

**GUIDELINES for the Prevention of
Terrorism Financing
and Proliferation for
the**

**Subjects of the LPMLTF and Supervisory
Authorities**



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Abbreviations and explanations

Cabinet	Cabinet of Ministers
VDD	State Security Service (previously (before 1 January 2019) – Security Police)
CO	Office for Prevention of Laundering of Proceeds Derived from Criminal Activity (Control Office)
LPMLTF	Law on the Prevention of Money Laundering and Terrorism Financing
IED	Improvised Explosive Device
GSS	Goods of strategic significance
FATF	<i>Financial Action Task Force</i>
IS	Terrorist organisation <i>Islamic State (Daesh, ISIS/ISIL)</i>
AQ	Terrorist organisation <i>Al-Qaeda</i>
UN	United Nations
Convert	Person, who has adopted Islam during his/her lifetime
VAT	Value Added Tax
<i>Hawala</i>	Monetary value transfer system accepted in the Islamic traditions, where the parties involved make transfers through the intermediaries.
NRA	National [terrorism financing and proliferation] Risk Assessment
<i>Dark Web/ Darknet</i>	Hidden internet server networks or sites, which are accessible only by using special internet search or browsing programmes
WMD	Weapons of mass destruction

PF	Proliferation financing
EU	European Union
ATM	Cash point
TBO	True beneficial owner
FNTT	Financial Crime Investigation Service of Lithuania
RR	Left-wing political group <i>Red Roja</i>
PFLP	Terrorist organisation <i>The Popular Front for the Liberation of Palestine</i>
PKK	Kurdistan Workers' Party
GPS	Global positioning system
OFAC	US Office of Foreign Assets Control

Introduction

In accordance with Clause 10.4.1 of the Order No. 512 of the Cabinet of Ministers (hereinafter referred to as – the Cabinet) of 11 October 2018 “Regarding Planned Actions for Prevention of Money Laundering and Terrorism Financing until 31 December 2019”,

10.4.1. the State Security Service (hereinafter referred to as – VDD) in cooperation with the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity (Control Office, hereinafter referred to as – CO) has developed the guidelines for the Subjects of the Law on the Prevention of Money Laundering and Terrorism Financing (hereinafter referred to as – LPMLTF) and Supervisory Authorities for the awareness raising on prevention of terrorism financing and proliferation.

Chapter One contains summary of general information on the topicalities related to prevention of terrorism financing and proliferation, purpose of the development of these guidelines and the used methodology. Furthermore, with the purpose to promote wider vision of this topic within the context of the general terrorism prevention, Chapter Two of the guidelines provides general characterisation of terrorism and the concept thereof, as well as information on manifestations of terrorism and threat situation in Europe and Latvia.

Chapter Three contains more detailed listing of the main elements of terrorism financing, followed by a similar description of proliferation (Chapter Four). Whereas, annexes contain summary of the most specific characteristics of terrorism financing and proliferation and preventive measures.

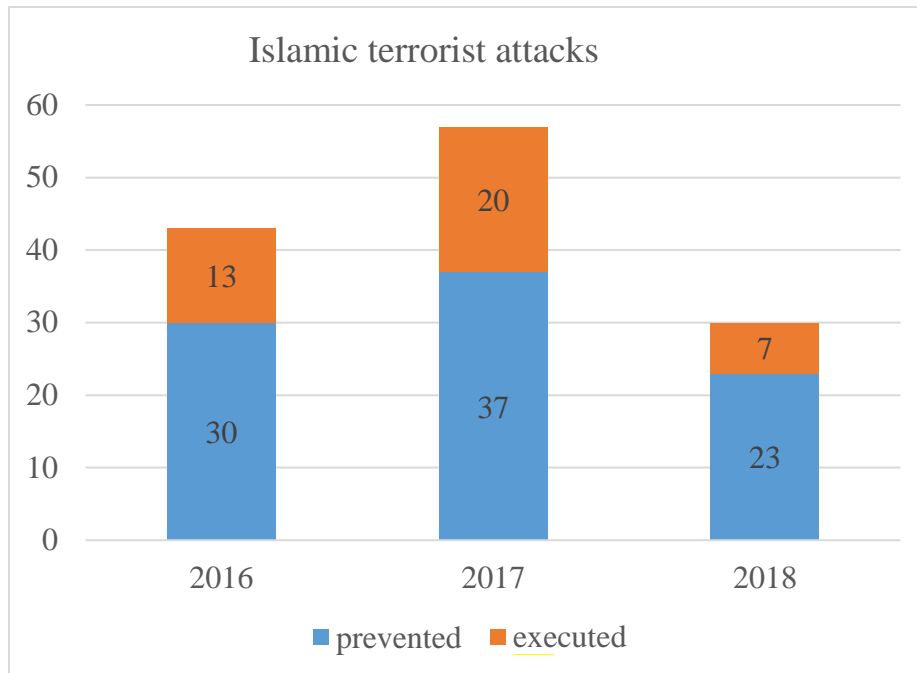
It should be noted that these guidelines is the first document of such kind prepared by the VDD. Taking into account the aforementioned, as well being aware of the different competences of the subjects of the LPMLTF and supervisory authorities, the guidelines have been prepared in general form to enable the authorities involved to apply them according to their specific character.

The guidelines are intended as a practical instrument for the subjects of the LPMLTF and supervisory authorities for the planning and implementation of preventive measures aimed at prevention of terrorism financing and proliferation. Content of these guidelines will be updated and complemented on regular basis both according to the changes in tendencies of terrorist threats and taking into account the comments and complements provided by the subjects of the LPMLTF and supervisors.

1. General information

a. Topicality of Prevention of Terrorism Financing and Proliferation Risks in Europe

Terrorism is one of the main threats to the security of the European countries. During the recent years, terrorism threat levels were raised in several countries on the basis of the identified threats. These threats are confirmed also by the terrorism-related incidents. Security services of the European countries have introduced a number of anti-terrorism measures, which have resulted in prevention of majority of the attacks planned by terrorists. At the same time, in certain cases, terrorists succeed in perpetration of attacks, avoiding to draw attention of the security services. For example, in 2018, 30 Islamic terrorist attacks were¹ organised, and 23 of them were prevented (see the table).



Perpetration of any terrorist act requires resources, for example, materials necessary to build improvised explosive devices (IED). Perpetration of attacks on large scale and smaller atrocities require also financial funds. Possibility to identify in timely manner such financial transactions, which show on possible use of these resources for terrorism purposes, would significantly complement the set of

¹ Islamic terrorists — persons, who have adapted radical interpretation of Islam, which supports perpetration of violent activities.

measures aimed at prevention of terrorism and increase efficiency of fight against the terrorist threats.

Furthermore, restriction to the circulation of goods of strategic significance (hereinafter referred to as – GSS) also plays significant role in reduction of terrorist threats. Falling of certain GSS into the hands of terrorists may cause significant threat to the security of the European countries.

b. Purpose of the Development of the Guidelines for the Prevention of Terrorism Financing and Proliferation Risks

Purpose of these guidelines is to provide instructions to the subjects of the LPMLTF and supervisory authorities regarding the risks of terrorism financing and proliferation and prevention thereof. Updates of the guidelines are planned at appropriate regular intervals or as necessary.

c. Methodology of the Development of the Guidelines for the Prevention of Terrorism Financing and Proliferation Risks

Task of these guidelines is to create and display uniform understanding about:

- Situation in the field of prevention of terrorism financing and proliferation,
- Assessment of the current situation and risks,
- Required measures for the prevention of the identified risks.

During the preparation of the document, principle that the activities to be taken must be adequate to the current threat situation and current tendencies in the fields of anti-terrorism and prevention of proliferation was complied with.

Taking into account the fact that terrorism threat level in Latvia is relatively low and cases of direct terrorism financing have not been identified so far in Latvia, the services responsible for the investigation of such crimes should provide reinforced monitoring of the international tendencies, as well as take into account experience of foreign partners and other related organisations in this field. Therefore, in the course of the preparation of these guidelines, recommendations of international organisations (for example, *Financial Action Task Force*, hereinafter referred to as – FATF), as well as experience and solutions of other countries were largely taken into account.

2. General Characterisation of Terrorism

a. Concept of Terrorism

There is no uniform understanding on the concept of terrorism among the countries across the globe, therefore each country and international organisation defines this concept according to its individual understanding, historical experience and needs. Terrorism as a concept has originated from the Latin word *terror*, which means extreme fear. Just the scaremongering of the opponent (governments, society or a part thereof) is one of the means used by the terrorists to achieve their goals.

Terrorism needs to be defined to hold the persons criminally liable for performance of specific activities. In Great Britain, terrorism is defined as performance of certain activities (violence against a human, damages to the property, threat to human life, harm to public safety or health, endangering electronic systems) or threat to perform such activities to:

- Affect a government or international organisation,
- Intimidate society or a part thereof;
- Achieve political, religious, racial or ideological goal.

In the United States of America, terrorism is defined as performance of violent activities or activities dangerous to human life to:

- Intimidate society;
- Affect government policy by the means of intimidation or enforcement;
- Affect government action by destruction, killing or kidnapping.

Majority of the terrorism definitions provide for the use of violence or threat of violence for the achievement of certain goals (for example, religious, political or social). Many definitions include also actions against civilians, society or a part thereof.

In Latvia, terrorism is defined depending on the types of action. Section 79.1 of the Criminal Law describe actions (use of explosives, use of fire, use of weapons of mass destruction, mass poisoning, taking of hostages etc.), which, if committed for certain purpose (to intimidate inhabitants, to force the state to take any action or refrain therefrom etc.) are terrorist activities.

b. Factors Contributing to Terrorism

There are several factors, which contribute to involvement of persons in terrorist activities. One of such factors is the dissatisfaction in certain groups of society, which is mostly related to the ethnic origin, race, legal status, political beliefs, religion and socioeconomic situation of persons. Terrorists use this

dissatisfaction to involve persons in violent activities explaining to them that this is the only way to achieve improvement of the situation. Terrorist organisations use various topics in their propaganda materials (for example, military presence of Western states in the Muslim countries, cases of blasphemy of Islam, cases of various discrimination) to incite certain groups of society to involvement in terrorist activities.

Additionally to the dissatisfaction with the personal situation in the society, a particular critical event (catalyst) serves as another significant factor, which causes imaginary necessity to act. These catalysts may be both internal (changes in private life, traumas, accidents), and external (adoption of regulatory enactments, changes in government policy, changes in regime, natural disasters). After exposure with critical events in their lives, persons may rapidly radicalise and engage in terrorist activities.

c. Types of Terrorism

Terrorist groups use the dissatisfaction of society to formulate their ideology and define goals. These goals may be related to establishment of public administration in accordance with the principles of certain religion, establishment of Utopian political system, or establishment of a new state in a particular territory. Taking into account the terrorist threats, which are topical today, one may define four types of terrorism:

- religiously motivated,
- left wing,
- right wing,
- separatist terrorism.

At the moment, majority of terrorist organisations bases their ideology on radical interpretation of religion the use of violence is justified by. Mainly, this is about the radical interpretation of Islam created by the terrorist groups, which justifies the use of violence for the purposes of religious goals. The main goal postulated by Islamic terrorists is to create Islam-based public administration (Caliphate), and, for this purpose, the use of violence is permissible against anyone, who obstructs achievement thereof.

Left wing terrorist groups most frequently base their ideology on the ideas of communism, Marxism and Maoism. In their ideology, left wing terrorists act against everything that, in their opinion, suppresses freedom and equality of the society (elites, state structures, capitalism, supranational organisations). Contrary to other terrorist groups, which announce comparatively large groups of society as their enemies, left wing terrorists consider the entire society as their potential allies and act against comparatively narrow elite and symbols thereof (political

officials, policemen, soldiers, leaders of financial institutions and large companies and representatives of international organisations).

Right wing terrorist groups most define in their ideology a certain group of persons, most frequently on the basis of ethnic origin, race, religion or nationality, which needs to be protected from external enemy (immigrants, ethnic, religious or sexual minorities). Accordingly, in the opinion of these terrorists, external enemy is guilty of the failures of the group to be protected, which justifies the use of violence. Furthermore, right wing terrorists also act against the persons and groups, which defend the external enemy defined in their ideology.

Separatist terrorists fight for the establishment of a state in a certain territory on the basis of right of self-determination of a certain ethnic group. These terrorist groups primarily act against the authorities of the country or countries, where the particular territory is located.

d. Subjects of Terrorist Threats or Who Are the Terrorists?

Terrorists or subjects of terrorist threats are classified into several categories, taking into account the level of coordination of their activities, location, origin and several other factors. According to general assessment, terrorists are classified into three categories:

- Terrorist organisations – usually located outside Europe; may have territories under control; regular and comparatively large financing is usually required;
- Local terrorists/groups – individuals born, raised and socialised in Europe, who radicalise under the influence of radical interpretation of Islam and perpetrate attacks; necessity for financing depends on the scale of the planned attacks;
- Solo terrorists – local terrorists, who act individually; usually do not attract additional financing.

Terrorist organisations provide both training of militants and planning of attacks, as well as creation of propaganda materials, and preparation of innovative types of action and weapons. Most significant threats caused by terrorist organisations are:

- Planning/organisation of coordinated attacks in the territory of Europe;
- Development and distribution of propaganda materials promoting radicalisation and attraction or new followers.

Two most significant terrorist organisations are the Syria/Iraq-based *Islamic State* (hereinafter referred to as – IS) and Afghanistan/Pakistan-based *Al-Qaeda* (hereinafter referred to as – AQ). The most completed list of terrorist

organisations/groups consists of the organisations included in the sanctioning regime established within the framework of the United Nations (hereinafter referred to as – UN) Security Council resolution 1267 of 15 October 1999 and the amendments thereto. It is prohibited to finance and provide support of any other kind to the organisations exposed to this sanctioning regime.

Local terrorists and their groups perpetrate majority of the terrorist acts committed in the European countries. These persons inspire from the ideology propagated by the terrorist organisations, however, they perpetrate attacks at their own initiative. Local terrorists perform the most significant terrorism support activities:

- Terrorism financing;
- Distribution of propagandas materials;
- Recruiting of militants and sending thereof to the zones of armed conflicts.

Local terrorists have extensive knowledge of the country concerned, traditions, symbols, public holidays, mass assembly stations, which help for better planning and preparation of attacks.

Solo terrorists are local terrorists, who act individually. It is complicated to predict and prevent their plans and activities in advance, because they plan all activities by themselves, without communication and involvement of other people.

e. Overall Situation of the Terrorist Threats in Europe

Terrorism threat levels in several European countries (France, Great Britain, Germany, Belgium and Spain) remain high. At the moment, IS does not have sufficient combating capability to prepare militants and send them into Europe to perpetrate large-scale attacks. However, the supporters of the IS residing in Europe keep being inspired from the ideology of the group and perpetrate attacks at their own initiative. Furthermore, the Islamic terrorists residing in Europe keep supporting the terrorist organisations located in the conflict areas. At the moment, possibilities to travel to Syria and join the IS are restricted, therefore, it may be predicted that the number of events related to travelling to other zones of armed conflicts will grow.

Terrorists keep being innovative and search for new methods of attacking. For example, in the recent years, several attacks took place, where terrorists used vehicles to drive into a crowd of people. In the recently perpetrated terrorist attacks, the Islamic terrorists used mainly firearms and knives, however use of ricin, which is comparatively new type of action, was planned in two prevented attacks. During the last two years, the number of prevented attacks, where the

Islamic terrorists residing in Europe attempted to use ricin, has grown. Currently, two prior targets of the Islamic terrorists are civilians at mass assembly stations and policemen. Additionally to the second and third generation immigrants, converts (persons, who have adopted Islam during their lifetime) and foreign students, asylum seekers, who have entered during the migration crisis, and people, who return from the zones of armed conflicts, are also exposed to higher risk of radicalisation. Significant factors contributing to radicalisation are places of imprisonment, spread of terrorist propaganda on the internet and growth in number of Salafism supporters. It should be noted that the aforementioned tendencies may affect radicalisation processes also in Latvia.

Forecasts show that the situation of the terrorist threats in Europe will not change in 2019, and terrorist threats will remain at increased level. Terrorist organisations will continue addressing new and new followers through their propaganda channels, and this will contribute to radicalisation processes and involvement in terrorist activities. The growing role of internet in the contribution to radicalisation and distribution of the information useful for the organisation of terrorist acts ensure that residents of any European country, including Latvia, can turn to terrorism.

f. Overall Situation of the Terrorist Threats in Latvia

Analysis of the information at the disposal of the VDD shows that, during the recent years, terrorist threat level has not changed in Latvia in the recent years and remains relatively low (colour code – blue)². Terrorist attacks have not taken place, and persons or organisations that might be classified as terrorists have not been detected in Latvia. The available information does not show that the territory of Latvia is used for support of activities of terrorist nature abroad. Likewise, indications have not been detected that persons with a tendency towards terrorism have attempted to enter Latvia, import or obtain the weapons, explosives, hazardous substances necessary for a terrorist act or gather intelligence on potential targets for terrorism.

During the monitoring of the processes of the Muslim society, the VDD has not identified new tendencies, which could contribute to spread of radicalisation processes. At the same time, persons with the indicators of radicalisation risks come to the notice of the VDD on regular basis, and increased attention of the services is drawn to the study of these persons. Furthermore, the VDD continues drawing increased attention also to the persons, who have come to the notice of

² In accordance with the National Security Law, the VDD in cooperation with other authorities has developed the system of terrorist threat levels. It provides for four terrorist threat levels: low (blue), increased (yellow), high (orange) and especially high (red). Terrorist threat level is announced by the Minister for the Interior on the basis of recommendation given by the Director of the VDD.

the VDD before and analysis of whose activities shows on possible radicalisation. These persons are characterised by exaggerated interest in the radical interpretation of Islam and the IS ideology, as well as, in separate cases, contacts with persons, who have joined terrorist groups. Converts form one of the main radicalisation risk groups, which may potentially engage in terrorist activities.

Information obtained by the VDD shows that several residents of Latvia continue their stay in Syria and Iraq. Furthermore, information obtained by the VDD shows that several residents of Latvia were killed in Syria. The residents of Latvia staying in Syria are the ones causing terrorism financing risks. Experience of the European security services shows that the Islamic terrorists based in Syria and Iraq use their supporters residing in Europe to obtain their aid for financing their activities.

3. General Characterisation of Terrorism Financing

In accordance with the LPMLTF (Section 5), terrorism financing is the direct or indirect collection or transfer of financial funds or other property acquired by any form at the disposal of a terrorist group or separate terrorist with a view to use them or by knowing that they will be fully or partly used to carry out one or several terrorist activities (see the law for more detailed listing of the activities).

Terrorism financing is not direct involvement in terrorist activities, but is one of the terrorism supporting activities. The term includes set of activities, the goal of which is obtaining of money, other financial instruments or property and purposeful direction thereof for the terrorism support. The activity itself includes not only obtaining of funds/property, but also direction (for example, transfer), physical delivery, for example, to terrorist organisations.

Most frequently, the terrorist supporters staying in Europe perform their terrorism financing activities with the purpose to support:

- Foreign-based terrorist organisations;
- Travelling of foreign militants to the the zones of armed conflicts;
- Preparation of terrorist attacks.

Furthermore, it should be noted that the terrorist attacks perpetrated in Europe have been basically financed by the performers thereof. Organisation of low-scale terrorist act does not cause high costs. Whereas, for the terrorist organisations, which require significantly greater operational funds, the funding received from the European supporters is proportionally small and insignificant.

b. Subjects of Terrorism Financing or Who Finances Terrorism?

Different persons with different motivation engage in terrorism financing activities. Most frequently identified subjects of terrorism financing are:

- Radicalised persons, who want to support terrorism;
- Representatives of terrorist organisations, who have been assigned task to obtain financing;
- Intermediaries of illegal financial funds, who generate profit from terrorist financing transactions;
- Relatives and friends of persons involved in terrorist activities, who support their activities or wish to provide financial support to the person concerned; frequently, money is defrauded from the relatives of terrorists;
- Persons and organisations, which agree to pay ransom for, example, captured person or group of persons.

Along with the escalation of the armed conflict in Syria, charity organisations are being established in the European countries, the declared goal of which is to provide support to the civilians located in this conflict zone. Information at the disposal of the security services shows that funds donated to separate charity organisations are fully or partially used for financing of terrorist activities in Syria and Iraq, or for sending foreign militants to this conflict zone. Furthermore, the radical Muslims residing in the European countries have been continuously organising private and purposeful money raising campaigns at mosques and on internet social networks for the support of travelling of foreign militants.

c. Sources of Terrorism Financing

Funds for terrorism financing are obtained by both legal and illegal ways. Legal ways are legally earned income:

- wage,
- social benefits,
- entrepreneurship,
- sale of property,
- loans,
- received gifts,
- credits,
- donations.

Social benefits form an important problem in the field of terrorism financing. While the radicalised Muslims earn the rest of legally earned income before departure to the zones or armed conflicts, several European countries have indicated that the security services establish cases on regular basis, where the foreign militants staying in Syria keep receiving various social benefits, previously granted in various European countries. Foreign militants use these benefits to finance terrorist activities.

Whereas, illegal activities, by which funds for the terrorism financing are obtained, are:

- Value added tax (hereinafter referred to as – VAT) fraud schemes,
- Use of the funds of non-profit/charity organisations,
- Swindling of credits,
- Fraud in the area of loans and rental contracts,
- Extortion (from private individuals and companies),
- Robbery,
- Kidnapping of humans to extort ransom,
- Smuggling (especially drugs, cigarettes, tobacco and natural resources),

- Trade in used cars,
- Sale of cultural historical/antique objects,
- Tax collection in the territories controlled by the terrorists,
- Fee for crossing the territories under the control of territories,
- Trade in forged identification documents.

Separate foreign militants have sold or given away their identification documents before their departure to Syria, which may later be used for taking loans or establishment of companies to commit economic crimes and terrorist financing. Information at the disposal of the VDD also show that, for the purpose of financing the group, supporters of the IS choose to commit petite criminal violations, related to low risk and small amount of money, thus avoiding attention of law enforcement institutions and security services.

d. Types of Terrorism Financing

Taking into account the currently available wide possibilities of transfer of financial funds, there is a significant number of types of terrorism financing. Most common ones are:

- *Cash deliveries (cash couriers);*
- *Jewel deliveries;*
- *Cash withdrawal from bank account using ATM abroad;*
- *Transfers using virtual/mobile applications;*
- *Virtual currency transfers;*
- *Hawala money handover system (alternative/illegal money transfer system, which is based on the trust of the involved persons);*
- *Money transfer agencies (for example, Western Union);*
- *Donations, including online;*
- *Crypto/virtual currencies;*
- *Digital assets;*
- *Crowdfunding;*
- *Prepayment cards;*
- *Bank transfers;*
- *Transfers using mobile bank applications (mobile banking);*
- *Self-financing (individuals or small terrorist groups).*

During the analysis of the national risk assessments in other countries (hereinafter referred to as – NRA), cash transportation using cash couriers was identified as the most frequently used method for the transfer of funds intended for terrorism financing.

Today's technological possibilities and the informal contact networks established in the Islamic society provide a wide range of opportunities for the delivery of legal and illegal funds to the conflict zones. Legally earned funds are sent to the terrorist groups by the terrorist supporters residing in Europe via bank transfers or money transfer agencies, and intermediaries withdraw this money using ATM in any of the conflict zones or in the neighbouring countries.

Islamic terrorists residing in the Western countries purposefully collect funding also for the purchase of equipment of various kind to send it to the terrorist groups based in the zones of armed conflicts. According to the assessment made by the European security services, the IS constantly needs new equipment (military and medical supplies, as well as electronic devices) to improve combating capability of the group, and previously developed kinds of supply and social networks are being used to achieve this goal. Militants of the IS can use the social networks to call the supporters of the group, who reside in the West, to send equipment to Turkey for further delivery to Syria/Iraq.

At the moment, purchase of equipment and delivery thereof to the zones of armed conflicts is one of the most significant terrorist financing risks in the European countries. However, the military pressure against the IS and specific anti-terrorism measures complicate handover of the equipment to the Islamic terrorist groups.

According to the assessment made by the European security services, during the upcoming years, use of the current technological possibilities for the terrorism financing will grow, furthermore, new methods will also be created. Wider use of the current technological possibilities will complicate opportunities for the authorities to detect and fight against terrorism financing. Furthermore, communication of the terrorist groups based in the conflict zones with potential donors is already technically simpler, which just expands scale of this problem. The growing use of alternative money handover methods, social networks and encoded communication applications makes collection of funds online more efficient, provides opportunity to communicate with larger number of people, as well as reduces possibilities of detection and control.

Information at the disposal of the VDD shows that, during the upcoming years, collection of donations online for terrorism financing will become more significant and more organised. Donations may be collected both by individuals and organisations connected to seemingly legal objectives. Identification of the end beneficiaries of the money may be especially complicated if, for instance, it is linked to implementation of various projects (business, political or charity) in the conflict zones and other territories in which Islamic terrorist groups operate.

Opportunities provided by the new technologies, for example, anonymity, encoded communication and circumvention of financial control regimes will be used in the upcoming years to obtain, store and transfer funds for terrorism financing. This tendency applies also to other technologies with similar parameters, including online trade platforms and *Darknet*, which is freely available and provides anonymity of the highest level in trading illegal goods.

According to the assessment made by the security services, the traditional ways of money delivery, such as bank transfers, money transfer companies, *Hawala* and cash couriers will remain the prior kinds of money delivery for the terrorist networks, which need continuous collection and handover of large amounts of money. Furthermore, the terrorist groups operating in the territories with weak or undeveloped information technology infrastructure will maintain their interest in obtaining of money or other easy to use valuables, which are to be used more frequently and easier than cryptocurrencies.

4. General Characterisation of Proliferation

a. Concept of Proliferation and Financing Thereof

According to the definition given by FATF, proliferation is handover and export of nuclear, chemical, bacteriological, biological, toxic weapons or other weapons of mass destruction (hereinafter referred to as – WMD), means of their delivery and related materials (for example, technologies, goods, software, services or expertise).

- Means of delivery: ballistic missiles and other unmanned systems, able to deliver WMD and especially designed for this purpose.
- Related materials: materials, units and technologies, which are subjects to international multilateral agreements and included in the national control lists due to their possible use for the development, manufacture and application of WMD.

Proliferation financing (hereinafter referred to as – PF) collection or transfer of financial funds or other property with a view to use them for manufacture, acquisition, storage, development, export, transshipment, mediation, transport, transfer, accumulation or use of WMD and means of their delivery, as well as related materials. Proliferation financing differs from terrorism financing mainly in that mostly formal sources of financing system (banks and payment institutions instead of cash, cryptocurrencies, *hawala*, etc.) are used. Thus, detection is made significantly more difficult, since majority of transactions is structured similarly to other legal transactions to avoid standing out. Practically all performers of proliferation use complicated financial schemes and many screen companies, thus attempting to operate in the jurisdictions, where financial institutions have poor understanding of customer due diligence and risks.

Proliferation and financing thereof is a serious threat to the economic and political security of each country, as well as to the international security. Means for the enforcement of proliferation financing are: export control system, regulatory requirements regarding provision of reports, targeted financial sanctions, as well as other measures depending on the legal authorisations of the export control institutions. Control measures of financial sector form especially important mean, which complements, but does not replace efficient export inspections.

Proliferation financing may be divided in 3 stages. Initially, the state or organisation acquires funds, sometimes – illegally. Afterwards, the obtained funds are injected in the international financing system (through the currency exchange, various operations of financial instruments or financing of legal entrepreneurship) This causes no problems to the countries, which are not subjects to sanctions,

however, countries like North Korea and Iran are forced to implement various measures to circumvent sanctions already at this stage. Finally, the funds entered in circulation are used for proliferation financing by purchasing various materials, technologies and paying for transportation services. This is the stage with the best possibilities to identify proliferation business on the basis of various indicators and activity models (Annex II).

Majority of countries have established GSS circulation control system to prevent proliferation of WMD and components thereof, as well as other specific goods and technologies. One of the main purposes for controlling this circulation is to prevent entry of GSS, as well as the sensitive goods (that are not GSS but are controlled, taking into account separate risks, for example, a particular recipient country) into countries against which sanctions have been imposed, terrorism risk countries or at the disposal of terrorist groups.

Companies registered in the European Union (hereinafter referred to as – EU), as well as re-export of consignments are frequently used as intermediaries of proliferation, thus making detection of proliferation significantly more difficult. There are common brokering deals with GSS, which include illegal international movement of weapons, ammunition, military aviation and other machinery, including to the countries exposed to terrorism risk and conflict zones. Frequently the products manufactured by ship and aircraft plants are used for military purposes due to the dual-use options. In the countries, where GSS are not manufactured or repaired, various subjects operate in the field of organisation of mediation by offering their services to the countries of armed conflicts.

b. Sanctions Imposed by International Organisations and the Republic of Latvia

Sanctions are restrictions or prohibitions imposed in accordance with the international public law. They are imposed by an international organisation or country in relation to the country, legal entities or natural persons, or other identifiable subjects. Purpose of the sanctions is achievement of security in the region or prevention of threats to international peace and security, as well as achievement of such action by the country, which would ensure or restore peace, security and lawfulness in the country, which is subject to the sanctions.

Since 2017, Latvia has also imposed sanctions on separate persons. The coordinating institution on sanctions is the Ministry of Foreign Affairs, and detailed information on sanctions and all sanctions lists is available on the Ministry's website. Whereas, all the UN, EU, Latvian national and US sanctions at the same place are available on the website of the Control Office: <http://sankcijas.kd.gov.lv/>. Information on this website is updated on daily basis.

Sanctions imposed by the UN, EU and separate countries most frequently provide for trade or financial prohibitions (export and border control, financial control, freezing of funds), thus creating system, which enables efficient fight against proliferation and financing thereof. For the purpose of prevention of proliferation financing, it is important to conduct verifications in the sanctions lists, as well as to verify, if the goods concerned may be used as dual-use goods. However, it should be noted that successful prevention of proliferation requires not only formal comparison of customers list with the sanctions lists, since this will not result in detection of intermediaries and screen companies.

If subjects of the law, which are responsible for the compliance with sanctions and verification of their customers are not sufficiently informed on proliferation risks and imposition of sanctions, furthermore, supervision by the regulatory authority is not strict enough, efficiency of sanctions rapidly falls, thus providing opportunities for proliferation.

Types of sanctions:

- Financial restrictions — restrictions with regard to financial instruments and financial funds owned by a subject of international public law, natural person or legal entity, or other identifiable subject of sanctions, or which are in the possession or under control of the subject of sanctions;
- Civil legal restrictions — restrictions with regard to all kinds of deals with other economic resources, if such deals result in changes in the owner of the resources, and goal of these deals is to create and make available financial funds or economic resources of other kind for the subject of sanctions;
- Restrictions on admission — restrictions on the subject of sanctions to enter, reside in Latvia or to cross the territory of Latvia in transit;
- Restrictions on circulation of goods of strategic significance and other goods — prohibition on the subject of sanctions to sell, supply, hand over, export or alienate, or make available in any other way goods of strategic significance of certain kind or other goods stipulated by the law;
- Restrictions on provision of tourism services — prohibition to provide tourism services for travelling to certain territories.

At the same time, restrictions on provision of services, which are related to any of the types of sanctions, may be stipulated as sanctions (for example, services

related to arms, internet and telephone surveillance equipment and software, etc.)

I Annex I: Indicators and Prevention of Terrorism Financing

In order to provide efficiency of the measures for the prevention of terrorism financing, it is necessary to understand the financial flows organised by terrorist organisations and individual terrorists or small groups. This understanding must be as uniform as possible among the subjects of the LPMLTF.

It should be stressed that the ways of financing of terrorist activities perpetrated by terrorist organisations or small groups and separate individuals are significantly different. Operational costs of individuals or small terrorist groups are usually low, therefore they frequently live on the available funds or attract small amount of funds by using methods causing no suspicions of terrorism financing (for example, express or consumer credits concealing the actual intended use thereof etc.). Whereas, regular costs of the terrorist organisations basically located outside the EU (for example, IS, AQ) are significantly higher. These costs consist of:

- Wages of militants,
- Social benefits for the families of the killed militants,
- Attraction of new militants,
- Weapons, explosives, ammunition,
- Measures of propaganda distribution,
- etc.

Activities for the prevention of terrorism financing must be comprehensive and simultaneously aimed at:

- Acquisition of funds/valuables (for example, restriction of the sources of income of the terrorist organisations),
- Movement of funds/valuables (for example, restriction of terrorists' access to and possibilities to use international financial systems),
- Storage of funds/valuables,
- Use of funds/valuables.

Furthermore, actions must be taken also against the persons, who coordinate terrorism financing and other terrorism support measures (for example, provide logistics support). Effective inter-institutional and international cooperation plays significant role in performance of the aforementioned measures.

a. Specific Characteristics of Terrorism Financing

International practice has identified several characteristics, which show on possible terrorism financing:

- Use of social benefits and scholarships for terrorist financing;
- Cash withdrawal (ATM) in conflict zones or neighbouring countries;
- Transactions using payment card in conflict zones or neighbouring countries;
- Establishment of companies with the purpose to implement VAT or rent fraud by generating income from fraudulent purchases.
- Company's true beneficial owner (hereinafter referred to as – TBO) does not have adequate financial resources and experience in entrepreneurship.
- Obtaining of several credits/loans simultaneously.
- Withdrawal of consumer credits to travel to countries of armed conflicts or neighbouring countries thereof.
- Applications for the increase of credit limit/ credit amount without a clear reason or with limited repayment capabilities.
- Incommensurable purchase of portable computer equipment.
- Incommensurable purchase of communications equipment (radios, satellite phones, prepayment cards).
- Purchase of unusual military equipment in and incommensurable volume (clothing, boots, vests, bullet-proof vests).
- Purchase of unusually powerful binoculars and night vision equipment.
- Collection of donations for humanitarian purposes with suspicious indicators (general, unclear purposes, unclear organisation represented by the gatherer (does not exist or is not registered), unclear end recipient of the collected donations, collection of money for spending in the conflict zones or in the vicinity thereof, transfer of donations to the accounts held by private individuals).

b. Risk Assessment and Preventive Measures

Taking into account the diversity of the areas of activities of the subjects of the LPMLTF, these guidelines contain general descriptions of risk assessment and preventive measures. Thus, each of the parties involved will be able to apply these guidelines according to the specific character.

Measures for the prevention of terrorism, including terrorism financing, are usually related to introduction of certain restrictions, which affect the entire society (for example, passenger and baggage security checks at the airports). Thus, these restrictions must be justified. The best justification is provided by comprehensive risk assessment, which indicates on the weak sections of the entire security architecture and possible solutions.

Preventive measures:

- Taking into account the situation of the terrorist threats in Latvia and Europe, as well as the identified terrorism financing risks and types of activity, the subjects of the LPMLTF must report each suspicious transaction to the CO;
- Efficient border guarding and customs measures to prevent movement of cash, jewels or other valuables for the purposes of terrorism financing;
- Credit card issuers must report transactions, which are related to the countries, where terrorist organisations are based (for example, Afghanistan, Pakistan (AQ) or Syria, Iraq (IS));
- In the analysis of transactions, including those made via alternative cash transfers, the information of both the CO and other law enforcement authorities on terrorist support networks in Europe and other persons, who coordinate terrorism financing activities, must be taken into account;

c. Case Analysis

- 1) On 12 February 2019, Financial Crime Investigation Service of Lithuania (hereinafter referred to as – FNTT) commenced investigation regarding relation of the Lithuania-based company Virtualios Valiutos to a wider terrorist financing network. Lithuanian authorities indicated in their announcement that the company provided services to a website related to the IS: Akhbar al- Muslimin, where donations were collected for the support of terrorists by using cryptocurrency Bitcoin. FNTT indicated that Virtualios Valiutos served servers of this website, which provided transfers of cryptocurrency. Furthermore, FNTT obtained information that collection of donations was active for ten days on this website, and, during this campaign, approximately 200 euro were sent via the company's server. This particular case confirms that terrorist supporters may use also foreign-based service providers to finance their activities, thus avoiding from the view of the authorities. It should be indicated that circulation of virtual currency on the internet is not controlled or restricted. Conditional anonymity of the cryptocurrency transactions provides opportunity to use it also for various criminal purposes, for example, terrorism financing.
- 2) On 4 February 2019, three members of the ultra-left political group Red Roja (hereinafter referred to as – RR) were detained in Spain, suspected of terrorism financing. Spanish authorities announced that, in 2014 and 2015, the group of the detained persons sent financial funds to several organisations in Palestine. Furthermore, these persons sent money also to the organisation The Popular Front for the Liberation of Palestine (hereinafter referred to as – PFLP). It should be noted that, since 2002, PFLP has been recognised as a terrorist organisation in the EU. This example shows that

terrorists may use various methods to obtain funds for the financing of their activities in the conflict regions, including use of a network of persons or other contact persons from the European countries. Furthermore, this particular case also confirms that terrorist militants may use political organisations in Europe to receive financial support.

- 3) 4 February 2019: In France, investigation continues against Bruno Vinay, who is suspected of providing support to terrorists and terrorism financing. B. Vinay practised as an advocate in France. He provided legal support to several citizens of France, who travelled away and joined the terrorist groups in Syria/Iraq. B. Vinay also sent money to the militants of French origin to help them leave the territories of Syria/Iraq, which were controlled by the IS.
- 4) On 10 October 2018, Belgian police interrogated within the framework of the investigation Veronique Loute, suspected of financial supporting of a terrorist group. V. Loute sent approximately 65,000 euro to her son Sammy Djedou, who travelled to a conflict region in Syria/Iraq in 2013 and joined the IS. It should be noted that the evidence obtained during the investigation confirmed that S. Djedou, while residing in the conflict region, recruited other militants in the interests of the IS and planning of terrorist acts in the European countries. Furthermore, Belgian authorities indicated in their announcement that S. Djedou was involved also in the planning of the terrorist acts perpetrated in Paris in November 2015 and in Brussels airport in March 2016. V. Loute indicated that she was not informed on the occupation of her son in Syria/Iraq and sent money for his personal needs. This case confirms that militants of the IS may use their contacts with family members, friends or other contact persons to finance their activities in Syria/Iraq.
- 5) On 19 June 2018 in Belgium, trial was finalised against four publicly unidentified persons, who were found guilty of terrorism financing. A group of men implemented a public campaign in Belgium to collect financial funds for the Kurdistan Workers' Party (hereinafter referred to as – PKK), which has been recognised as a terrorist organisation in the EU. The convicted men visited local Belgian Kurds to collect donations for the financing of PKK media and purchase of militant equipment. This example confirms that terrorist supporters use various methods to finance their activities, including anonymous donations by applying to the ethnic minorities residing in the European countries.
- 6) On 5 December 2017, police of France detained a publicly unidentified couple, whose daughter travelled to Syria in 2013 with the purpose to join the IS. Security Service of France suspects the detained couple of providing financial support to their daughter, while she was in the territories controlled by the

IS. The woman's parents transferred her several thousand euro, and she currently resides in a refugee camp in the territories controlled by Kurdish armed forces. It should be noted that, for the purpose of obtaining money, the terrorist supporters residing in the conflict zones request financial support from their family members, relatives and friends, who reside in Europe. Militants demand this money to cover their daily expenses or finance runaway from the zone of the armed conflict. In many cases, this transferred money is used for financing of direct terrorist activities.

II Annex II: Proliferation Financing Risks and Prevention Thereof

a. Specific Characteristics of Proliferation Financing

Signs that may indicate on proliferation or financing thereof (none of the signs can serve as the sole indication on a person's possible relation to proliferation):

- Use of forged documents (contract, export permits).
- Use of shell companies (according to the LPMLTF) or fictitious companies.
- Payment of inadequately high prices for goods, purchase of goods at the volume just below the limit of quantity control;
- Use of payment agents, cash payments for goods or transportation services, cash payment
- for the first instalment.
- Use of personal account or credit cards for the company's settlements.
- Payment instructions from persons, who are excluded from the contracts.
- Concealment of information on the end user or end use, provision of such information only after a separate inquiry, information on the end use is unclear or inaccurate.
- Details of the contracts (names, addresses) do not match with the purposes of payments.
- The end user is not linked to the purchaser and has no knowledge on the product.
- The order is not linked to the business, lack of business history, activity of the customer or end user does not match the business profile.
- Order has been placed from a country, which is different from the country of the end recipient.
- Route of the consignment is irrational (for example, "circular"), use of several transportation types/stops for one consignment.
- Freight carrier is indicated as recipient of the good.
- Transport identification data is concealed or held back (name of the ship), altered container numbers.
- Inconsistency of ship routes with the plan, disconnection of the global positioning system (hereinafter referred to as – GPS) signalling device near the risk countries (according to the FATF list).
- Contract excludes service, training or installation.

- Trade financing deal is related to the route of transportation, which crosses the country of weak provisions on export control and application thereof (risk countries like Syria, Libya, Yemen, and such.)
- Persons or companies located in the risk countries are involved in the deal.
- Universities or institutions of military nature located in the risk countries are involved in the deal.
- Companies, the products of which are subjects to exceptions with regard to the countries subject to the sanctions (humanitarian aid – food, medication) are involved in the deal.
- The deal is related to the dispatch of goods that does not correspond to the usual patterns of trade (or the country concerned normally export/import the goods in question).
- Customer due diligence reveals facts on long-term cooperation with a person or region subject to sanctions.
- Customer or its true beneficial owner is from a country against which sanctions are imposed (North Korea, Iran).
- Addresses of the companies coincide with addresses of embassies of certain countries or other public institutions.
- Small company transfers large amounts of money inconsistent to the volume of business.
- Transfers are always in US dollars.
- Companies are continuously inactive and used to perform several transfers within a short period of time.
- Company's officials and owners have been changed within a short period of time since the opening of the account.
- Financial institutions known for their deficiencies in the field of AMLATF are involved in the deal or registered in the countries subjects to sanctions or risk countries.
- Units are purchased by components without justification.

b. Risk Assessment and Preventive Measures

In order to successfully reduce and prevent the possible cases of proliferation, subjects of the law must combine rule-based and risk-based approach. Rule-based approach provides for customer verification against the UN, EU, OFAC and Latvian national sanctions lists, thus covering against serving persons subjects to sanctions. If information on possible relation of customer with any of the persons included in the sanctions list is at the disposal of the subject of the law, enhanced due diligence must be conducted not only in relation to the

customer, but also to the customer's representatives, business partners, true beneficial owners and their relatives.

Whereas, risk-based approach may vary among the subjects, taking into account the specific nature of the subject's activities and wish to undertake the risk. In order to introduce efficient risk control, subjects must understand the possible risks of their actions, taking into account their business processes, customer base, places of service provision and locations. Identified risks must be assessed (by their impact and possibility), and constant monitoring of these risks must be provided, furthermore, enhanced due diligence must be conducted in the cases, when the relevant indicators are established. For example, if the customer transports goods to the ports located in risk regions, it is worth to conduct additional verifications of ship routes to ascertain conformity of the notified routes. Public information on the countries, companies, vehicles and persons involved in circumvention of sanctions plays great role in the implementation of risk-based approach. For example, reports of the UN experts regarding attempts of North Korea to avoid the sanctions imposed thereon are published on regular basis describing specific cases of violation and circumvention of sanctions and performers of these actions. It is highly recommended to use such information for the establishment of internal control systems and assessment of cooperation partners.

High-risk countries. It must be taken into account that the main creators of proliferation risk are the countries, which have developed or develop illegal systems of biological, chemical or nuclear weapons. North Korea, India and Pakistan are the countries, which plan for maintenance or improvement of their current WMD arsenal through the proliferation, whereas Iran is a nuclear power, which, due to the broad sanctions, is fully dependent on proliferation to maintain its nuclear capacities. Thus, all the adjacent countries may be considered as high-risk countries, because the possible transportation of goods most frequently is provided through the neighbouring countries to conceal the actual destination. The countries, where hostilities are in progress, where part of the territory of the country is not controlled or where various terrorist groups are active, should also be considered as high-risk countries (Afghanistan, Syria, Libya, Sudan, Somalia, Yemen and such).

Awareness of the risks caused by separate regions and their financial institutions (for example, relation of China and East Asian region with North Korea) is a mandatory first step in the fight with proliferation to introduce adequate risk control measures afterwards. Special attention must be paid to underdeveloped regions, since insufficient border control and developed smuggling network creates favourable conditions for proliferation, especially in the countries adjacent

to the risk countries. Trade relations of the high-risk countries with other countries must be taken into account, since they may be used for proliferation deals.

Russia. Taking into account the geopolitical situation of Latvia, increased attention must be paid also to deals with Russia and transportation of goods through its territory. Due to the close links of the Russian commerce and economics with the military industry, products allegedly intended for the national economy are frequently used for military purposes. This is one of the reasons why economic sanctions, which are not directly related to proliferation, are widely imposed on Russia. Russia cooperates also with other countries subjects to sanctions (Iran, North Korea), which causes additional risk to get indirectly involved in the implementation of circumvention of sanctions.

North Korea. Due to the consistent attempts to create its own nuclear arsenal, currently North Korea is the main source of proliferation risks. Various studies indicate on the attempts of North Korea to access global financial system by using various intermediary companies and cooperation contracts with other countries and institutions thereof, especially with the companies operating in the financial sector in China. It should be noted that North Korea does not confine itself just with the attempts to obtain nuclear materials and missile components, but also performs trade in the usual arms and arms smuggling to use the generated financial funds for the development of nuclear programme. Broad and complicated structures of mutually related companies, the owners and managers of which are not obviously related to North Korea, are used for these purposes. This causes situations, when financial institutions unconsciously engage in supporting illegal trace and provision of financial flow.

Although North Korea purchases majority of the necessary nuclear technologies from abroad, it is able to produce separate products independently. These products are frequently exported to other countries, which are interested in nuclear technologies (Syria, Egypt, Iran, etc.). This example indicates that attention must be paid not only to the direction of goods towards the countries involved in proliferation, but also to the outgoing goods. North Korea is engaged in active entrepreneurship in cooperation also with Singapore, Hong Kong and Malaysia by using financial institutions of these countries both for the performance of transfers and financing of companies.

Iran. Sanctions imposed on Iran have been repeatedly changed, thus burdening understanding of financial institutions on the actual situation. At the moment, the EU is trying to establish closer trade links with Iran, whereas, the USA has reinforced sanctioning regime to force Iran to refuse development of its nuclear programme. Such a situation causes risks to financial institutions to violate the sanctions imposed by the USA by financing trade deals permitted by the EU or

making transfers related to the movement of goods. Furthermore, sanctions imposed by the UN on several Iranian institutions, companies and persons are still effective. Special attention must be paid to the possible relation of companies and persons with the Iranian Revolutionary Guard, which has broad connection with various members of the Iranian society, as well as partial control over large part of business. If financial institutions want to serve money flows and companies related to Iran, adequate risk assessments must be conducted and control measures must be introduced to avoid unpleasant consequences.

Depending on their operation model, subjects of the law may include risks and indicators in their customer due diligence procedures, automatic deal control systems, suspicious deal reporting procedures etc. It should be noted that avoiding too large volume of bogus positive cases is one of the key challenges in the establishment of the automatic indicator control system. This significantly reduces efficiency of the system and wastes resources preventing full verification of all potential cases. In order to prevent this, the following is necessary:

- To determine indicators to be controlled according to the respective operational profile and risks.
- To prioritise and assign specific weight to indicators (for example, in case of payment services or credits, specific weight of indicators will differ) in relation to the customers, geographical factors (place of manufacture of products or provision of services), operational cycle of customers, phases of the deal, etc.
- To create sets of indicators (patterns) corresponding to the most typical proliferation financing activity models.
- To assess operation of control system on periodical basis and compliance of the established indicators to the actual customer's operation.

c. Case Analysis

- 1) Russian citizen X with a company registered in Latvia was engaged in organisation of illegal proliferation of technological materials from the USA to Russia (microchips manufactured in the USA were delivered to Russia for a possible use in military industry). Microchips were received from the USA by courier mail and afterwards independently exported to Russia by train. An application was also sent to the relevant institutions of the USA to obtain a permit for a purchase of a large quantity of microchips; a company the production manufactured by which may be used for military purposes was specified as the end user. After rejection of the application, repeated consignments of microchips were organised by courier using forged invoices.

Money was transferred from the Russian company owned by X to the Latvian company X, and afterwards to the manufacturer of microchips in the USA.

- 2) Companies A and B registered in Latvia were involved in supplies of oils intended for military needs from Belarus and Russia to Syria. Delivery took place via Latvia by using the infrastructure of the Riga port companies. In separate cases, the ports of neighbouring countries of Syria were used for sending of the mentioned goods (by not sending the goods from Riga directly to Syria) in order to avoid from violating the sanctions. Payment for the goods and sending thereof was organised by the companies registered in Latvia via offshore companies.
- 3) Companies A and B registered in Latvia were involved in transit of materials usable in nuclear industry to Syria from Belarus through Latvia by specifying incorrect codes of goods. Belarusian company X unsuccessfully attempted to send silicon fibre to Syria through Latvia (due to the parameters, fibre is to be considered as a sensitive good, which may be used for the development of missiles).
- 4) The bank identified a payment for the delivery of goods from country Z in North Africa to country Y, which shares a border with Iran. During additional verification of delivery documents, the bank found that the destination of the goods was Iran.
- 5) Payment for freight (between 2 companies operating in the field of logistics) was lodged to the bank. At the bank's request, additional documents were produced, including bill of lading. Tracking of the invoice number revealed that the destination was Iran.
- 6) Foreigner A established a trade company Z in another country. Bank's attention was paid by unusually high credit turnover, and it was ascertained during enhanced due diligence that A's employee X was also an employee of other company, which shares phone number with the company Z. Further inquiries revealed that the phone number was related to 2 more companies, regarding which the bank information that shareholders of these companies were from Iran and involved in transactions in Iran. It was concluded that Z operated as screen company.
- 7) A factory in Europe sold its products (pressure indicators) to an intermediary who delivered them to country B in East Asia. Further on, these goods were delivered through other B city to the North Korean company C, which handed them over to other North Korean company D, which participated in manufacture of missiles.
- 8) Person A owned company X in country Y in South-East Asia. Business partner of A was the North Korean company Z, engaged in maritime traffic. Company

X provided services related to maritime traffic. The investigation revealed that the company Z was involved in the supply of weapons from Cuba to North Korea, and company X had paid for the crossing of the sea channel by the vessel owned by Z. Person A had given its consent to use accounts held by X in the interests of the company Z, therefore, during the period from 2009 to 2013, more than 600 transfers were made through the accounts held by A (in the total amount of 40 million USD).

Used Materials:

- 1) National Risk Assessment of Latvia (NRA) for 2017 and 2018.
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- 12) FATF Report "Guidance on Counter Proliferation Financing", 2018.
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- 14) Andrea Berger, Anagha Joshi. "Countering Proliferation Finance: Implementation Guide and Model Law for Governments". Royal United Services Institute, London, July 2017.
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https://www.un.org/securitycouncil/sanctions/1718/panel_experts/reports

Change History

- 1) On 12.06.2019, resources complemented by the UN reports on North Korea, complemented description of the risk-based approach (page 30).