



Izložu un azartspēļu uzraudzības inspekcija

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INTERNAL RULES

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**Criteria and procedure for evaluating money laundering and terrorism financing risk levels of gambling and lotteries organisers**

*Issued in accordance with  
State Administration Structure Law  
Section 72, Paragraph one, Clause 2*

**I General provisions**

1. The provisions set down the criteria and procedure the Lotteries and Gambling Supervision Inspection (hereinafter - the Inspection) employs in order to evaluate money laundering and terrorism financing (hereinafter - MLTF) risk levels of subjects of the law referred to in Section 3, Paragraph one, Clause 7 of the Law on the Prevention of Money Laundering and Terrorism Financing that are supervised by the Inspection (hereinafter - the subjects of the law).
2. The procedure provides a uniform control and supervision approach to risk level evaluation, the proportionality of MLTF prevention or reduction measures to the identified risk, and the most effective use of the Inspection's supervision and control resources.

3. Risk level evaluation is used by the Inspection to carry out targeted inspections in the MLTF area and prepare a sectorial risk assessment.

## **II Criteria for Establishing Risk Levels**

4. A criteria evaluation system is used to establish the risk levels of subjects of the law. As described below, every criterion is assigned with a level indicating how it relates to factors that increase MLTF risk - low (L), medium (M) and high (H).
5. The criteria for establishing the risk level are selected on the basis of information in the National risk assessment on the sectorial risk level, risks and threats identified, recommendations and guidelines from the Financial Action Task Force (FATF) and the experience with MLTF risks of the Inspection as the supervisory authority of the sector.
6. Criteria for establishing the MLTF risk levels of the subjects of the law:

### **6.1. National risk.**

The criterion indicates the possibility of the subject of the law being involved in MLTF processes. In order to establish the criterion, it is necessary to evaluate the country of origin of natural or legal persons.

#### 6.1.1. Characteristics of a low (L) level criterion:

- 6.1.1.1. legal or natural persons from the Republic of Latvia;
- 6.1.1.2. legal or natural persons from EU countries;
- 6.1.1.3. legal or natural persons from EEA countries;
- 6.1.1.4. legal or natural persons from member states of the Organization for Economic Cooperation and Development (OECD). The list of countries is available at:  
<http://www.oecd.org/about/membersandpartners/>.

#### 6.1.2. Characteristics of a high (H) level criterion:

- 6.1.2.1. legal or natural persons from high-risk countries. The list of high-risk countries is available at:  
<http://www.fatf-gafi.org/countries/#high-risk>;
- 6.1.2.2. legal or natural persons from third countries; in accordance with Section 1, Clauses 11 and 12 of the MLTFP Law a third country is a country that is not a European Union (hereinafter - EU) member state;

### **6.2. Participation structure**

The criterion indicates the possibility of the subject of the law being involved in MLTF processes. In order to establish the criterion, it is

necessary to evaluate the participation structure complexity and transparency of the subject of the law in order to ascertain the beneficial owner of the subject of the law.

6.2.1. Characteristics of a low (L) level criterion:

6.2.1.1. structures with one or two levels of ownership;

6.2.2. Characteristics of a high (H) level criterion:

6.2.2.1. the structure includes legal persons from low-tax or tax-exempt countries or territories (offshore companies). The list of countries is available in the Cabinet of Ministers Regulations No 655 of 7 November 2017 “Regulations on Low-Tax or Tax-Exempt Countries and Territories”;

6.2.2.2. structures with more than two levels of ownership;

6.2.2.3. it is not possible to ascertain the beneficial owner.

### 6.3. **Economic indicators.**

Economic indicators should be evaluated as a set of criteria, therefore a single criterion from the economic indicator set is not a risk increasing factor:

6.3.1. Duration of activity of the subject of the law since the date the initial license was issued. Stability and growth of a company indicates well-ordered internal processes and experience in the sector, which serves as proof that the company is able to comply with requirements of laws and regulations.

6.3.1.1. A characteristic of a low (L) level criterion:

6.3.1.1.1. the duration of activity of the subject of the law is longer than 5 years;

6.3.1.2. A characteristic of a medium (M) level criterion:

6.3.1.2.1. the duration of activity of the subject of the law is shorter than 5 years;

6.3.1.3. A characteristic of a high (H) level criterion:

6.3.1.3.1. the duration of activity of the subject of the law is shorter than 3 years.

6.3.2. The turnover of the subject of the law during the evaluation period. A high cash turnover increases the MLTF risk. The levels of the criterion are established on the basis of Section 5 of the Law on Annual Accounts and Consolidated Annual Accounts.

6.3.2.1. A characteristic of a low (L) level criterion:

6.3.2.1.1. The turnover of the subject of the law in the relevant period is smaller than EUR 8,000,000 (8 million EUR);

6.3.2.2. A characteristic of a medium (M) level criterion:

6.3.2.2.1. The turnover of the subject of the law in the relevant period is smaller than EUR 40,000,000 (40 million EUR),

6.3.2.3. A characteristic of a high (H) level criterion:

6.3.2.3.1. The turnover of the subject of the law in the relevant period is bigger than EUR 40,000,000 (40 million EUR);

6.3.3. Profitability ratio (return on assets). Company operating at a loss during the reference period is not a sufficient criterion to increase the MLTF risk but could hint at suspicious processes in the supervised company. In order to establish the criterion level for the evaluation period the sector average profitability indicators from the previous review period, that are calculated annually, should be used.

#### 6.4. **Gambling and lottery types.**

All types of lotteries and gambling can be used for money laundering. The criterion level depends on the value (0 to 1) assigned to each gambling and lottery type. The total criterion value for a subject of the law is established by adding up the relevant values of gambling and lottery types organised by the subject of the law. The value is affected by the vulnerability of the specific lottery and gambling type:

- a) A gambling hall is premises for operating gambling where gaming machine games are organised after the relevant gambling premises license has been received. The vulnerabilities of a gambling hall are the high cash turnover and the anonymous use of the service (without registration). Value – 1;
- b) A casino is premises for operating gambling where card and dice games, roulette and gaming machine games are organised after the relevant gambling premises license has been received. The vulnerabilities of a casino are the cash turnover and the large transaction amounts. Value - 0.8;
- c) Interactive gambling and lotteries is gambling and lotteries organised by means of electronic communications services. The vulnerabilities of interactive gambling and lotteries are

the remote service delivery and external identification.  
Value – 0.7;

- d) Betting and wagering shops are premises for operating gambling where bets and wagers are organised after the relevant gambling premises license has been received. The vulnerabilities of betting and wagering shops are the cash turnover and anonymous use of the service (without registration). Value – 0.9;
- e) A bingo hall is premises for operating gambling where bingo games are organised after the relevant gambling premises license has been received. The value for a bingo hall is established by the relatively low participation fee, small prizes, small number of halls and low turnout. Value – 0.3;
- f) Nationwide and local scale lottery value is established by the necessity to receive an organising license for the organisation of every nationwide and local scale lottery. Only the state-owned stock company "Latvijas Loto" is allowed to organise lotteries of nationwide scale. Value – 0.5.

6.4.1. A characteristic of a low (L) level criterion:

6.4.1.1. the total value is below one;

6.4.2. A characteristic of a high (H) level criterion:

6.4.2.1. the total value is one and above.

**6.5. Training provided by the subject of the law to prevent MLTF.**

6.5.1. A high number of employees increases the MLTF vulnerability of a subject of the law. The levels of the criterion are established on the basis of Section 5 of the Law on Annual Accounts and Consolidated Annual Accounts,

6.5.1.1. A characteristic of a low (L) level criterion:

6.5.1.1.1. the number of employees is less than 50;

6.5.1.2. A characteristic of a medium (M) level criterion:

6.5.1.2.1. the number of employees is less than 250;

6.5.1.3. A characteristic of a high (H) level criterion:

6.5.1.3.1. the number of employees is greater than 250;

6.5.2. Regular employee training on MLTF issues reduces the risks associated with the insufficient professional qualification of employees.

6.5.2.1. A characteristic of a low (L) level criterion:

- 6.5.2.1.1. employee training is done regularly;
- 6.5.2.2. A characteristic of a medium (M) level criterion:
  - 6.5.2.2.1. employee training is done irregularly;
- 6.5.2.3. A characteristic of a high (H) level criterion:
  - 6.5.2.3.1. no employee training on MLTF issues.

## 6.6. **Sanctions.**

The chapter on sanctions indicates the deficiencies and shortcomings in the internal management processes or procedures of the supervised subjects.

- 6.6.1. Administrative offences for violating the procedures for the organisation and conducting of lotteries and gambling (Latvian Administrative Violations Code, Section 204<sup>5</sup>).
  - 6.6.1.1. A characteristic of a low (L) level criterion:
    - 6.6.1.1.1. the subject of the law has no administrative violations for the relevant period;
  - 6.6.1.2. A characteristic of a medium (M) level criterion:
    - 6.6.1.2.1. the number of administrative violations for the relevant period is less than 2;
  - 6.6.1.3. A characteristic of a high (H) level criterion:
    - 6.6.1.3.1. the number of administrative violations for the relevant period is greater than 2;
- 6.6.2. Violations in the MLTF area. The criterion level is established on the basis of data on penalties imposed due to MLTF-related violations in accordance with the internal rules of the Inspection “Guidelines on the Imposition of Sanctions on Lottery and Gambling Organisers for Violations of the Law on the Prevention of Money Laundering and Terrorism Financing.”
  - 6.6.2.1. A characteristic of a low (L) level criterion:
    - 6.6.2.1.1. no penalty was imposed due to MLTF-related violations during the relevant period;
  - 6.6.2.2. A characteristic of a high (H) level criterion:
    - 6.6.2.2.1. penalty or penalties were imposed due to MLTF-related violations during the relevant period high;
- 6.6.3. The subject of the law is involved in criminal proceedings (The Criminal Law, Section 195). The criterion level is established by using data available to Inspection about the involvement of the subject of the law in criminal proceedings.
  - 6.6.3.1. A characteristic of a low (L) level criterion:

6.6.3.1.1. The subject of the law or the employees of the subject of the law are not involved in criminal proceedings;

6.6.3.2. A characteristic of a medium (M) level criterion:

6.6.3.2.1. The subject of the law is involved in one or several criminal proceedings as the victim or the employees are witnesses in criminal proceedings;

6.6.3.3. A characteristic of a high (H) level criterion:

6.6.3.3.1. The employees of the subject of the law are involved in criminal proceedings as suspects or persons against whom criminal proceedings have been commenced.

**6.7. The number of suspicious transaction reports.**

The number of suspicious transaction reports to the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity. During evaluation the number of suspicious transaction reports is compared with the number from the previous year. A decreasing number may indicate ineffective procedures of inappropriate employee qualification. When a decrease is detected, the number of reports on refraining from executing suspicious transactions should be taken into account. Characteristics of criterion levels:

6.7.1. Characteristics of a low (L) level criterion:

6.7.1.1. no change in the number of reports;

6.7.2. A characteristic of a medium (M) level criterion:

6.7.2.1. an increase in the number of reports;

6.7.3. A characteristic of a high (H) level criterion:

6.7.3.1. a decrease in the number of reports.

### **III Final Provisions**

7. The procedure shall enter into force on 1 January 2019.
8. The risk level of the subjects of the law (gambling and lottery organisers) shall be established annually or more frequently, when necessary.

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