

APPROVED

By order No 3 issued by the head of the
Lotteries and Gambling Supervisory
Inspection
on 27 January 2020

Guidelines for the establishment of an internal control system for risk management of international and national sanctions for capital companies that have received a gambling and lottery operator license

I General Issues

1. These guidelines lay down the basic principles for capital companies that have received a gambling and lottery operator license from the Lotteries and Gambling Supervisory Inspection (hereinafter — the Inspection) and perform an assessment of the risk of international and national sanctions (hereinafter — sanctions risk), and establish an internal control system of the capital company in order to manage the risk of international and national sanctions.
2. The aim of these guidelines is to prevent the possibility that gambling and lottery operators (hereinafter — the Operators) are involved in violation, circumvention of international and national sanctions or evade the enforcement of sanctions.
3. Terms used in these guidelines:
 - 3.1. Sanctions — restrictions imposed on the subject of sanctions in accordance with the requirements in the law on International Sanctions and National Sanctions of the Republic of Latvia;
 - 3.2. Internal control system for sanctions risk management — a set of measures that includes actions necessary to comply with the sanctions requirements, by providing adequate resources and an organizational structure enabling their implementation, a regulatory and technological structure, as well as staff and its training in order to prevent, as far as possible, that Operators are involved in violation, circumvention of international and national sanctions or evade the enforcement of sanctions. The internal control system for sanctions risk management forms an integral part of the institution's internal control system;
 - 3.3. Sanctions risk — the impact and likelihood that the Operator could be used in the violation or circumvention of sanctions;
 - 3.4. The subject of sanctions — a subject of public international law, a natural or legal person, or

another identifiable subject on which international or national sanctions have been imposed.

II The assessment of international and national sanctions risk and the internal control system for sanctions risk management

4. The Operators shall perform and document a sanctions risk assessment within their type of activity, in order to identify, assess, understand and manage the sanctions risk inherent in their activities. When performing the sanctions risk assessment, the Operator shall take into account at least the following factors that affect their sanctions risk:
 - 4.1. With regard to the Operator's activities:
 - 4.1.1. The region where the Operator is active and provides services;
 - 4.1.2. The services and products offered by the Operator.
 - 4.2. With regard to the Operator's customers and the Operator's cooperation partners, the Operator shall take into account the risk-related factors given in the Law on Prevention of Money Laundering and Terrorism and Proliferation Financing — risks linked with the customer or cooperation partner, the country and geographical risk, the risk associated with services and products used by the customer, and the services and products delivery channel risk, assessing them in the context of sanctions risk.
5. The Operator shall perform a sanctions risk assessment of all international and national sanctions. The sanctions risk assessment shall be approved by the Operator's board.
6. The Operator shall establish an internal control system for sanctions risk management on the basis of the sanctions risk assessment. The policies and procedures of the internal control system shall be approved by the Operator's board.
7. When establishing an internal control system for sanctions risk management, the Operator shall take into account at least the following sanctions-risk-enhancing features:
 - 7.1. The customer, the Operator's cooperation partner or the transactions of the Operator's cooperation partner are linked with a territory or country under sanctions or with the borderland of such an area or country;
 - 7.2. The economic or personal activity of the customer, the cooperation partner or its beneficial

owner is related to the military sector, to the trade, production, export or import of dual use goods or goods subject to sectoral sanctions, or to specialized foreign agencies (military design offices, space technology research agencies, etc.);

- 7.3. The activity and transactions of the customer do not correspond to the their declared economic or personal activity, or the information about the Operator's cooperation partner does not correspond to their economic or personal activity;
 - 7.4. The Operator's cooperation partner often works with companies that have features of actual economic activity and that act in order to conceal an illegal financial activity, including the beneficial owner or economic activity, (*front company*), or works with companies which do not engage in active economic activity for lengthy periods of time and whose shareholders, directors or secretaries are inactive companies (*shelf company*);
 - 7.5. The payment on behalf of the Operator's cooperation partner is made by a third party that is a resident of a territory or country under sanctions;
 - 7.6. The Operator's cooperation partner cooperates with a service provider regarding which there is public knowledge that it provides services to companies operating in the territory or country under sanctions;
 - 7.7. The underlying transaction documents submitted by the Operator's cooperation partner show signs of falsification indicating a possible evasion of sanctions enforcement.
8. When establishing an internal control system for sanctions risk management, the Operator shall, as a minimum, provide for the following:
 - 8.1. The development of sanctions risk management policies and procedures along with requirements for their regular review in accordance with regulatory changes or the Operator's activities, services provided, management structure and customer base;
 - 8.2. The procedure for the assessment, documentation and review of the sanctions risk that relates to the customer, its country of residence (registration), its economic or personal activity, services and products used and the delivery channels thereof, as well as to transactions conducted;
 - 8.3. The procedure for the assessment, documentation and review of the sanctions risk related to the cooperation partner, its country of registration, its economic or personal activity, services and products used and transactions conducted;

- 8.4. The procedure for the enforcement of and compliance with sanctions, and sanctions risk management measures in accordance with the sanctions risk assessment, including sanctions risk mitigation measures;
- 8.5. The procedure for detection and investigation of potential violations or circumvention of sanctions, including the timely identification of sanctions risk before an occasional transaction, before the establishment of a business relationship and during the business relationship, as well as at the conclusion of contracts with the Operator's counterparties;
- 8.6. The procedure for deciding on cooperation with a customer or counterparty whose activities have been identified to have an increased sanctions risk;
- 8.7. The procedure for reporting to the State Security Service any violation or attempted violation of international or national sanctions and funds frozen as the result;
- 8.8. The procedure for informing the Inspection of detected violations or attempted violations of international or national sanctions, including the circumvention of international or national sanctions;
- 8.9. The procedure for reporting to the Financial Intelligence Unit the suspicions of circumvention or attempted circumvention of international or national sanctions when enforcing financial restrictions;
- 8.10. The procedure for the appointment of the sanctions risk management officer, including the authority of this officer to implement sanctions risk prevention and mitigation measures;
- 8.11. The rights, obligations and responsibilities of employees, as well as the standards of professional qualifications and conformity of employees, in accordance with their obligations and powers when implementing sanctions risk management measures;
- 8.12. The requirements for assessing the internal control system for sanctions risk management in accordance with regulatory requirements in the field of sanctions and the requirements for assessing the effectiveness of the internal control system for sanctions risk management;
9. The operator shall, in accordance with the sanctions risk inherent in its activities, update the sanctions risk assessment on a regular basis, but at least every three years and whenever necessary.
10. The Operator shall regularly and whenever necessary, but at least every 18 months, assess and document the effectiveness of the internal control system for sanctions risk management and, where

appropriate, take measures to improve its effectiveness, including a review and update of the sanctions risk management policies and procedures. The Operator may provide an independent assessment of the effectiveness of the internal control system for sanctions risk management by employing a professional external assessor.

11. The Operator shall appoint a sanctions risk management officer who shall be entitled to take decisions and shall be directly responsible for the compliance with and enforcement of regulations in the field of sanctions, as well as for ensuring the reporting of violations or possible violations of sanctions and circumvention of sanctions. The Operator shall provide the sanctions risk management officer with appropriate authority and access to the information necessary for the performance of their duties. The Operator shall notify the Inspection in writing within 30 days after the appointment or replacement of the sanctions risk management officer.
12. The Operator shall ensure that employees involved in the management of sanctions risk, including the sanctions risk management officer, are aware of the Operator's risks related to sanctions risk management, the risks identified at national and international level and the regulations in the field of sanctions. The Operator shall provide regular training to its employees to improve their knowledge and skills in the management of sanctions risk.