

**MONEY LAUNDERING AND TERRORIST  
FINANCING PREVENTION ACTIVITIES OF THE  
FINANCIAL CRIME INVESTIGATION SERVICE  
IN 2013**





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This Report introduces the directions of the main activity and more significant results of activities of 2013 of the Financial Crime Investigation Service under the Ministry of the Interior of the Republic of Lithuania (hereinafter – the Service), which coordinates the institutions of Lithuania implementing the measures of the prevention of money laundering and terrorist financing.

The Report on the prevention of money laundering of 2013 presents statistical indicators, observable tendencies, identifies the essential typologies, revises the Fourth Round Evaluation Report on the Republic of Lithuania drawn up by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) of the European Council. Considerable attention is devoted to the targeted warnings of financial institutions concerning higher risks of financial operations of business entities of certain countries.

Since 1999, having become a member of the Egmont Group and acquired the status of the financial intelligence unit, the Service has been devoting great attention to the cooperation with foreign financial intelligence units and constructive work with criminal intelligence entities and tax administrators of Lithuania. Close cooperation with other institutions in collecting financial intelligence information facilitates the effective implementation of preventive measures in the area of money laundering.

The Service, which is building its activities on professional skills of its officers and new technologies, is a strong partner to the Lithuanian and foreign institutions in protecting both, the national and the EU financial system.

### **ABOUT FCIS – MISSION / STRUCTURE**

The Service is a public law enforcement body subordinate to the Ministry of the Interior of the Republic of Lithuania the purpose of which is to disclose and investigate offenses, other violations of law related to the financial system and the related crimes, as well as of other violations of law. The goal of the Service is to minimise the negative impact of financial crimes on public finances through the improvement of its operating methods.

The priority attention of the Service is devoted to the disclosure, investigation and prevention of criminal acts related to money laundering, VAT fraud, undue receipt and use of



financial assistance of the European Union and foreign countries. These offences are especially detrimental to the state budget and develop a negative image of the country.

Activities of the Service are regulated by the Law on the Financial Crime Investigation Service establishing the principles and legal basis of its activities, the tasks and functions, control of the activities of the Service, the framework for the inter-institutional cooperation, powers, rights and duties, liability of employees, financing and other matters.

Activities of the Service shall be based on the principles of lawfulness, respect for human rights and freedoms, equality of persons before law, co-ordination of publicity and confidentiality of activities, co-ordination of personal initiative and official discipline.

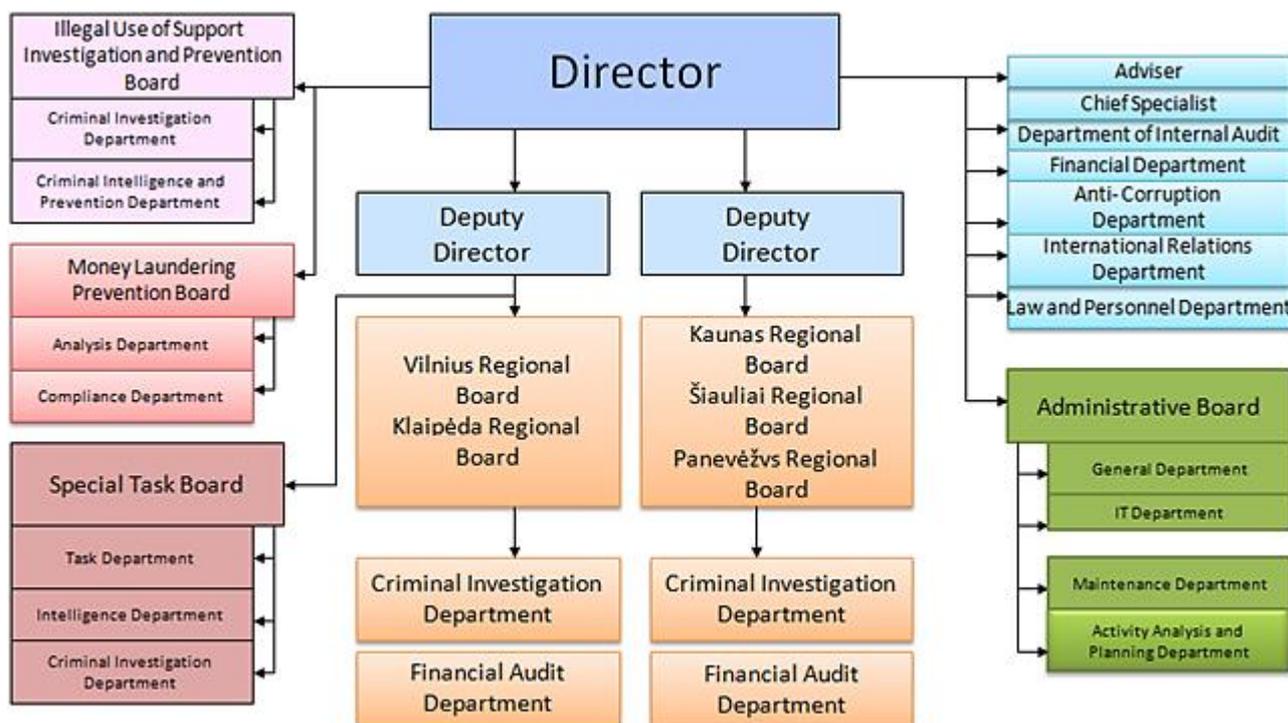
The tasks of the Service:

- 1) to protect financial system of the State against criminal influence;
- 2) to ensure the detection and investigation of criminal acts and other offences related to the receipt and use of financial assistance of the European Union and foreign states;
- 3) to detect and investigate crimes, other offences against the financial system, as well as the related crimes and other violations of law;
- 4) to carry out the prevention of crimes and other violations of law against the financial system and related offences;
- 5) to perform other tasks assigned to the Service by virtue of other laws.

The strategic goal of the Service is to elaborate the operating methods aimed at combating crimes against the financial system of the State. This goal is pursued by implementing the criminal intelligence measures, disclosing and carrying out the pre-trial investigation of criminal acts against the financial system, implementing measures of the prevention of money laundering and terrorist financing, protecting financial interests of the European Union (EU), performing investigations of commercial and financial activities of entities, carrying out the prevention of criminal acts against the financial system and measures facilitating the recovery of evaded taxes and seeking the maximum impact of this activity on the actual revenues of the State budget.



## STRUCTURE OF THE SERVICE



## ONE OF THE PRIORITIES – PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

The Service is the main institution coordinating the implementation of money laundering prevention measures in the Republic of Lithuania.

The proper implementation of money laundering prevention measures is one of the priority areas of activities of the Service.

Acting pursuant to the Republic of Lithuania Law on the prevention of money laundering and terrorist financing (LPMLTF) the Service collects and records the information specified in this Law about the customer's monetary operations and transactions and about the customer carrying out such operations and transactions, communicates to law enforcement and other state institutions according to the procedure established by the Government the information about the monetary operations and transactions carried out by the customer; conducts pre-trial investigation of legalisation of the funds and property derived from criminal activity; cooperates and exchanges information with foreign public authorities and international organisations implementing money laundering and(or) terrorist financing prevention measures and performs other functions established by the Law.



In accordance to the order of the Minister of the Ministry of Interior of the Republic of Lithuania No. 1V-949 of November 14th of 2013, a new specialized board was established within the Service on December 1st of 2013 – Money Laundering Prevention Board, which was commissioned to implement the prevention measures of money laundering and terrorist financing.

### **Money Laundering Prevention Board of the Service**

In implementing the tasks assigned to it, the Money Laundering Prevention Board performs the following functions:

- implements measures conducive to the prevention of money laundering and terrorist financing and to the disclosure crimes and other violations of law in this area;
- collects and records the information related to the implementation of money laundering and terrorist financing prevention measures and provides proposals to institutions on the improvement of the system of money laundering and terrorist financing;
- collects data about assets, transactions and financial operations of a person and other natural and legal persons related to him, and about the location of assets in order to find the assets which might have been obtained in criminal or illegal manner for the purpose of using it to secure a civil claim or seizure of property;
- performs supervision of activities of financial institutions and other entities, provides to them methodological assistance and information about the criteria of recognition of money laundering and terrorist financing as well as suspicious or unusual monetary operations or transactions, drafts guidance aimed at the prevention of money laundering and terrorist financing.

In observance of the regulations approved by the Director of the Service, the Money Laundering Prevention Board also summarises the practice of the application of laws, resolutions of the Government of the Republic of Lithuania, orders of the Minister of the Interior and other legal acts related to the prevention of money laundering and terrorist financing, drafts proposals for their amendments and supplements. Within the limits of its competence, the Board cooperates and exchanges information with foreign financial intelligence units or international organisations and with law enforcement bodies and other institutions of the Republic of Lithuania. It should be noted, that the Money Laundering Prevention Board has been granted the powers to investigate the cases of administrative violations of law in the area of prevention of money laundering and terrorist financing.



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## ACTIVITIES IN THE AREA OF THE PREVENTION OF MONEY LAUNDERING

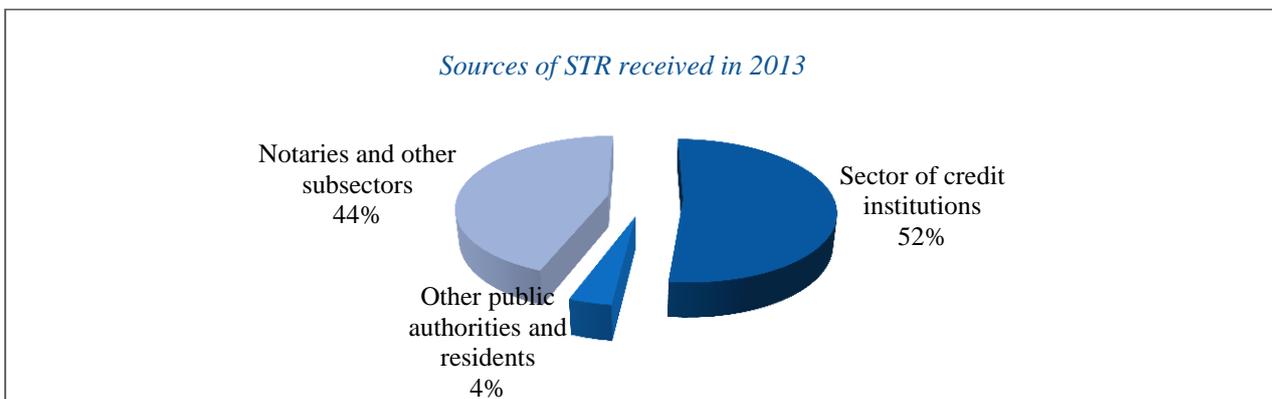
The Law on the prevention of money laundering and terrorist financing defines the entities authorised to enforce measures of the prevention of money laundering and terrorist financing:

- 1) financial institutions;
- 2) auditors;
- 3) insurance companies engaged in life insurance activities and insurance brokerage firms engaged in insurance mediation relating to life insurance;
- 4) bailiffs or the persons entitled to perform the actions of bailiffs;
- 5) undertakings providing accounting or tax advisory services;
- 6) notaries and the persons entitled to perform notarial acts as well as advocates and advocate's assistants;
- 7) providers of services of trust or establishment and administration of companies;
- 8) persons engaged in economic and commercial activities covering trade in immovable property items, precious stones, precious metals, items of movable cultural property, antiques or other property the value whereof exceeds EUR 15 000 or the corresponding sum in a foreign currency, to the extent that payments are made in cash;
- 9) the companies organising gaming;
- 10) postal services providers providing domestic and international postal order services;
- 11) closed-end investment companies.

One of the main measures of the prevention of money laundering and terrorist financing enshrined in the Law on the prevention of money laundering and terrorist financing is reporting to the Service suspicious monetary operations carried out or attempted / planned by customers of financial institutions. Provisions of this Law require that commercial banks and other financial institutions in all cases perform ongoing monitoring of the customer's business relationships, including scrutiny of transactions undertaken throughout the course of such relationship, to ensure that the transactions being conducted are consistent with the financial institutions' or other entities' knowledge of the customer, the business and risk profile, including, where necessary, the source of funds. In implementing the aforementioned actions, commercial banks identify unrepresentative, unusual or suspicious monetary operations of customers and immediately report them to Service as required by the Law.

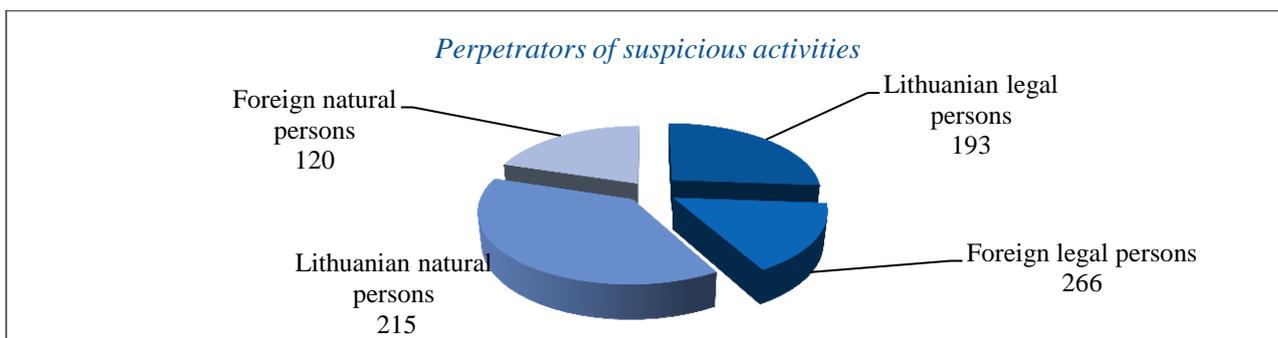


In 2013, the Money Laundering Prevention Board received 393 (in 2012 – 245) Suspicious Transaction Reports (STR). 52 percent of them (204 STR) were received from the sector of credit institutions. Other public authorities and residents submitted 15 reports and the remaining reports were received from notaries and other entities. The rest were received from notaries and other subjects.



The largest number of received reports was related to the Lithuanian citizens and companies (390 natural persons and 269 legal persons). Also STRs regarding 207 natural persons and 162 legal persons of foreign origin were received. Most of STRs received were concerning foreign citizens and companies from Latvia, Cyprus, Poland, Great Britain, Ukraine, Belarus, Russia and Italy.

Having found that financial activities of natural or legal persons covered by the reports are suspicious and have features of criminal acts, the Board communicates the information to the pre-trial investigation boards of the Service, other public authorities according to their competence, or to foreign partners.

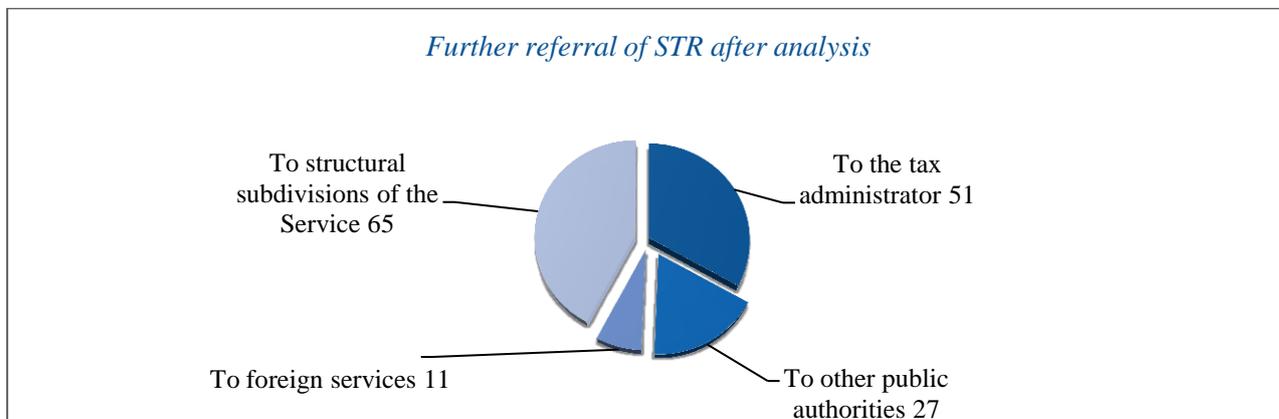


After analysis, 154 reports were referred for further examination or investigation:

- to the structural subdivisions of the Service – 65 reports concerning suspicious or unusual financial activity;



- to other public authorities for further investigation or examination – 78 reports, of which 51 were referred to the tax administrator;
- 11 reports on suspicious financial activities of foreign natural and legal persons were sent to foreign services.



Main types of reports sent to Regional Boards of the Service:

Type of report	Number of reports	Number of natural persons	Number of legal persons	Amount, LTL
Features of fraud	24	33	35	159 477 693
Suspicious cash withdrawals	25	28	34	26 275 927
Suspicious real estate transactions	7	7	6	21 858 940
Suspicious loans	6	10	5	8 264 500
Suspicious charity/sponsorship	3	1	10	4 124 000

### Reports on suspicious monetary transactions

Type of reports	Monetary transactions	Local and international payment orders
Amount	LTL 52 930 428	LTL 9 141 784

Reports of the Money Laundering Prevention Board contributed considerably to the performance of the Service. The Service has initiated the investigations with regard to the following exceptionally serious crimes:

Fraud (Article 182 of the Criminal Code) – 206

Misappropriation of property (Article 183 of the Criminal Code) – 78

Legalisation of illicitly obtained money (Article 216 of the Criminal Code) – 20

Illegally acquired wealth (Article 189 of the Criminal Code) – 82



In the process of analysis carried out under Article 14 of LPMLTF, the amount of funds of almost LTL 16 million was withheld, out of which on more than LTL 12 million later the temporary restriction of the ownership rights were imposed.

### Analytical work

Tendencies observed in 2013:

#### *Fictitious companies and suspicious monetary operations*

The conducted analysis of the financial operations facilitated in disclosing quite a number of Lithuanian entities of which the representatives have withdrawn large amounts of money from their accounts, like every year. It was established that such entities, as a rule, are either newly set up or have new owners, they employ only one or several employees who often are previously convicted persons, and activities of such entities are doubtful. Cash to accounts of such entities is usually credited by different enterprises of the Republic of Lithuania, and immediately withdrawn from the accounts after the transfer. Almost in all such cases, cash withdrawals, as a rule, were made from ATMs operating in Lithuania.

#### *Transit and other monetary operations carried out in the accounts of the offshore companies*

In compliance with requirements of the Republic of Lithuania Law on the prevention of money laundering and terrorist financing, all the aforementioned accounts have been opened in Lithuania; however, the great majority of them, considering the specifics of taxation of an offshore entity, firstly were associated with the status of non-residence. The account management centre, as a rule, is abroad – a person authorised to manage the account is issued bank codes with the help of which they perform financial operations in remote manner. Such accounts can often be designated as transit accounts – international payment orders made to such accounts from abroad as well as online are further transferred to another foreign commercial bank. Usually monetary funds do not stay long in the account, because as soon as they reach the account they are remitted to another bank in several seconds. This scheme of movement of funds involving the transfer through many countries and distribution between many accounts can be used both in tax evasion schemes and for legalisation of illicitly obtained funds.

One of the types of activities of an offshore entity that should be noted here is lending. The mechanism of such transactions is quite simple – monetary funds of doubtful origin, such as



loans, are credited to the accounts of legal and natural persons in the banks of the Republic of Lithuania. After that, the received monetary funds are divided into parts making a large number of payment orders to other Lithuanian and foreign legal and natural persons. Later funds are withdrawn or remitted to a foreign country where the disclosure of their subsequent use becomes especially problematic.

### ***“Social Engineering” fraud***

This type of fraud manifest by psychological manipulation of a person by convincing him/her to perform certain actions. Trusting the cheats without a doubt, a person provides them with confidential information or performs requested actions (ex. Transferring funds).

Money Laundering Prevention Board has received 4 such reports and has started 3 pre-trial investigations for suspected money laundering (during the analysis of the reports over 5 mln. LTL were frozen and later the ownership rights to those funds were restricted). Earlier mentioned pre-trial investigations were passed on to the specialized investigative unit of the Police Department, where one of the Money Laundering Prevention Board officers also participates.

### ***Use of money transfer systems for settlements for goods or services of doubtful origin***

Reports continue to be received from banks on persons receiving or remitting money by money transfer systems (Western Union, Money Gram). The performed analysis has shown that such funds usually originate not from the EU Member States (usually from USA, Russia, Kazakhstan, Kyrgyzstan) and later are cashed-out by Lithuanian and foreign citizens.

### ***VAT carousel fraud***

Criminal acts are usually aimed at avoiding or reducing different taxes. Such illegal activities involve the falsification of the documents of import and acquisition of goods, the use of the offshore companies, the chain of shell companies, making payments for actually undelivered /unsold goods. Criminals illegally replacing the excise codes of goods avoid taxation and benefit from zero excise duty. In cooperation with STI the Money Laundering Prevention Board disclosed the cases in which entities that have not been actually engaged in economic activity and have been used only as intermediaries in illegal activities and to enable other VAT payers from the EU to avoid VAT obligations and generate a falsified VAT return in other EU Member States. The Money



Laundering Prevention Board communicated this information to the Europol Analysis Project on MTIC Fraud.

### *Use of credit unions in suspicious financing schemes*

In certain observed cases suspicious financial schemes involved loans of credit unions. Such loans were granted to entities of doubtful reputation, which transfer money to many other entities, including the offshore companies. Part of the funds is transmitted to foreign countries and later returns to Lithuania already through other entities; some part of such funds is cleared and the remaining part is distributed between many associated entities. The grounds for granting such loans are doubtful, their repayment is also hardly possible, therefore, it is likely, that in such a way criminals attempt to conceal their profit, increase expenses, misappropriate loans obtained from banks, etc.

### *New tendencies of criminal acts perpetrated by organised crime groups established analysing the investigations carried out by the Service based on MLP Board reports:*

- Lithuanian entities usually use entities registered abroad when transferring money to the shell or offshore companies' accounts with foreign banks for alleged transactions. This mechanism is used in order to avoid the payment of the corporation tax or dividends and to withdraw funds that are not reflected in the accounting. The increasing tendency of cash withdrawals in Poland involving citizens of this country in criminal acts has been observed;
- after legalisation of illicitly obtained funds transferred to bank accounts of the offshore companies, money is invested in economic sectors of Lithuania purchasing companies or shares on behalf of such companies;
- Lithuanian entities carry out their financial activities without reflecting them in accounting records and without using any documents in their accounting system. In such cases, e.g., they sell metals or phones abroad formalising only falsified documents of their transportation and thus receiving money which is not reflected in the accounting;
- foreign nationals acting in the name of foreign companies encroach on the funds of the State budget of Lithuania. A frequent model used for that purpose is as follows – a foreign company prepares falsified documents of alleged purchase of goods from Lithuanian entities



(like in the case with phones), submits such falsified documents to the State Tax Inspectorate (hereinafter – STI) and claims VAT refund because of the existing overpayment. These cases involve the alleged purchase of goods for realisation in the Lithuanian market and their subsequent alleged export abroad;

- Lithuanian companies are more frequently used for VAT pocketing, without involving foreign economic entities in the transactions; recently the increase in the number of cases of attempted misappropriation of VAT from the state budget, rather than of VAT evasion, has been observed among the companies, i.e. they simulate transactions after which the State becomes indebted to the companies.

It has been noticed that the schemes of VAT fraud and laundering of funds acquired from such fraud involve several or even several tens of shell companies. As a rule, such criminal schemes are very well organised on the basis of particularly good knowledge of both the tax law and accounting. Such specialists either belong to criminal organisations or provide assistance to them. In some cases the specialists even did not know that they have been involved for the perpetration of criminal acts.

Some groups were identified as different from the traditional model of a criminal organisation. In the process of investigations of electronic crime fraud and concealment of origin of illegal money the groups of young people without distinct hierarchic structure and operating on the basis of mutual confidence (fellowship) have been identified.

The growth of money laundering also depends on the geographical aspect, which is usually based on the principle of neighbourhood (short distance, possibility to communicate) and the possibility of free movement across the state borders. An attractive possibility to conceal the origin of illicit money is to export monetary funds crossing the state border between two Member States of the European Union (especially countries of the Schengen Area). Given that the state border of Lithuania is one of the external borders of the European Union, the smuggling of cash is one of the most frequent elements of the money laundering schemes aimed at concealing the illegal source and origin and the country of origin of money. Funds illicitly obtained in Lithuania are exported to foreign countries, or funds illicitly obtained abroad are imported to Lithuania, performing further financial operations, which makes the tracing of the country of origin of such illegal funds especially problematic.



It should be noted that in the case of e-crimes or identity thefts the analysis of the geographical aspect loses sense – a citizen of any country with developed information technologies may become a victim of the perpetrator who stays in the territory of Lithuania.

It has also been established that Lithuanian citizens are used in the schemes of legalisation of illegal funds realised by foreign nationals.

Because of the dynamics, type and speed of international financial operations is likely to stimulate more active use of e-money. Due to the same reasons settlements through alternative payment systems will become more popular.

### *Other initiatives*

An informative letter about tendencies of new suspicious operations was sent to the credit institutions of Lithuania in 2013 in response to more frequent reports regarding fraudulent activities by using newly established companies – that bank accounts are opened by newly registered Lithuanian companies that do not carry out any significant financial operations or make any payments relating to the business, nor make any payments to the employees, etc. Such companies usually have no employees and the director is usually a very young person or a foreigner.

All of the sudden a huge amount of funds is credited to the account (one-off fund transfer that can exceed LTL 1 mln.) that is immediately attempted to be transferred to some foreign bank account. Every time such transactions are executed, sooner or later a SWIFT report is received by Lithuanian credit institutions stating that these transactions were illegal.

According to the investigations conducted by the Service, it was determined that these fraud schemes are when criminal groups convince foreign companies by deceit to transfer funds to bank accounts of the companies registered in Lithuania, which are later laundered via network of fictitious companies in various European countries.

In the letter it was asked to pay special attention to the international transfers made to the abovementioned companies' bank accounts. If financial transactions corresponding to earlier mentioned features occur, the banks were asked to demand documents from the clients underlying basis for such actions and ensuring that transactions undertaken correspond with information available about the client, his business, riskiness and partners.



Taking the situation of financial sector of the Republic of Cyprus into account, MLP Board drew attention of local banks regarding high risk clients' and non-resident legal persons' aspirations to open up bank accounts and start conducting financial operations in credit institutions of the Republic of Lithuania.

In the letter it is noted, that according to the available data the large majority of bank clients (beneficiaries) of the Republic of Cyprus are foreigners, of which money origin is very difficult to verify. Also tendencies are observed when Lithuanian and foreign business entities exercise financial transactions via the bank accounts opened in the Republic of Cyprus in order to invest the funds of unclear origin or to reduce the revenue of a company. Most often settlements for fictitious services, huge non-interest bearing loans and investments are declared via the banks of the Republic of Cyprus, whose origin is thoroughly concealed.

Taking the special situation within the financial sector of the Republic of Cyprus into account, the possibility was named that some of aforementioned Cyprus banks' beneficiary clients (foreign citizens) may attempt to open up bank accounts in Lithuanian banks and financial institutions on behalf of foreign and offshore companies and attempt to exercise transfer of funds of large value and of unclear origin.

Banks are asked to pay special attention to the attempts of aforementioned clients to establish business relations with the financial sector of our country and transfer funds of unclear origin. Recommendations to the banks were sent suggesting not to only demand for information determining who is actual beneficiary of the account and the purpose of his/her business while opening a bank account in Lithuania, but also to perform due diligence on the provided information, demand for primary and original documents ensuring that conducted transactions correspond with the information available about the person, his business, riskiness and his partners.

### ***LAWMAKING***

On the 30<sup>th</sup> of December 2013 the FCIS has submitted the proposal to the Parliament of the Republic of Lithuania, which was prepared and coordinated with all interested parties, for changes and supplements in the articles 2, 5, 7, 9, 10, 11, 14, 16, 17, 18, 19, and 20 of the Law on the prevention of money laundering and terrorist financing (LPMLTF) (further- Law) as well as adding an additional article 14<sup>1</sup>.



The bill was prepared in pursuance to implement the recommendations of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism of the European Council (further – MONEYVAL). This committee controls the compliance of the legal system of Lithuania with the recommendations of FATF (Financial Action Task Force on Money Laundering) established in 1989 by the G7 Summit in Paris. FATF sets global standards in the fight against money laundering and terrorist financing. In case of failure to comply with FATF recommendations, European Council applies impact measures affecting country's international image, reputation and investment environment.

There were 3 visits of MONEYVAL Committee experts in Lithuania in 2012, during which they checked how Lithuania is implementing FATF recommendations in order to determine deficiencies with a purpose to eliminate them if the bill is passed.

The aim of the bill is to implement the recommendations of MONEYVAL Committee and FATF in the field of the fight against money laundering and terrorist financing.

The essence of the project is the implemented recommendations of MONEYVAL Committee and FATF:

- “Suspicious financial transactions” and “terrorist financing” concepts are changed in the way to comply with FATF recommendations; the term “unusual financial transactions” is waived;
- “Natural persons participating in politics” and “important public office” concepts are changed in the way to comply with FATF recommendations. Also, in soon to be changed Law, enhanced identification verification will be applied to the natural persons participating in politics, whose place of residency is in other Member State or in a Third Country. For other natural persons participating in politics, enhanced identification verification may not be applied if there is no legal basis for such actions;
- The duration of suspension of the suspicious financial transactions is prolonged from 5 to 10 working days;
- By defining the concept “cash” in the article 18 of the Law, the requirement to declare cash will also include the declaration of other payment measures, such as travel checks, etc;
- The Law's articles 9 and 17 are being changed, seeking to comply with the Directive's 2005/60/EB of the European Parliament and of the Council on the prevention of the use of



the financial system for the purpose of money laundering and terrorist financing article 7 part b, requiring that identification of the clients must be determined if financial transactions of over 15 000 Euros are exercised;

- Technical changes are being made in the Law.

In case the bill is passed, the deficiencies identified by the MONEYVAL experts will be eliminated and the preventive measures of the money laundering and the terrorist financing will be applied more effectively and build a better environment for the prevention of crimes. The implementation of the bill will create conditions for a more effective security of financial sector from money laundering

### ***COOPERATION WITH OTHER INSTITUTIONS IN COLLECTING FINANCIAL INTELLIGENCE INFORMATION***

The Government of the Republic of Lithuania, the Service, the State Security Department of the Republic of Lithuania, the Customs Department under the Ministry of Finance of the Republic of Lithuania, the Gaming Control Authority under the Ministry of Finance of the Republic of Lithuania, the Chamber of Notaries, the Chamber of Auditors, the Chamber of Bailiffs, the Lithuanian Assay Office and the Lithuanian Bar Association are the institutions responsible for the prevention of money laundering and (or) terrorist financing in Lithuania according to their competence.

Currently the working group set up by decree No. 154 of the Prime Minister of Lithuania of the 2 March 2013 is coordinating the activities of the prevention of money laundering and terrorist financing.

This working group, for which the vice minister of the Ministry of Interior is in charge, is charged with coordinating the cooperation among governmental institutions, financial institutions and other subjects while implementing the measures of money laundering and terrorist financing, providing the recommendations regarding the improvement of the money laundering and terrorist financing system to the institutions responsible for the prevention of money laundering and terrorist financing, summarizing the methods of money laundering and preparing and submitting recommendations regarding the measures money laundering and terrorist financing, improving corresponding legal acts to the interested governmental and financial institutions and other subjects. During the meetings of the working group, current issues are discussed, the activities of the



institutions at national and international levels are coordinated, and relevant issues in the field of implementation of international sanctions are discussed.

In 2013 the working group has discussed and approved the changes of the articles 2, 5, 7, 9, 10, 11, 14, 16, 17, 18, 19, 20 and addition of article 14<sup>1</sup> of the Law. They also considered the questions regarding limitation of cash turnover and ratification of international documents.

In implementing the agreement, the Parties set up the **Criminal Information Analysis Centre (CIAC)**<sup>1</sup> – a standing inter-institutional working group of the Parties the purpose of which is the development of cooperation in particular in analysing the information collected by the Parties in relation to different criminal acts, social, legal, economic and other causes of crimes and offenses and factors predetermining them. On the basis of analysis of such information, CIAC may provide recommendations on priority tendencies of the operative and pre-trial investigation activities of the Parties and their institutions.

By decision of the Director of the Service and of the Head of the State Tax Inspectorate the **Risk Analysis Centre (RAC)**<sup>2</sup> was set up. By orders of chief executives of the Parties the officers of the Service and of the State Tax Inspectorate were appointed to analyse information, carry out the administration of taxes, investigation of offenses as well as operative activities and pre-trial investigation according to their competence. The Parties of RAC, involving the officers designated by the Parties, can obtain from each other the information necessary for the performance of the tasks and functions of the Centre. The main goals of RAC:

- to analyse the available information about the violations in the area of taxes and crimes against the financial system and exchange such information with a view to identifying the threats arising to the financial system of the state and collection of taxes;
- to organise and implement target measures for the purpose of prevention, detection and investigation of violations of tax laws or offenses falling within the competence of the Parties.

To achieve its goals, RAC monitors and analyses the situation in different areas of economic activity in order to identify the changes, tendencies and their causes to the extent related to the potential violations of tax laws or crimes against financial system. RAC provides information to the Party to the competence of which the respective investigation is attributed, provides proposals to

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<sup>1</sup> Order No 1B-135/4-142/5-V-118 of 21 February 2007 on approval of the Regulation of the Criminal Information Analysis Centre and appointment of the institution coordinating the activities of the Centre. On 30 August 2010 this Order was amended.

<sup>2</sup> Order No V-161/V-392 of December 2010 on the establishment of the Risk Analysis Centre



the relevant Party / Parties on the priority spheres of activity; assesses and summarises the results of performance of the Centre; carries out further investigation according to its competence on the basis of established facts and renders proposals how to improve the use of the Parties' databases.

Having regard to the information received in implementing the mission of assessment, the Service initiates the investigations of finances on the basis of reports on offenses received from tax authorities. Furthermore, during the investigations in the sphere of drugs or trafficking in people both institutions may obtain information which allows concluding that a suspected person has property. In such cases the investigation of an offence is carried out in parallel with the financial investigation.

### ***EGMONT GROUP***

In addition to other international cooperation mechanisms frequently used by law enforcement bodies (Interpol, Europol, etc.), it is worth distinguishing the Egmont Group, which consists of the institutions, including the Service, which have the status of the Financial Intelligence Unit (FIU) known at the international level.

The status of the FIU arises from the mandatory international requirements to set up in each country which meets the global standards of the prevention of money laundering and terrorist financing a national central authority accumulating reports on suspicious monetary operations from banks and other entities, analyses them and refers collected information about suspected money laundering and terrorist financing for further investigation. The institution may be either an independent service, or a service subordinate to one of the public authorities. The FIU should have access to law enforcement information, but it does not necessarily have to be a law enforcement body, as it is in Lithuania. Often FIUs are bodies subordinate to the ministries of finance or central banks. At present the Egmont Group (the intelligence information exchange network) hosts more than 130 members from all over the world (one service per country).

In 2013, 194 inquiries were received from foreign financial intelligence units and other foreign services and 297 inquiries were sent. After performance of analysis, 11 reports on suspicious monetary operations were sent to foreign financial intelligence units and 9 such reports were received from abroad.

### ***SUPERVISION OF ENTITIES***



In 2013, in implementing the supervision over the implementation of measures of prevention of money laundering and terrorist financing, the MLP Board inspected 20 entities (SEB and Citadele banks, accounting companies (9), founders of the companies (7), fast credit institutions and asset trading company when payments are made in cash were inspected). The violations were detected in 17 companies and ALV protocols were drawn up for 17 employees of these companies (Article 172(14) of the CAVL).

The total amount of imposed fines was LTL 38 000.

2013 was a successful year due to court's favorable treatment of the legal act provision regarding clients' identification determination. In the ruling of Kaunas regional court of the 9<sup>th</sup> of January 2014, the appeal of UAB "4Finance", widely known as "SMS CREDIT", for Kaunas regional court's decision of the 15<sup>th</sup> of November regarding 8 000 LTL fine to the director of UAB "4Finance" for infringements on the implementation of measures of the money laundering and terrorist financing for incorrect identification of the client was rejected.

Court determined, that the court of lower instance has comprehensively and fully examined the circumstances of the case, assessed the evidence and adopted justified and correct decision.

The process began because during the examination of the UAB "4Finance" it was determined, that the company did not have copies of the clients', who signed loan agreements via internet and therefore did not participate in the signing physically, personal identification documents.

In the opinion of UAB "4Finance", future receiver of the loan is fully identified once he transfers 1 cent from his bank account. However, FCIS's arguments were verified by the court, that according to the current legislative regulation, information received about the client from 1 cent transfer from his personal bank account is not enough to trully determine person's identity.

According to the valid legal acts, the sufficient amount of information regarding the identification of the client can only be guaranteed by providing the copy of the original personal identification document, verified by the employees signature and stamp.

### ***ACTIVITIES IN THE SPHERE OF ENFORCEMENT OF INTERNATIONAL SANCTIONS***

The international sanctions are non-military means imposed in order to preserve the international peace and security, as well the respect for human rights. The international sanctions,



as a lawful instrument in the international affairs, are established in the Charter of the United Nations. The sanctions imposed by the United Nations, the European Union and other international organizations are implemented against the states, natural and legal persons, as well as other subjects which violate the human rights, contribute to ethnical, territorial and religion conflicts, support terrorism or violate otherwise the fundamental norms and principles recognised by the international community.

The purpose of sanctions, also called restrictive measures, is to change the policy and actions of the state, natural or legal persons in question or to put an end to the particular actions. The application of sanctions is based on the principles of international law, democracy and respect for human rights and principal freedoms, rather than on economic interests. Sanctions may include full or partial termination of economic relationships, restriction of communications and diplomatic relationships, and measures of other types. The imposition of sanctions must be based on the principle of proportionality and be directly targeted to entities responsible for the pursued policy or particular actions responding to which the international community was forced to use the instrument of sanctions.

International sanctions is one of the instruments whereby the international community or individual states implement control of strategic goods and combat international terrorism with a view to enhancing the international and regional security.

Financial sanctions (restrictions on the rights of entities, with respect to which international sanctions are implemented, to manage, use and dispose of cash, securities, goods, other assets and property rights; payment restrictions for entities with respect to which international sanctions are implemented; other restrictions on financial activities).

One of the institutions supervising the enforcement of these sanctions is the Service, which implements three main functions:

- 1) controls, performs regular checks and collects data about the enforcement of financial sanctions from financial institutions and other entities;
- 2) on consent of the Ministry of Foreign Affairs, implements exemptions from enforcement of international sanctions (entities, with respect to which the international sanctions are enforced, or natural or legal persons of the Republic of Lithuania seeking to use exemptions may apply to the Service);
- 3) is a coordinating institution granting authorisations for the international payment orders with natural and legal persons of Iran.



## *TRAINING*

In the end of summer of 2013, likewise every year, employees of the Money Laundering Prevention Board according to the areas supervised thereby were invited financial institutions and other entities to submit training requests.

About 250 people attended 7 training courses organised for employees of credit institutions, auditors, accountants and one payment institution.

One officer of the Money Laundering Prevention Board also delivered a lecture to the future employees of the Service at the SBGS training centre.

## *INVESTMENT PROJECT*

The Project “Improvement of management of activities of the Financial Crime Investigation Service” (hereinafter – the Project) is aimed at improving the management of documents and information of the Financial Crime Investigation Service seeking higher efficiency of internal administration and management of activities; the task of the Project is modernisation (automation) of the processes of acceptance, processing and transmission of documents (reports). The Project directly corresponds to the first and second objectives of Priority 4 “Fostering administrative competences and increasing efficiency of public administration” of the Operational Programme for the Development of Human Resources – to improve administration of human resources and strengthen administrative capabilities of the public service and the second objective – to improve work management, better implement EU policies, to improve structure of public administration.

As part of implementation of the Project the modernisation (automation) of the processes of acceptance, processing and transmission of documents (reports) (hereinafter – documents (reports) in implementing provisions of LPMLTF is envisaged:

- 1) to develop and implement the interfaces between MLPIS and information systems of the providers of documents (reports);
- 2) to develop and implement the interfaces between MLPIS and information systems of the recipients of documents (reports);



- 3) to develop the methodology of the criteria of analysis and assessment of the data of documents (reports) and of the application of such criteria;
- 4) to develop and implement the system of management of documents (reports) and processing of data.

The plans also include the provision of training for 20 employees of the Service on the use of the aforementioned modernised system.

At present 3 companies are working within the framework of the Project (one company carries out the administration of the Project, another company that created the methodology of the criteria of analysis and assessment of the data of documents (reports) and of the application of such criteria who also supervise the installation process, and third company who is doing actual installation) as well as 2 officers from the Money Laundering Prevention Board, there is also the project supervision committee. The Project is run by the Head of the Money Laundering Prevention Board.

### ***ACTIVITIES OF THE MONEY LAUNDERING PREVENTION BOARD PLANNED FOR 2014***

The main directions of analytical activities:

- investigation of illegal activities of shell companies of Lithuania and other countries;
- analysis of cases of international fraud;
- analysis of unusual activities of foreign natural persons and offshore companies holding accounts with credit institutions of Lithuania and of their relationships with the Lithuanian economic entities;
- analysis of transit flows through banks operating in Lithuania;
- analysis of electronic intermediaries' activities;
- analysis of cash flows of alternative payment systems.
- Analysis of real estate deals.

Other activities:

- continue improving the legal framework;
- start the national risk assessment;
- raise the qualification of the officers;
- further modernisation of the information system and development of investment projects;



- implementation of measures of supervision of entities;
- improvement of cooperation with public authorities and other bodies;
- provision of training and methodological assistance to entities.