligence it has been identified that one customer makes transactions on behalf of a third person, if it is not related to the professional activity of the customer;

5.7.12. unrelated customers have one business partner with whom the mutual transactions form at least 30 per cent of the customer's monthly turnover;

5.7.13. automatic redirection from one customer's website takes place to another customer's website;

5.7.14. customers' contact details are identical;

5.7.15. there are other circumstances that justify customers' mutual relations.

2. Establishment of the customer's risk scoring system

6. The institution, when performing the evaluation of the risk inherent to the customer, as well as when elaborating the customer risk scoring system, takes the following into account:

6.1. risk increasing factors, as well as risk decreasing factors prescribed in the [Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing](#) (hereinafter – the PMLTPF Law) and in other regulatory enactments, if the determination of risk decreasing factors by the institution is considered adequate and it has appropriately documented them;

6.2. risks identified in the country risk assessment of the Republic of Latvia;

6.3. risks identified in the risk assessment of the European Union conducted by the European Commission;

6.4. risks arising from reports, decisions or elaborated typologies by law enforcement authorities or supervision and control institutions;

6.5. other risks inherent to the institution and its customers.

7. The institution, using a risk-based assessment approach, ensures the elaboration and operation of an efficient internal control system allowing one to timely identify an increased risk and to perform risk prevention or mitigation measures.

8. The institution does not establish business relationship with the customer or does not carry out a casual transaction, if it is not confident about the economic or legal nature of the business relationship or transaction or if it is not confident

that it can efficiently manage the risk that the customer may use the institution for the purposes of money laundering or terrorism and proliferation financing. If such relationship has already been established, the institution terminates them according to [Clause 24](#) of these Regulations.

9. The institution ensures that it is capable of selecting information about the customers inherent to the risk factors laid down in [Annex 1](#) of these Regulations, and about the customers which are subject to enhanced due diligence measures, in the event of risk factors laid down in [Annex 2](#) of these Regulations or when they are identified.

10. The institution shall elaborate a methodology for the customer risk scoring system in accordance with the principles and requirements set out in these Regulations, ensuring that the customer's risk scoring system appropriately and effectively reflects the overall risk inherent to each customer in numbers.

11. The institution shall assign a certain number of points to each of the risk factors specified in Annexes [1](#) and [3](#) of these Regulations, reflecting its share in the customer's risk scoring system. The institution shall assign points for the risk factors specified in [Annex 2](#) of these Regulations if, after the inspection of the respective risk factor, increased risk characteristics have been identified or the respective risk factor (regardless of the inspection result) contains an increasing risk characteristic in itself. The score amount of risk factors inherent to the customer form the customer's risk score. The credit institution may evaluate and take risk decreasing factors into consideration, if the customer has any, specified in [Annex 3](#) of these Regulations, and reduce the points according to their importance (impact).

12. The institution shall carry out repeated customer risk scoring, if, when performing customer due diligence, the risk related to the particular customer's business relationship or casual transaction changes.

13. The credit institution, licensed payment institution and licensed electronic money institution shall ensure automated risk assessment calculation for the determination of the customer's risk level. Automated risk scoring may not be used in exceptional cases when it complies with the institution's risk and written consent has been received from the Financial and Capital Market Commission. The institution is obliged to prove that it will objectively ensure the evaluation of the risk inherent to the customer and will determine the extent of appropriate measures to be taken in relation to the risk inherent to the customer, as well as will be able to carry out customer selection according to the requirements of [Clause 9](#) of these Regulations.

14. The institution, in order to ensure a current and efficient customer risk scoring system, shall update the numerical value assigned to each risk factor inherent to its activity or as needed, if information became available at its disposal showing changes in the information, which has been the basis for the scoring assigned to the risk factor, but not less frequently than once per 18 months.

15. The institution, based on the customer's risk scoring results, as well as observing the minimum requirements of these Regulations, determines the period (frequency) and the level of detail (depth) of the customer due diligence and information update.

3. Requirements and procedures for conducting customer due diligence and enhanced customer due diligence

3.1. General provisions

16. In the policies and procedures the institution shall at least provide for:

16.1. requirements, procedures and extent for enhanced customer due diligence and transaction supervision, including its own requirements in addition to the requirements prescribed in these Regulations;

16.2. the necessity, compliance, extent and application procedures for the application of risk decreasing measures;

16.3. the requirements and procedures for the enhanced supervision of customer transactions, including the determination of the threshold level for the customer risk scoring and the circumstances in which the institution applies enhanced supervision of the customer's transactions in addition to the requirements laid out in these Regulations, and the threshold level for the customer risk scoring and the conditions under which the customer's transactions shall be subject to enhanced supervision throughout the cooperation;

16.4. principles for information and document assessment, depending on the field of the customer's personal or business activities, duration thereof and inherent risk factors.

17. The institution shall obtain information to such an extent that it can identify the risk increasing and decreasing factors inherent to the customer and ensure their management.

18. The institution, according to the risk, when commencing a business relationship or performing casual transactions with the customer, shall determine justified thresholds of customer transactions.

19. To ensure unity, completeness and continuity of the enhanced customer due diligence process, the institution shall perform due diligence on all products and services used by the customer, including an overall assessment of the turnover and balance of the customer's funds. To ensure unity of the enhanced customer due diligence process, the institution may carry out all transactions with the customer's funds through the customer's current account.

3.2. Enhanced customer due diligence requirements and procedures

20. The institution shall apply due diligence measures to the customer, as well as to the customers that form the group of related customers with the particular customer in at least the following cases:

20.1. in cases laid down in the PMLTPF Law;

20.2. according to the threshold level (number of points) provided for in the customer's risk scoring system or in the cases defined in the policies and procedures of the institution, including a combination of risk increasing factors. The threshold level for the application of enhanced due diligence measures before the commencement of a business relationship and during the business relationship may differ;

20.3. in cases laid down in these Regulations.

21. Upon the occurrence of the risk factors specified in [Annex 1](#) of these Regulations or taking into account the customer's risk scoring (reaching the threshold set by the institution's scoring system), the institution shall apply all measures of enhanced due diligence during the whole period of the business relationship, providing for a time period appropriate for the customer's risk profile, after which enhanced due diligence shall be carried out on a regular basis, including during the transactions of the relevant period. Upon the occurrence of the risk factors specified in Annex 1, enhanced due diligence shall be carried out at least once every year, except for the customer inherent to the risk factors specified in Annex 1, Clauses 1, 4 to 7 and 12 to 15, upon the occurrence whereof enhanced due diligence shall be carried out at least every six months.

22. Upon the occurrence of the risk factors specified in [Annex 2](#) of these Regulations or in cases when it is not possible to identify the occurrence thereof, as soon as possible after their occurrence, having identified the risk factors specified in [Annex 2](#), as well as in other cases when other risk factors exist that require enhanced due diligence to be carried out, the institution carries out one or more enhanced due diligence measures to such an extent that it may assess the reasons and impact of the occurrence of the respective risk factor. The necessary measures of enhanced customer due diligence are determined by the institution, also taking into account the reason for commencing the due diligence, the customer's risk profile, the time when the previous due diligence was carried out, and the total duration of cooperation with the customer. The institution shall carry out the measures of enhanced customer due diligence for the time period which is required to evaluate the impact of the respective risk factor. With regard to transactions in financial instruments, enhanced due diligence of the transaction or the customer shall be carried out aimed at assessing the potential risk, including in cases where the institution identifies a red flag that may indicate market abuse in accordance with Regulation No. [596/2014](#) of the European Parliament and of the Council of 16 April 2014 on Market Abuse (Market Abuse Regulation) and repealing Directive [2003/6/EK](#) of the European Parliament and of the Council and European Commission Directives [2003/124/EK](#), [2003/125/EC](#) and [2004/72/EC](#).

23. The amount of information resulting from enhanced customer due diligence is appropriate to the risks inherent to cooperation with the customer. For different customers the amount of information obtained as a result of enhanced due diligence may differ, but the obtained information should be sufficient to evaluate the impact of the particular risk factor in essence and to ensure its management.

24. In addition to that which is prescribed in [Clause 8](#) of these Regulations, the institution shall terminate a business relationship with the customer, if within 35 working days from the day when the preconditions for carrying out the enhanced due diligence measures have occurred, it is impossible to ensure the fulfilment of the enhanced customer due diligence requirements. The institution is entitled to require early repayment of the loan in cases laid down in the PMLTPF Law.

25. The institution may decide on the extension of the term for carrying out enhanced due diligence, documenting and justifying it, if additional time is required for carrying out a comprehensive enhanced due diligence due to objective reasons. For the customers inherent to the risk factors specified in [Annex 1](#) of these Regulations this time does not exceed 15 working days. When determining the extension of the due diligence term, the institution shall at the same time ensure appropriate risk decreasing measures (including enhanced supervision) for the customer's transactions until a decision on the conclusion of the enhanced due diligence is taken.

3.3. Enhanced customer due diligence measures

26. The institution, when conducting enhanced customer due diligence before the establishment of a business relationship, shall carry out at least the following measures:

26.1. obtain additional information or documents about the business or personal activity of the customer and the beneficial owner of the customer, origin of their funds and prosperity, the existing or planned cooperation with the institution, information on the customer's key business partners, the nature of the business relations, the size of the planned transaction and location of business operations or the residence of the customer (the actual address of the customer);

26.2. inquire regarding further information about the beneficial owner of the customer, if the customer is a legal person or legal arrangement or it is suspected that the customer is establishing a business relationship with the institution in the interest or on behalf of another person. The institution shall obtain and document the beneficial owner of the customer and its link to the customer supporting information;

26.3. inquire into public information as to whether the customer, their authorised person and the beneficial owner have previously been convicted of such criminal offences, as a result of which proceeds of crime may be received, as well as of money laundering or an attempt thereof. The institution shall assess the impact of the information on the vulnerability of the customer and the institution to money laundering and terrorist and proliferation financing and, where an increased risk is identified, shall obtain written approval from the institution's board, if such is appointed, member or the representative of the senior management for the establishment of a business relationship with such a customer and the necessary risk mitigation measures;

26.4. if the customer wishes to establish a business relationship with the institution based in a country which is not related to the personal or business activities of the person, the reasons for this shall be clarified. The institution shall provide a documented assessment of the validity of the reasoning provided by the customer;

26.5. ascertain that the customer has a licence or special permission, if the customer's declared economic or personal activity provides for the obtaining of such a licence and it is connected with a high risk industry that impacts the customer's risk assessment. If the customer provides financial services, the institution shall ascertain that the customer is registered or licensed in the relevant competent institution;

26.6. require the customer issuing or which is entitled to issue bearer shares (capital securities) for the duration of cooperation to transfer the issued bearer shares for safe storage, or to obtain a certificate from another institution at least once a year about the storage therein of the bearer shares issued by the customer, as well as receive written confirmation from the customer that the institution will receive written information from the customer in the event of an additional issue of the customer's shares.

27. The institution, when conducting enhanced customer due diligence during a business relationship, shall carry out at least the following measures:

27.1. examine if the customer's transactions carried out, services and products used are in compliance with the customer's declared business activity;

27.2. obtain additional information in order to verify that the beneficial owner indicated by the customer or ascertained by the institution is the actual beneficial owner of the customer;

27.3. verify the origin of the funds of the customer;

27.4. analyse the economic or personal activity of the customer, including in cases when the customer is a company registered in a low-tax territory. The institution shall obtain and document evidence about the customer's relation to a company carrying out actual economic activities and its relation with the beneficial owner of the customer.

28. When examining the compliance of the customer's transactions carried out, services and products with the customer's declared business activity, the institution shall verify the following:

28.1. if the customer's transactions carried out, services and products used are economically justified, if the transactions do not substantially exceed the declared amount, including the obtaining of supporting information of transactions;

28.2. the customer's transactions, services and products used are in compliance with the customer's declared business or personal activity;

28.3. if the customer's transactions with the declared and other business partners are not in contradiction with the customer's business activity;

28.4. if the institution possesses information supporting the transactions with the customer's key business partners, assessing the veracity of the information provided in the documents and documenting the result of the

assessment, as well as indicating all the circumstances which call the reliability of the documents submitted into question.

29. If the institution finds that it does not hold sufficient information to ensure the issues referred to in Clauses [27.1–27.4](#) of these Regulations, it requires explanations or the necessary information and documents from the customer, as well as performs repeated analysis of the information and documents.

30. To make sure that the beneficial owner indicated by the customer or ascertained by the institution is the actual beneficial owner of the customer, the institution, by using a risk-based assessment approach, shall carry out the following:

30.1. obtain additional information on the financial situation of the beneficial owner;

30.2. find out about the business or personal activities or previous professional experience, education, etc. of the beneficial owner, if it is necessary for carrying out the business activities and financial transactions;

30.3. ascertain whether the business or personal activity of the beneficial owner or other legal persons to whom it is the beneficial owner, complies with the economic activity carried out by the customer of the institution or is related to it;

30.4. obtain other information indicating that the person indicated as the beneficial owner controls the customer and gets benefit from their activity, including that the institution obtains and documents information describing the financial benefits the beneficial owner has gained from the customer's activity, as well as the legal basis of the control and the gained benefit;

30.5. ascertain that there is no change in the circumstances under which the beneficial owner of the customer, who is a legal person or legal arrangement, has been identified by the institution as a person having a position in the senior management body of the customer.

31. While analysing the customer's business or personal activity and identifying the origin of the customer's funds the institution shall:

31.1. update information on the origin of the funds used in the transactions and information characterising the business or personal activity of the customer;

31.2. obtain information or, by using a risk-based assessment approach, documents supporting the customer's declared business or personal activity or the origin of funds, including the customer's explanations and documentation of the transactions or facts that have been the basis for the performance of the enhanced due diligence;

31.3. verify the compliance of the transactions with the information available on the customer's financial situation (financial statements) and business activity. If the customer's financial statements are not available to the institution, it shall ascertain and document the reasons that hinder the submission of such reports and shall assess the impact of the information provided on the customer's risk profile of the cooperation. By analysing the major transactions of the customer, the institution provides an assessment of their compliance with the customer's business or personal activity, extent and the business activity characteristics to the market;

31.4. in order to decrease the risk, verify other customers of the group related to the customer and document the role of each group member, and deliver a reasoned opinion on the legal and economic nature of the activities of the group of related customers, including their mutual transactions;

31.5. assess the need to meet the customer in the location of their business activity in order to ascertain that the previously submitted information about the beneficiary and business activity complies with the actual situation.

32. The institution shall apply enhanced customer due diligence measures before the establishment of a business relationship or during the business relationship, observing the time when the enhanced customer due diligence obligation commences, and shall promptly carry out the measures of enhanced customer due diligence thereafter. As regards casual transactions, the institution applies the measures prescribed in this section for the casual transaction to an appropriate extent, justifying and documenting the choice of the measures.

33. If the institution identifies a group related to the customer and enhanced customer due diligence is applied to one of the customers in this group, the institution shall apply due diligence to the customers belonging to the group related to the customer, taking into account a risk-based assessment approach, the specifics of the institution and the recommendations of the Financial and Capital Market Commission, incorporated in the institution's internal regulatory enactments.

34. By performing the enhanced customer due diligence and receiving the documents submitted by the customer the institution shall take the necessary steps to ensure the compliance of the submitted documents to the requirements of document preparation in the relevant industry (the compliance of the form and content) and the fact that they do not contain signs of tampering.

35. The institution shall document the final conclusions of the due diligence and the facts, circumstances and evaluation methods used to draw the conclusions in the file of the enhanced customer due diligence.

36. In order to establish that the prohibition determined in **Section 21.1** of the PMLTPF Law should be applied, considering the indications set forth in Section 1, Clause 15¹, sub-clause (a) of the PMLTPF Law, and acquire documentary information, proving the existence of commercial activity or economic value, the institution specified in Section 21¹ of the PMLTPF Law shall acquire at least the information and documents referred to in one or several sub-clauses of this Paragraph to the extent that it is sufficient in order to ascertain that the legal person is not a shell arrangement according to the specified indication. By using a risk-based assessment approach of legal persons that could correspond to the indications on the shell arrangements in accordance with a risk assessment, the institution shall acquire and evaluate at least the following:

36.1. information and documents sufficiently explaining the business model of the legal person;

36.2. the annual financial report of the legal person, audited by an independent external auditor, from which sufficient understanding may be obtained regarding transactions performed by the legal person, and to establish whether the profit corresponds with the commercial activity and turnover of the legal person;

36.3. information and documents confirming the actual movement of products and services within the framework of the commercial activity implemented by the legal person. If the activity of a legal person, considering the purpose of foundation thereof, is not related to the movement of products and services, information and documents should be obtained, confirming and describing the compliance of the activity of the legal person with the purpose of foundation thereof (for example, only holding of an asset in accordance with the business model);

36.4. information and documents about key cooperation partners of the legal person, confirming the actual commercial activity of cooperation partners;

36.5. information and documents confirming that the legal person performs tax payments (tax declaration), if the regulatory enactments determine the obligation to pay taxes in the particular situation;

36.6. information and documents confirming that the legal person has attracted other persons on the basis of a contract (such as employees, outsourcing providers), who actually organise and perform the duties that refer to the commercial activity of the legal person, making sure of the compliance of duties with the commercial activity and turnover of the legal person.

37. The institution specified in Section 21.1 of the PMLTPF Law shall maintain updated information about shell arrangements in the institution, specifying the following information:

37.1. the name of the legal person that has been recognised as a shell arrangement;

37.2. the characteristic feature or features specified in Section 1, Clause 15¹ of the PMLTPF Law applying to a shell arrangement;

37.3. the date as of which the legal person has been recognised as a shell arrangement;

37.4. the date, when cooperation with the legal person that has been recognised as a shell arrangement has been commenced;

37.5. the country of residence of the legal person that has been recognised as a shell arrangement;

37.6. the name and surname, year of birth, identification document of the beneficial owner of the legal person that has been recognised as a shell arrangement;

37.7. country of residence of the beneficial owner of the legal person that has been recognised as a shell arrangement;

37.8. the name and surname, year of birth, identification document of the representative of the legal person that has been recognised as a shell arrangement;

37.9. the country of residence of the representative of the legal person that has been recognised as a shell arrangement.

38. The institution specified in Section 21¹ of the PMLTPF Law, by using a risk-based assessment approach, shall obtain information about a legal person for which the institution has identified an increased risk, as well as about the key cooperation partners – shell arrangements that are compliant to the characteristics specified in Section 1, Clause 15¹, sub-clauses (a) and (b) of the PMLTPF Law. If the customer of the institution has such cooperation partners, it shall perform an additional study of the legal person having increased risk, in order to eliminate the risk of the legal person as much as possible, having increased risk, operating in the interests of such shell arrangements, the servicing of which is prohibited in accordance with Section 211 · Paragraph one of the PMLTPF Law.

4. Enhanced supervision requirements

39. The institution shall apply enhanced supervision to the customer to whom the enhanced due diligence measures are carried out, except for in the cases specified in [Clause 40](#) of these Regulations, and also, based on the risk assessment, may apply one of the following measures:

39.1. determining risk mitigation measures to maintain the necessary knowledge about the customer's activities and sufficient control of the customer's transactions, including:

39.1.1. execution of transactions only after the receipt and evaluation of the documents substantiating the transactions, as a result of which a written conclusion is prepared;

39.1.2. execution of transactions only with the consent of a duly authorised employee of the institution or senior-level official;

39.1.3. setting restrictions on the further provision of services and offering of products (such as determining amount limits of the transaction to be carried out within a specific service, allowing only certain types of transactions or payments, allowing only transactions to certain countries or with certain partners), which do not refer to the procedures on refraining from the performance of a transaction;

39.2. determining the criteria upon the occurrence of which the assessment of the customer's transactions is carried out according to the nature of the criterion, including justification that the determined criteria are sufficient to mitigate the risks inherent in the customer's transactions;

39.3. ensuring real time monitoring of the transactions before their execution.

40. The institution may determine enhanced supervision to the customer undergoing enhanced due diligence measures:

40.1. upon the occurrence of any of the risk factors specified in [Annex 2](#) of these Regulations;

40.2. within the enhanced due diligence carried out by the institution in every particular period of time.

41. The enhanced monitoring of the customer's transactions shall be applied until the institution has acquired the information required for enhanced customer due diligence or has decided to terminate its business relationship with the customer.

42. If the institution considers it appropriate to the risk inherent in the customer, it may apply limits to the customer as part of its enhanced supervision throughout the business relationship period or when performing a casual transaction.

5. Final provisions

43. With the coming into force of these Regulations the following are repealed:

43.1. Finance and Capital Market Commission Regulation No. 2 [Regulations of Enhanced Customer Due Diligence](#)" of 9 January 2018;

43.2. Financial and Capital Market Commission Regulation No. 3 "[Regulations regarding Enhanced Customer Due Diligence for Credit Institutions and Licensed Payment and Electronic Money Institutions](#)" of 9 January 2018;

43.3. Financial and Capital Market Commission recommendation No. 152 "[Recommendations to Credit Institutions for Identifying the "Red Flags" of Suspicious Transactions](#)" of 25 September 2017.

44. These Regulations shall come into force on 1 December 2019. The institution coordinates the introduction of the requirements of the Regulations after this term with the Financial and Capital Market Commission.

Informative reference to the European Union legislation

The Regulations contain legal provisions arising from the joint guidelines of the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority No. JC 2017 37 04/01/2018"Joint Guidelines under Articles 17 and 18(4) of Directive (EU) [2015/849](#) on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions".

Chairperson of the Financial and Capital Market Commission *K. Černaja-Mežmale*

	international organisations, recognised by the Cabinet of Ministers, that have prepared lists of persons that are suspected of participating in terrorism activities or creating, holding, moving, using or distributing weapons of mass destruction, are operational in its territory										
13.	The customer or its beneficial owner or a key business partner is related to a country or territory which has refused to cooperate with international organisations in the field of the prevention of money laundering and terrorism financing	X									
14.	The customer, the customer's beneficial owner or the customer's key business partner is related to a country or territory which is included in the list approved by the Cabinet on low-tax and tax-free countries and territories	X									
15.	The customer, the customer's beneficial owner or a key business partner is related to a high risk third country	X									

¹ Insofar as they provide life insurance or any other insurance services related to the accumulation of funds.

² Insofar as they provide life insurance or any other insurance services related to the accumulation of funds.

	proliferation financing										
16.	The customer, when applying for a payment card by post, indicates an undeclared address at the institution, which may indicate a suspicious transaction		X	X							
17.	The customer requests the remote account ³ management device to be issued to a third person that does not have a clear relationship with the customer (e.g., the person is not a relative, lawyer)		X	X		X	X		X		
18.	The customer (resident – legal person) regularly transmits money to a foreign company that has an account with a Latvian financial institution, which may indicate a suspicious transaction		X	X					X		
19.	The customer (resident) regularly receives loans from a non-resident that has an account with a Latvian financial institution, which may indicate a suspicious transaction		X	X					X		
20.	The amount of the debit and credit turnover of the customer's account is similar during one day, which may indicate a		X	X							

	suspicious transaction										
21.	A significant part (over 30%) of the monthly debit or credit turnover on the customer's account consists of cash transactions, if this is not characteristic to the customer's business or personal activity		X								
22.	The institution identifies that the transactions carried out by the customer are not characteristic to the customer's business or personal activity	X									
23.	The customer regularly makes or receives lump-sum payments		X	X	X	X	X	X	X		
24.	There are many incoming cash or non-cash payments of insignificant amounts in the customer's account, which are thereafter aggregated in a large amount and transferred to another recipient, which may indicate a suspicious transaction		X	X							
25.	Funds in the customer's account or on their behalf are often received from a person other than the customer, the customer's family member (the		X	X							

	spouse, parents, grandparents, siblings, and children), beneficial owner or the customer's representative, and the amount of the funds or the regularity of fund reception is not characteristic of the customer's business or personal activity or may indicate a suspicious transaction										
26.	The account turnover of the customer (legal person) mainly consists of incoming non-cash transfers and cash disbursements		X	X							
27.	The customer executes or receives payments above the limit set by the institution, if any, to a country or territory that corresponds to the characteristics of a high risk jurisdiction		X	X							
28.	The customer regularly issues or receives loans from counterparties that do not make a mutually related customer group with the customer, and it is not related to the business activity of the customer		X	X							
29.	The customer makes or receives large-scale		X	X							

	payments for various services (such as consultancy, advertising, and marketing services) above the limit, if any, set by the institution										
30.	Cash movements are started and completed in one and the same customer's accounts, that is, take place in a circle, which may indicate a suspicious transaction		X	X							
31.	The customer who is a politically exposed person, on the basis of an authorisation carries out transactions on behalf of a family member or a relative, who pays cash into this account on a regular basis	X									
32.	The customer who is a politically exposed person makes significant payments to countries that they do not have a relation thereto, or receives significant payments from such countries, which may indicate a suspicious transaction		X	X							
33.	The loan is repaid from the funds owned by a third person, which may indicate a		X						X		

	suspicious transaction										
34.	It is suspected that the purpose of usage of the loan is to hide the origin of funds		X						X		
35.	The economic basis for using the loan is lacking (e.g., significant funds are available to the customer itself), which may indicate a suspicious transaction		X						X		
36.	The customer's transactions in financial instruments form a part of the arrangement for which, in general, the origin of the funds is difficult to determine; the transactions with financial instruments or the arrangement in general lack a business case, are complex or ambiguous		X			X	X	X			
37.	Carrying out of cancelling transactions in a financial instrument within a short time span when the customer issues orders to buy and sell financial instruments at a price that is significantly different from their market price at the time of submitting the order, concurrently specifying the		X			X	X	X			

	counterparties with which the transactions should be carried out, which results in regular income or losses to the customer										
38.	The customers that do not form a single group of mutually related customers, regularly transfer and receive financial instruments from the same counterparty, which may indicate a suspicious transaction		X			X	X	X			
39.	Transactions in the financial instrument account are not consistent with the activity declared by the customer or the amount of free funds that may result from the declared activity		X			X	X	X			
40.	A significant increase in the customer's financial instrument portfolio (e.g., 50% within three months) if the transactions have been carried out without an additional bank's or customer's financing and the amount of the increase exceeds EUR 1000, and may indicate a		X			X	X	X			

	suspicious transaction										
41.	The customer's transactions in financial instruments give rise to a suspicion that the beneficial owner specified by the customer is not the real beneficial owner (transactions in financial instruments are carried out on behalf of another person)		X			X	X	X			
42.	Queries or information about the customer's transactions in financial instruments (including in relation to potential market abuse or fraud) have been received from the institution's counterparty, supervisory or control institution or law enforcing institutions	X									
43.	The customer uses several (at least three) safety deposit boxes		X								
44.	The safety deposit box services are used by a legal person, for the business activities of which the use of safety deposit box services is not characteristic		X								
45.	The customer's habits in using the safety deposit box		X								

	diligence results of the customer's business or personal activity										
49.	The first credit transaction in the customer's account is executed six months after the date on which the business relationship with the customer was commenced, and the monthly credit turnover has reached the equivalent of EUR 70000 or significantly exceeds another, lower, threshold set by the institution on the basis of the due diligence results of the customer's business or personal activity		X	X							
50.	The first debit transaction in the customer's account is executed 12 months after the account opening date or the commencement of the business relationship		X	X							
51.	The customer's transactions are restarted after at least six months of interruption, and in the first month of restarting the transaction the debit or credit turnover has reached the equivalent of EUR 70000 or significantly		X	X							

	beneficiary without an obvious reason										
60.	Payments/funds from the customer using the investment of insurance services are received from the customer's accounts in different banks located in different jurisdictions		X		X	X	X	X		X	X
61.	Within the concluded contract, the customer regularly makes significant additional contributions that do not correspond to the original contract, which may indicate a suspicious transaction				X					X	X
62.	Payments within an insurance contract are made by third persons, not the customer, which may indicate a suspicious transaction									X	X
63.	The customer transfers significantly more funds than necessary for the respective transaction, and requires repayment of the surplus, which may indicate a suspicious transaction	X									
64.	Circumstances under which the customer uses the "cooling-off" period					X					

	and terrorism financing and has reported it to the Financial Intelligence Service										
70.	The customer's transaction is related to another transaction of this customer whereof the institution has reported to the Financial Intelligence Service	X									
71.	The correspondent institution or payment beneficiary's institution refuses the execution of the customer's payment, and the funds are transferred back, which may indicate a suspicious transaction		X								
72.	The customer makes or receives a payment under an assignment agreement, and the payment is not related to the payment for goods and services to such a service provider whose services are used by a wide range of customers		X	X							
73.	Significant cash disbursements occur nearly at the same time in the accounts of several customers from the same ATM, and the funds held in the said accounts are withdrawn in full or nearly full amount.		X	X							

	The aforementioned is not applicable to the state and social payment disbursements										
74.	The institution has information that testifies there being grounds to believe that the customer's transaction is related to the supply, trading, selling or acquisition of dual- use goods		X	X							
75.	Payment details do not match those of the transaction supporting documents (type and name of the goods or services, address, etc.) or the recipient of goods does not match the payer, which may indicate a suspicious transaction		X	X							
76.	The customer is transacting to a jurisdiction where there is no formal banking service sector or where it is less developed, which means that informal money transfer services such as <i>hawala</i> may be used instead of payments		X	X							
77.	The loan that has been issued under a trust agreement is repaid from the funds of the provider of the trust, which are		X								

	possessed by the credit institution, especially in the case of early repayment of the loan										
78.	The loan issued under the trust agreement is assigned to the provider of the trust or a third party (under the assignment agreement) before maturity		X								
79.	The customer repays a loan that has been outstanding for a long time, and the origin of the customer's funds is unclear		X						X		
80.	The customer repays a long-term loan shortly after receiving it		X						X		
81.	A transaction in a paper financial instrument has been applied for (e.g., the customer requests a bill of exchange or paper bond be accepted or supports the origin of the received funds with the maturity of the paper financial instruments)		X			X	X	X			
82.	It is suspected that the customer wishes to engage in a transaction in securities issued by a fictitious company (e.g., the customer acquires bonds, a company's		X			X	X	X			

	capital shares or stocks with restricted rights to dispose of them in a closed-issue paying large amounts for them, if it is difficult to verify that the company is engaged in carrying out real activity, if the basis of such investment on the part of the customer is unclear or there is information that the issuer is a company related to the customer (a single true beneficiary))										
83.	The transaction entails an illiquid financial instrument, the market price of which cannot be determined		X			X	X	X			
84.	The price of the transaction significantly differs from the market price of the financial instruments		X			X	X	X			
85.	There is an incoming transfer free of payment from a third party in the customer's securities account or the outgoing transfer on behalf of a third party, and the customer evades providing the requested information or does not provide enough information about the nature of the		X			X	X	X			

	transaction, the process to determine the origin of the funds is encumbered (e.g., for settlements in OTC transactions, the customer specifies the account with another bank in the agreement with the counterparty)										
86.	Under the terms and conditions of the transaction in financial instruments the settlement term for the transaction in financial instruments exceeds two weeks, which may indicate a suspicious transaction		X			X	X	X			
87.	In relation to the financial instrument transactions the documents submitted by the customer, which support entering into the transaction, contain significant legal inaccuracies or errors, or significant information is lacking, including regarding the terms and conditions of cash or securities settlements and details or the information identifying the financial instruments		X			X	X	X			
88.	It is suspected that a third party		X	X		X	X		X		

	<p>behalf of the customer by an accountant, attorney or a service provider for the establishment and functioning of a legal entity acting on behalf of the customer (not applicable to the opening of a temporary account as long as the company does not have the status of a legal person, as well as for transactions regarding the increase of share capital)</p>										
98.	<p>Relating to trade financing transactions – in the countries related to the transaction (also in the country which is the country of origin of goods, the country of destination of goods or the transit country of goods, or in the countries where the transaction parties are located) currency exchange control measures are introduced</p>		X								
99.	<p>Relating to trade financing transactions – in the situations when the originals of documents are being expected, copies of the documents are used without a</p>		X								

	reasonable explanation										
100.	The goods involved in a trade financing transaction are related to a higher risk in the context of money laundering, such as some commodities, the prices of which can fluctuate significantly, making it difficult to detect fictitious prices		X								
101.	Export permission is needed for the goods involved in the trade financing transaction		X								
102.	The institution identifies that the trade financing documentation does not comply with the applicable legal acts or standards		X								
103.	In a trade financing transaction the customer regularly amends letters of credit without clear justification or goods are shipped through another jurisdiction for no apparent commercial reason		X								
104.	The amount of goods involved in a trade financing transaction is clearly inconsistent with the amount of goods indicated in the transaction documentation		X								

105.	Payments for the trade financing transaction are inconsistent with the nature of the goods involved in the transaction or the existing market practice related to the payments for such goods		X								
106.	Frequent changes are made to the letter of credit (e.g., changes related to the beneficial owner, changes in payments)		X								
107.	It is obvious that dual-use goods are involved in the trade financing transaction		X								
108.	The customer uses loans secured by financial instruments or a guarantee issued by a credit institution, except when repo transactions are carried out		X						X		

¹ Insofar as they provide life insurance or any other insurance services related to the accumulation of funds.

² Insofar as they provide life insurance or any other insurance services related to the accumulation of funds.

³ The account shall also be hereinafter understood as other instruments for storing the customer's funds according to the specifics of the institution (e.g., electronic wallet in the case of an electronic money institution).

⁴ The online banking facility shall hereinafter also be understood as other instruments for remote access by the customer to the service according to the specifics of the institution (e.g., individual offices in the case of investment companies and investment management companies).

		institution of the European Economic Area and cannot be supplemented by a third person transfer										
4.	Product and service risk	The product can only be used inland		X	X							
5.	Product and service risk	The product is accepted by a limited number of merchants or in a limited number of points of sale		X	X							
6.	Product and service risk	The products is developed so that it limits its use at the merchants that sell goods and services which are related to a high risk of financial crimes		X	X							
7.	Product and service risk	The product is accepted as a payment instrument for some low-risk services or products only		X	X							
8.	Product and service risk	Relating to the trade financing transactions – independent inspectors have verified the quality and quantity of the goods		X								
9.	Product and service risk	Relating to the trade financing transactions – long-term partners are involved in the		X								

		transactions that have proof of mutual transactions and that have undergone due diligence										
10.	Product and service risk	The product does not have a repurchasing value or investment element		X	X							
11.	Product and service risk	The product provides for a low value of the total investment	X									
12.	Product and service risk	The provision of services/use of the product does not provide for the management of financial resources (including the reception of contributions and execution of disbursements according to the concluded contract)	X									
13.	Product and service risk	The product is only available with the mediation of the employer (e.g., a pension fund or a similar scheme ensuring pension benefits to employees, or life insurance with accumulation of funds), if the contributions are made from the salary payments and if the regulations				X					X	X

		of the scheme do not allow one to assign the member's share in the scheme										
14.	Product and service risk	The product does not provide for early termination				X					X	X
15.	Product and service risk	The product provides for conditions to be fulfilled in order to obtain tax relief				X					X	X
16.	Product and service risk	The product cannot be used as collateral									X	X
17.	Product and service risk	It is provided for and ensured that the incoming payments from third persons and outgoing payments to third persons are not allowed in the investment account		X			X	X	X			
18.	Customer risk	Relating to the trade financing transactions – the customer's shares are quoted on the stock exchange listing according to the information disclosure requirements that are similar to the requirements of the European Union		X								

19.	Customer risk	The customer is an institutional investor whose status has been verified by a governmental agency of the European Economic Area country, for example, a pension scheme approved by a government		X			X	X	X			
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