

APPROVED

By order No 19

made on 21 Oktober 2019

by the head of the Lotteries and
Gambling Supervision Inspection

Money Laundering and Terrorism and Proliferation Financing Risks and Management Thereof in the Gambling and Lottery Sector

1. These recommendations establish the money laundering and terrorism and proliferation financing (hereinafter – MLTPF) risks present in the gambling and lottery sector, their assessment, identification and risk management, and are binding on all gambling and lotteries organisers (hereinafter – Organiser) who provide these services to natural persons. The recommendations provide methodical instructions for risk management and prevention.

2. The Organiser's MLTPF risk management obligations:

2.1. The Organiser shall have good knowledge of possible risks (impact and possibility that a gambling and lottery organiser or the organising of gambling and lottery services could be used for money laundering or terrorist or proliferation financing) in the gambling and lottery sector;

2.2. The Organiser shall evaluate and follow developments in the MLTPF field, develop policies and procedures to identify and manage MLTPF risks taking into consideration factors that influence MLTPF risk exposure (risk faced by a gambling and lottery organiser due to his or her customer basis, organisation type and place of gambling lottery services, presence and amount of cash and non-cash transactions, cash-flow traceability, and the influence of other factors).

2.3. When drafting the assessment of risks relevant to its operations the Organiser shall take into account:

2.3.1. Risks identified by the European Commission in its assessment of money laundering and terrorism financing in the European Union;

2.3.2. Risks identified in the national MLTPF risk assessment report;

2.4. When performing MLTPF risk analysis and identifying risk factors, the Organiser shall carry out a set of measures aimed at preventing or minimizing such risks;

2.5. The Organiser shall document its risk procedures and include them in the Organiser's internal control system.

3. In accordance with the MLTPF risk assessment and based on the place where gambling or lottery services are provided (a physical location or an interactive environment), the gambling and lottery services are divided between those organised in a physical location and those organised in an interactive environment (online).

4. Gambling and lottery services are assessed according to gambling and lottery types authorised in the Republic of Latvia and defined in the Law on Gambling and Lotteries:

- 4.1. Sweepstakes and betting;
- 4.2. Casino games (card and dice games, roulette and card game tournaments);
- 4.3. Gaming machines and bingo;
- 4.4. Telephone games of chance;
- 4.5. Number lotteries and instant lotteries;
- 4.6. Interactive gambling and lotteries.

5. MLTPF risks in sweepstake and betting locations:

5.1. The player regularly makes low-ratio stakes (with high winning probability), where the desired outcome probability is high, or, when collecting the winnings, requests a document verifying the transaction;

5.2. The player regularly makes stakes on several outcomes of the event (betting both on victory and loss) thus reducing the possibility to lose the stake. In case of winnings a document certifying the prize is requested.

5.3. The player buys the winning ticket from another person and collects the prize in his or her stead and requires documentary proof of the prize;

5.4. The player makes high stakes at the last minute before the event paying in cash;

5.5. The player makes a high stake on events with a known outcome (match fixing) thus guaranteeing the win;

5.6. The winning player asks to transfer the winnings to another person's bank account (card);

5.7. A group of persons makes the same stake on one or several events, but the winnings are collected (tickets presented) by a single person who requests documentary proof of the winnings;

5.8. The player is a politically exposed person, a family member of a politically exposed person, or a person closely related to the politically exposed person;

5.9. The player does not collect the winnings for an extended period of time and later submits several winning tickets from an extended period of time;

5.10. The player regularly makes bets for which the potential winnings would only slightly exceed EUR 3,000.

6. MLTPF risks in casino games (card and dice games, roulette and card game tournaments):

6.1. The player purchases chips from the casino (in possibly several small amount transactions) and later exchanges them for money, claiming them to be gambling winnings, and requests documentary proof of the winnings;

6.2. With the mediation of other persons, the player purchases chips from the casino (in possibly several small amount transactions) and then passes them on to another player who exchanges the chips for money pretending that these are gambling winning and requests documentary proof of the winnings;

6.3. Two players cooperate placing bets on a roulette table (on red and on black) thus reducing the chance of losing;

6.4. The player purchases chips at the game table and later exchanges them for money at the casino cashier claiming that chips were won in a game and requesting documentary proof of the winnings;

6.5. The player purchases casino chips to play poker (cash game), and then loses on purpose to a collaborator (by discarding stronger combinations) who then converts the winning into cash and requests documentary proof.

6.6. The player is a politically exposed person, a family member of a politically exposed person, or a person closely related to the politically exposed person.

7. MLTPF risks **in gambling and bingo halls:**

7.1. The player deposits cash in a gaming machine and demands a pay-out without playing, or only stakes a small amount of cash deposited and the requests documentary proof of the winnings;

7.2. The player uses electronic roulette placing stakes on red, on black, and a small stake on "0" thus guaranteeing a winning bet;

7.3. The player deposits cash into a gaming machine and prints out a receipt using the machine's ticket in ticket out (TITO) functionality, and the next day or some other day the same or another person converts the receipt into cash and requests documentary proof of the winnings;

7.4. Due to the lack of technical requirements for the jackpot system, there is a risk that the organiser's employees can affect the winning probability;

7.5. The player buys the winning bingo cards from another person for a higher price and later exchanges them for the winnings and requests documentary proof of the transaction;

7.6. The player regularly makes bets for which the potential winnings would only slightly exceed EUR 3,000;

7.7. The player is a politically exposed person, a family member of a politically exposed person, or a person closely related to the politically exposed person.

8. MLTPF risks in **number lotteries and instant lotteries**

8.1. The player buys the winning lottery ticket from another person (for an amount higher than the winnings) and then exchanges it for the prize and requests documentary proof of the transaction;

8.2. The player is a politically exposed person, a family member of a politically exposed person, or a person closely related to the politically exposed person.

9. MLTPF risks **in interactive gambling and lotteries:**

9.1. The player deposits proceeds of criminal activity on an account and later demands a pay-out even without playing or staking only a small amount;

9.2. The player deposits proceeds of criminal activity on an account and, during a card game tournament, deliberately losses to a collaborator, who might be registered under another gambling service organiser, including one located abroad;

9.3. The players might make use of persons who bet against each other using proceeds of criminal activity which are laundered when the winning party receives the winnings;

9.4. A person purchases interactive gambling or lottery accounts from their actual holders (paying more than is deposited on the accounts);

9.5. A person makes regular deposits on his or her account and withdraws the funds after a while without participating in any games or lotteries;

9.6. The player stores funds for an extended period of time in the game account without gambling or with minimal gambling and then transfers them back to a bank account;

9.7. The player uses the data and accounts of other persons to register and play.

9.8. The player is a politically exposed person, a family member of a politically exposed person, or a person closely related to the politically exposed person.

10. MLTPF risk management **in sweepstake and betting locations:**

10.1. If any of the MLTPF risks has been detected at sweepstake and betting locations the Organiser shall carry out the necessary measures to identify the customer in cases when the transaction amount is lower than 2,000 *euros*. In cases when the customer refuses to identify themselves or provides false information the Organiser shall decide to terminate the transaction;

10.2. When the winnings are paid out to a player's bank account the Organiser shall ascertain that the account holder and the person requesting the pay-out are the same person;

10.3. In cases when the player requests documentary proof for every transaction the Organiser shall perform customer due diligence in accordance with the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing (hereinafter – LPMLTPF).

10.4. In cases when transactions are done by a group of persons the Organiser shall take the necessary measures to identify all the involved persons and initiate customer due diligence;

10.5. The internal regulations of the Organiser shall allow for the recording of a player's stakes with a ratio that results in a possible winnings greater than 720 euros;

10.6. The Organiser shall lay down restrictions on the size of stakes and winnings in internal regulations and based on event risk;

10.7. The Organiser shall indicate in its internal regulations that customer transactions are to be monitored and documented;

10.8. The Organiser shall use information from the SRS database of public data on politically exposed persons, as well as third party databases in order to identify a politically exposed person, family member of a politically exposed person, or a person closely related to a politically exposed person.

11. MLTPF risk management **in casino games** (card and dice games, roulette and card game tournaments):

11.1. The Organiser shall take the necessary measures to establish whether the person exchanging chips for cash has participated in a game and won, especially if the person requests documentary proof of the transaction;

11.2. In cases when persons are gambling against each other and the Organiser establishes that one player is deliberately losing chips to another player, the Organiser shall decide to interrupt the transaction;

11.3. When the winnings are paid out to a player's bank account the Organiser shall ascertain that the account holder and the person requesting the pay-out are the same person;

11.4. In cases when the player requests documentary proof for every transaction the Organiser shall perform customer due diligence in accordance with LPMLTPF.

11.5. The Organiser shall draft internal control mechanisms that prevent the participation of casino staff in MLTPF;

11.6. The Organiser shall indicate in its internal regulations that customer transactions are to be monitored and documented;

11.7. The Organiser shall use information from the SRS database of public data on politically exposed persons, as well as third party databases in order to identify a politically exposed person, family member of a politically exposed person, or a person closely related to a politically exposed person.

12. MLTPF risk management **in gambling and bingo halls**:

12.1. The Organiser shall take the necessary measures to establish whether a person who requests a pay-out of winnings in a gambling or bingo hall has actually participated in a game, and – before issuing a document verifying the winnings – whether the person has won a game. If the Organiser cannot verify that the winnings correspond with the software algorithm of the game, the issue of documentary proof of winnings shall be refused.

12.2. When the winnings are paid out to a player's bank account the Organiser shall ascertain that the account holder and the person requesting the pay-out are the same person;

12.3. The Organiser shall draft internal control mechanisms that prevent the participation of gaming or bingo hall staff in MLTPF through provision of documentary proof of winnings to persons who have not won a game;

12.4. The Organiser shall take the necessary measures to prevent the accumulation of ticket in ticket out (TITO) receipts over an extended period or during a single visit but using several gaming machines, as well as their exchange for cash in one transaction;

12.5. The Organiser shall provide that in the absence of an operator a gaming machine can only pay out a limited amount of cash that does not exceed 720 euros;

12.6. The Organiser shall use the single gaming machine control and monitoring system (GCMS) to identify and control cash flow;

12.7. The Organiser shall use information from the SRS database of public data on politically exposed persons, as well as third party databases in order to identify

a politically exposed person, family member of a politically exposed person, or a person closely related to a politically exposed person.

13. MLTPF risk management in **number lotteries and instant lotteries**:

13.1. The Organiser shall take the necessary measures to ascertain that the winner has actually participated in a lottery, since there is an MLFT risk that the winning ticket might be purchased from another person (the actual winner);

13.2. The Organiser shall use information from the SRS database of public data on politically exposed persons, as well as third party databases in order to identify a politically exposed person, family member of a politically exposed person, or a person closely related to a politically exposed person.

14. MLTPF risk management in **interactive gambling and lotteries**:

14.1. Before paying out the winnings to a person's bank account the Organiser shall check the gambling and lottery participation history and ascertain whether the person has taken part in games and lotteries;

14.2. When the winnings are paid out to a player's bank account the Organiser shall ascertain that the account holder and the person requesting the pay-out are the same person;

14.3. The Organiser shall pay out the winnings only to the account that was used to participate in a game or lottery;

14.4. In cases when persons are playing cards against each other and the Organiser establishes that one player is deliberately losing chips to another player, the Organiser shall decide to interrupt the transaction;

14.5. If the Organiser has suspicions about transactions or the identity of a person, it is entitled to request any additional information from the customer, and to ask them to arrive in person to the Organizer's office;

14.6. The Organiser shall use secure remote means of identification, as described and regulated by the Cabinet of Ministers, to identify a customer;

14.7. The Organiser shall use information from the SRS database of public data on politically exposed persons, as well as third party databases in order to identify a politically exposed person, family member of a politically exposed person, or a person closely related to a politically exposed person.

15. From the entry into force of these guidelines the recommendations "Money Laundering and Terrorism Financing Risks and Management Thereof in the Gambling and Lottery Sector" adopted in 25 September 2017 are not in force.