

NEWSLETTER

New restrictions on business with shell entities

On May 9, 2018 became effective new amendments to Latvian Law on the Prevention of Money Laundering and Terrorism Financing („**Law**”) prohibiting local credit institutions (banks), payment institutions, electronic money institutions, investment brokerage and investment management companies (“**Financial Institutions**”) to commence or continue business relations or engage in separate transactions with non-resident shell entities.

Restricted (prohibited) shell entity is defined as a legal entity that simultaneously corresponds to **both** of the following criteria (“**Shell Entity**”):

1. Legal entity is not associated with factual commercial activities or activities of the entity create no or very small economic value and the entity does not have documents that can prove otherwise;
2. The laws of the country where the legal entity is registered do not contemplate the obligation to prepare and file with the supervisory institutions of the respective country financial reports, including annual financial reports regarding operation of the entity.

Latvian financial regulator- Finance and Capital Market Commission (“**FKTK**”) is authorized under the Law to issue specific regulations setting out minimum scope of actions that shall be performed by the Financial Institutions to ascertain if a shell entity qualifies under the 1st of above noted legal criteria.

In accordance with the Law the Financial Institutions shall within **14 days** following the effective date of the above stated amendments inform their clients- restricted Shell Entities about termination of the business relations. Business relations and separate transactions with restricted Shell Entities shall be terminated by the Financial Institutions within **60 days** following the effective date of the amendment of the Law.

June, 2018

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b) valstī, kurā juridiskā persona reģistrēta, normatīvie akti neparedz pienākumu sagatavot un iesniegt attiecīgās valsts pārraudzības institūcijām finanšu pārskatus, tai skaitā gada finanšu pārskatus, par savu darbību,