

**MONEY LAUNDERING AND TERRORIST  
FINANCING PREVENTION ACTIVITIES OF THE  
FINANCIAL CRIME INVESTIGATION SERVICE  
IN 2012**





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This Report introduces the directions of the main activity and more significant results of activities of 2012 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 2012 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

	<b>Director</b>		Adviser
Analysis and Prevention Board			Chief Specialist
Business Analysis and Planning Department			Internal Audit Department
Money Laundering Prevention Department	<b>Deputy Director</b>		Financial Department
Department of Analysis and Prevention of Illegal Use of Assistance			Immunity and Control Department
Information Systems Department	Vilnius County Board Kaunas County Board Klaipėda County Board Šiauliai County Board Panevėžys County Board		Administration Board
<b>Special Task Board</b>			General Affairs Department
Task Department			Legal and Personnel Department
Operations Department	Crime Investigation Department	Economic-Financial Activity Investigation Department	International Relations Department
Crime Investigation Department			Asset Management Department

### 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.

Since 1 March 2011, after enforcement of the new organisational structure of the Service, its Money Laundering Prevention Department – a subdivision responsible for the analysis of information about economic and financial processes in order to identify the criminal impact threats that are likely to have a negative impact on the financial system of the State – was strengthened.

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

In implementing the tasks assigned to it, the Money Laundering Prevention Department 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 Department 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 Department 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 Department 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.

### **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:

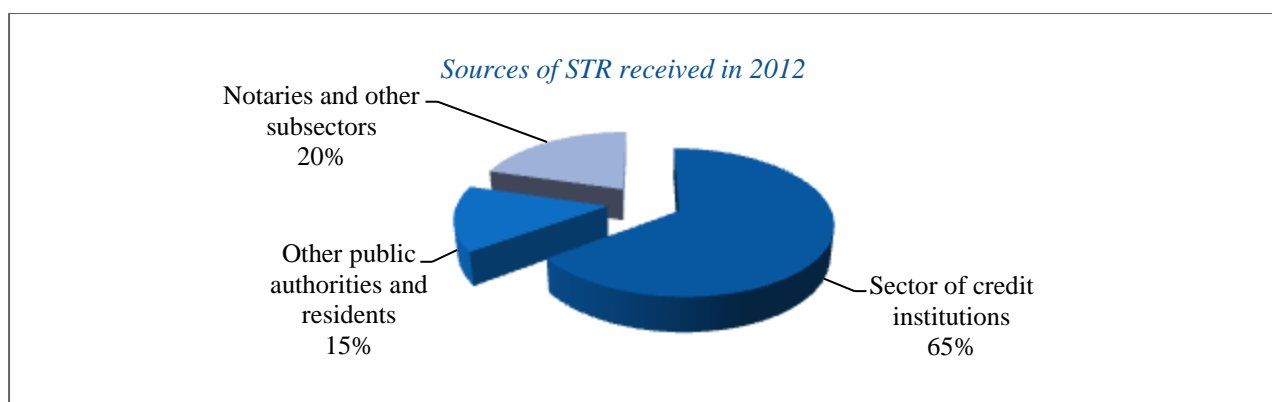
- 1) financial institutions;
- 2) auditors;
- 3) insurance companies engaged in life insurance activities and insurance brokerage firms engaged in insurance mediation relating to life insurance;
- 4) bailiffs or the persons entitled to perform the actions of bailiffs;
- 5) undertakings providing accounting 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 2012, the Money Laundering Prevention Department received 245 (in 2011 – 255) Suspicious Transaction Reports (STR). 65 percent of them (159 STR) were received from the sector of credit institutions. Other public authorities and residents submitted 36 reports and the remaining reports were received from notaries and other entities.



The largest number of received reports was related to the Lithuanian citizens and companies (200 reports were received concerning 215 natural persons and 193 legal persons). More than 60 percent of all reports (134 STR) were related to foreign nationals (they were received from more than 20 countries, mostly from Latvia, Russia and Ukraine) and 66 foreign companies (from more than 30 countries).

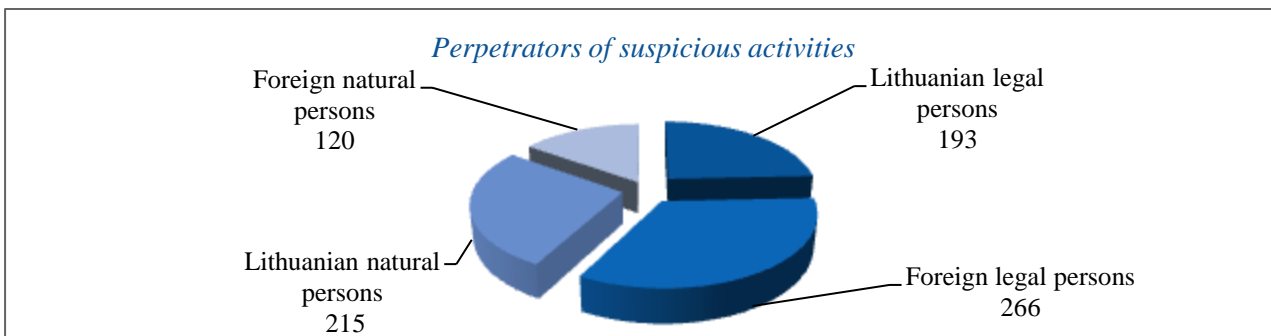
Having found that financial activities of natural or legal persons covered by the reports are suspicious and have features of criminal acts, the Department communicates the information to the pre-trial investigation departments of the Service, other public authorities according to their competence, or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

The reports mostly concern Lithuanian citizens and companies (200 reports were received concerning 215 natural persons and 193 legal persons). More than 60 percent of all reports



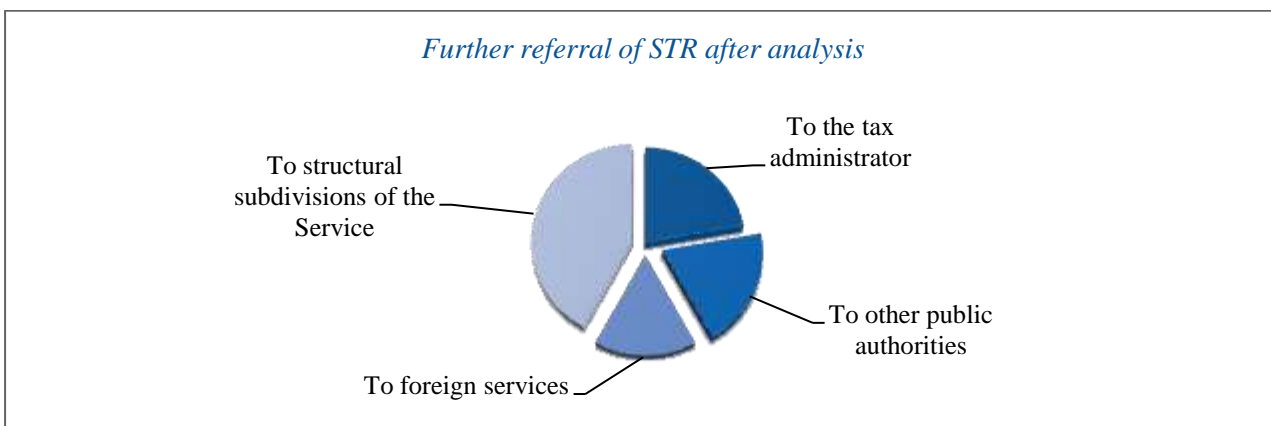


(134 STR) were related to foreign nationals (they were received from more than 20 countries, mostly from Latvia, Russia and Ukraine) and 66 foreign companies (from more than 30 countries).



After analysis, 198 reports were referred for further examination or investigation:

- to the structural subdivisions of the Service – 68 reports concerning suspicious or unusual financial activity;
- to other public authorities for further investigation or examination – 68 reports, of which 36 were referred to the tax administrator;
- 26 reports on suspicious financial activities of foreign natural and legal persons were sent to foreign services.



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

Type of report	Number of reports	Number of natural persons	Number of legal persons	Amount, LTL
Features of fraud	18	9	91	1 142 541 734
Suspicious cash withdrawals	15	34	56	39 188 331
Suspicious real estate transactions	6	25	18	14 912 000
Suspicious loans	6	16	19	23 013 000
Suspicious depositing of cash	5	12	13	3 858 389
Suspicious charity/sponsorship	4	8	9	1 417 000



### **Reports on suspicious monetary transactions**

131 reports were received with regard to monetary transactions. Almost all these reports were received from the sector of credit institutions – commercial banks of Lithuania or foreign bank branches operating in Lithuania. After analysis, 42 reports on suspicious amounts of cash were referred to the Boards of the Service and to other law enforcement bodies for further check of the information or for the initiation of the pre-trial investigation. 23 reports received with regard to the amounts of cash were sent to the tax administrator because of suspected possible violations of taxes or other offences not attributed to the competence of the Service. The great majority of such reports contained information about credited accounts of natural or legal persons and effected and planned cash withdrawals.

<b>Type of reports</b>	<b>Monetary transactions</b>	<b>Local and international payment orders</b>
Amount	LTL 29 369 020	LTL 32 085 586

Reports of the Money Laundering Prevention Department 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) – 149

Misappropriation of property (Article 183 of the Criminal Code) – 57

Legalisation of illicitly obtained money (Article 216 of the Criminal Code) – 16

Illegally acquired wealth (Article 189 of the Criminal Code) – 26

In the process of analysis carried out under Article 14 of LPMLTF, the amount of funds of almost LTL 92 million was withheld (of which the amount of about LTL 79 million was related to the case of AB bankas Snoras), on which later the temporary restriction of the ownership rights was imposed.

### **Analytical work**

Tendencies observed in 2012:

#### ***Suspicious monetary operations***

The conducted analysis of financial operations facilitated in disclosing quite a number of Lithuanian entities the representatives of which 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 was 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.

### *Use of non-profit seeking organisations of Lithuania for perpetration of offenses*

There is a tendency of setting up various organisations, most often related to sports; perpetrators of offenses find businessmen who will allegedly provide support to the organisation. Amounts of money in the form of sponsorship are credited to the accounts of a public institution and after withdrawal returns the remitters. Behaving in such manner perpetrators of crimes usually try to reduce the amount of corporation tax.

Several disclosed cases involved the same persons who were setting up new public institutions each time and using them for the perpetration of offenses.

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

In compliance with requirements of the Republic of 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 with 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.

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

The increase was observed in the number of reports 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, Australia) and later are remitted to the EU Member States and less frequently – to non-Member States of the EU (Pakistan, Cambodia).

Information about identified suspicious schemes of financial operations using money mules has been communicated to the International Relations Board of LCPB and to STI.

#### *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 Department 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 Department 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.

Analysing the activities of credit unions the Money laundering Prevention Department received information about a group of persons with features of an organised crime group, which might have illegally obtained credits in the amount of for almost LTL 25 million, although the value of assets for the acquisition of which the credits had been granted and which were mortgaged to secure the repayment of loans was below LTL 800 000. Having examined the collateralised assets it appeared that almost all such assets were abandoned farm buildings or warehouses.

This tendency was observed in the reports received in 2012 from notary offices on entities that used to acquire immovable property and then sold it to other entities for the price exceeding its average market value by several tens of times. The payment for such acquired property was usually made in cash received from credit unions. It was established that managers of the companies (acquiring the immovable property) usually were individuals with previous criminal record, often without the place of permanent residence, etc. It was also noticed that managers of such companies used to change before and soon after the acquisition of the immovable property.

***New tendencies of criminal acts perpetrated by organised crime groups established analysing the investigations carried out by the Service based on MLP Department 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 which differ 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.

#### *Search for assets of suspects in the pre-trial investigation concerning activities of AB bankas Snoras*

One of the tasks of the investigation group formed during the pre-trial investigation initiated in 2011 and carried out by the Service and the Prosecutor General's Office with regard to activities of AB bankas Snoras is the search for assets of the suspects. For the purpose of performing the aforementioned actions the inquiries have been sent to all financial intelligence units of the world and cooperation was maintained with other public authorities. Large amounts of valuable information were transmitted to ensure timely restriction of the rights of ownership. This work also continued in 2012.

#### *Crimes in the international trade in oil products*

At the beginning of 2012, the information was received about unusual financial activities of the group of Lithuanian entities engaged in sales of diesel fuel. On the basis of available information it was established that transported products did not reach the addressee, the accounting for sold products was carried out inappropriately, the buyers of products were shell companies and the sellers of products – offshore companies.

Having analysed all received and available information an assumption was made that the real purpose of operations of the companies was the evasion of excise duty in realising the diesel fuel which is organised by means of transporting diesel fuel between countries, simulating



the processing of the fuel in order to fictitiously convert it into a product not subject to the excise duty, as well as further realisation of the diesel fuel counterfeiting the documents.

It was established that the companies that have come into view of the Service used to specify in their accounting documents that they had purchased a lubricant from different companies of the European Union (Polish, Latvian companies) which is used as a component element in the production of different products, i.e. by-products of diesel which are exempted from excise duties. Then these companies pretended that they were selling such by-products, falsified documents showing that instead of diesel fuel they transported and sold to final consumers already processed by-product of diesel fuel. Meanwhile, pure diesel fuel remained at the disposal of the joint organised group of the Lithuanian and Polish companies and was realised in the black market of the EU Member States (Poland, Lithuania, Latvia, and Estonia). On the basis of information collected in the process of analysis a pre-trial investigation was initiated with regard to fraud, legalisation of illicitly acquired assets and other offenses.

#### *Other initiatives*

Having performed the analysis of reports received from commercial banks on suspicious and unusual monetary transactions it was found that reports received under subparagraph 1.9 (customer carries out regular monetary operations or concludes transactions with legal persons or other organisations registered in target territories defined in the Law of the Republic of Lithuania on Corporate Income Tax without clear economic grounds of such activities) of the List of criteria on the basis whereof a monetary operation or transaction is considered suspicious or unusual approved by Resolution No 677 of the Government of the Republic of Lithuania of 9 July 2008, account only for a very small number, although the investigations carried out by the Service and information received thereby show that the offshore companies registered in the specified territories are still actively involved in the schemes of financial crimes.

The Service sent an official letter to commercial banks requesting them to draw attention to the fact that accounts of the offshore companies in Lithuania are attributed to the group of high risk of money laundering (Resolution No 942 of the Government of the Republic of Lithuania of 2008), and therefore the monitoring of settlements of customers with such companies requires special attention.

For the purpose of implementing measures of the prevention of money laundering and terrorist financing, banks were encouraged to pay special attention to business relationships between customers and such companies and require that the customers submit the documents





proving that transactions carried out by them are consistent with the information about the customer, the customer's business, type of risks and partners available to the financial institution. Banks were also encouraged to collect as detailed as possible information about the source of funds received by customers from companies registered in the target territories defined in the Republic of Lithuania Law on Corporate Income Tax.

Banks were warned that the checks performed by the Service will be firstly focused on how commercial banks monitor business relationships of customers within the framework of problems under consideration.

The officers of the Service investigating criminal acts often observe the cases when during the investigation of the origin of allegedly illegal money persons suspected of legalisation of monetary funds, unlawful acquisition of wealth, fraud and other crimes submit to the pre-trial investigation the documents allegedly evidencing the legal origin of such monetary funds. This is done in order to eliminate the doubts of law enforcement bodies about illegal origin of assets, e.g., a loan agreement is provided to show that monetary funds that are an object of the pre-trial investigation are legal and received as a loan from foreign companies. However, in the great majority of cases attempts to check the fact of lending during the pre-trial investigation are unsuccessful, because according to the submitted documents a shell company is designated as a borrower. The information about other lenders, who have declared the assets of high value, may also be provided to the pre-trial investigation, but the very fact of lending is not disclosed because the applicable provisions of the Civil Code do not require the mandatory notarisation of lending agreements.

Thus, the submitted agreement substantiates the funds or assets of doubtful origin.

The State Tax Inspectorate conducting the checks often comes across the situations when residents acquiring assets with undeclared and untaxed monetary funds during tax inspections or other control procedures submit a loan agreement or a donation contract, notes of hand of different forms the establishment of validity of which is complicated, is very expensive and sometimes impossible. The Tax Administrator assessing such agreements considers only whether a lender / donor had sufficient income to lend (donate), but it has no possibility to determine whether such facts are real, because the applicable provisions of the Civil Code do not require the mandatory notarisation of lending agreements.

Considering the above stated, the Service had proposed more than once to take additional measures of control of lending transactions with a view to minimising the risk related to the possibility of submission of fictitious agreements by persons suspected of a crime and subjects of tax investigations to support the funds of doubtful origin, i.e. to assess the possibility of



establishing in legal acts (Civil Code) the requirements for the mandatory notarisation of agreements in the event of lending and the requirement to transfer 25 percent of the loan value to the deposit account of the notary, which afterwards would be immediately redirected to the borrower. One more proposal of the Service was to change the applicable concept of permanent establishments of foreign companies including the requirement for representatives of shell companies to register the places of their establishment in the Republic of Lithuania, to submit reports on their activities to the State Tax Inspectorate, and to pay taxes.

### ***MONEYVAL ASSESSMENT***

On 5 December 2012, in Strasbourg (France), the MONEYVAL (Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism of the European Council) discussed the Report on Fourth Round Assessment of Anti-Money Laundering and Combating the Financing of Terrorism in the Republic of Lithuania. The visit of experts of the Committee took place on 23-28 April 2012.

The tasks of the MONEYVAL Committee are to develop and strengthen the fight against money laundering and terrorist financing both at the national and international level. On the basis of evaluation of the Member States, MONEYVAL carries out strategic planning, formulates the policy of anti-money laundering and combating the financing of terrorism, initiates political decisions and adoption of the necessary laws or their amendments at the national level. The MONEYVAL Committee carries out the ongoing supervision of the implementation by Member States of recommendations provided in the evaluation reports.

The evaluation is performed according to the international methodology of the prevention of money laundering and terrorist financing – compliance of the legal system of a Member State with the recommendations of FATF (Financial Action Task Force on Money Laundering established in 1989 by the G7 Summit in Paris). The methodology of FATF is used during the assessments carried out by the World Bank, the International Monetary Fund, the MONEYVAL Committee and all other regional organisations of the world monitoring the compliance of the states with the mandatory international standards.

The Fourth Round Evaluation Report on the Republic of Lithuania indicates the weaknesses identified in the country in relation to money laundering and terrorist financing in



different spheres (ratification of international conventions, prosecution, confiscation, criminalisation of offenses, implementation of the UN documents, imposition of international sanctions, etc.). On 20 December 2012, the Chairman of the MONEYVAL Committee notified the Secretary General of the European Council of the main weaknesses identified in the country drawing attention to the main areas in which immediate changes should be implemented.

Considering that in the second half of 2012 the Republic of Lithuania will hold the Presidency of the Council of the European Union, the Committee decided that the Republic of Lithuania will report the progress in the area of prevention of money laundering and terrorist financing during the first meeting of the Committee of 2014.

For the purpose of eliminating part of the weaknesses specified in the letter of the Chairman of the MONEYVAL Committee to the Secretary General of the European Council, the amendments and supplements to the LPMLTF are necessary.

The amendments and supplements drafted by the Service will comply with the measures provided for in the Plan of tasks and measures aimed at controlling the grey economy phenomena 2013-2014 of the institutions approved by the Commission formed by the Government of the Republic of Lithuania for the coordination of cooperation between public authorities carrying out the economic and financial control and law enforcement bodies.

### ***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.

By decree No 548 of the Prime Minister of Lithuania of 6 December 1999 the Working Group was formed in Lithuania for the accumulation, analysis and generalisation of the information about the methods of legalisation of illicitly obtained funds and coordination of the



respective preventive activities. In 2007, it was decided that the Working Group may be formed also by order of the Director of the Financial Crime Investigation Service under the Ministry of the Interior. The decision was enforced on 23 November 2007 (Order No 143-v). The Working Group the composition of which is regularly renewed has been tasked with coordinating the cooperation between public authorities, financial institutions and other entities in implementing the measures of the prevention of money laundering and terrorist financing, providing proposals to the institutions responsible for the prevention of money laundering and terrorist financing on the improvement of the money laundering and terrorist financing prevention system, generalising the techniques of legalisation of illicitly acquired money or property, drafting and submitting proposals to the public authorities, financial institutions and other entities concerned on measures of the prevention of money laundering and terrorist financing and improvement of respective legal acts. During its meetings the Working Group discusses current matters, coordinates activities of institutions and the national and international level, and deliberates relevant issues in the area of enforcement of international sanctions.

The Working Group for the coordination of activities of the prevention of money laundering and terrorist financing renewed by Order No V-169 of the Director of the Financial Crime Investigation Service under the Ministry of the Interior of 5 June 2012 is operating at present.

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

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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 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 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.

In implementing the measures of prevention of money laundering and terrorist financing the Service also maintains active cooperation with the partners, other than partners from the public sector. A good example is the particularly active cooperation with the Association of Lithuanian Banks. On 11 September 2012, the Service signed a cooperation agreement with the Lithuanian Association of Accountants and Auditors, which is already facilitating a closer coordination of the measures of prevention of money laundering and terrorist financing established by LPMLTF.

#### *Automatic provision of data to SIS and STI*

By virtue of its Resolution No 404 of 14 April 2010 amending Resolution No 527 of 1 June 2006 of the Government of the Republic of Lithuania on approval of the rules on the provision of information disposed by the Financial Crime Investigation Service under the Ministry of the



Interior about monetary operations and transactions of the customer to law enforcement bodies and other public authorities of the Republic of Lithuania and on the exchange of information between the State Security Department and the Financial Crime Investigation Service under the Ministry of the Interior in implementing the measures of the prevention of terrorist financing the Government of the Republic of Lithuania amended provisions of the previous version of the Resolution regulating the provision of information about monetary operations and transactions of the customer disposed by the Service to law enforcement bodies and other public authorities of the Republic of Lithuania.

Pursuant to the amended paragraph 3 of the Resolution, the Service provides the data held by it on the basis of the concluded agreement on the provision of data *automatically* to the Special Investigation Service of the Republic of Lithuania and to the State Tax Inspectorate for the performance of tax administration functions.

### ***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 120 members from all over the world (one service per country).

In 2012, 180 inquiries were received from foreign financial intelligence units and other foreign services and 171 inquiries were sent. After performance of analysis, 26 reports on suspicious monetary operations were sent to foreign financial intelligence units and 12 such reports were received from abroad.



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## ***SUPERVISION OF ENTITIES***

In 2012, in implementing the supervision over the implementation of measures of prevention of money laundering and terrorist financing, the MLP Department inspected 21 entities (SMP bank, founders of companies and hire purchase and real estate companies were inspected together with the Bank of Lithuania). The violations were detected in 9 companies and ALV protocols were drawn up for 14 employees of these companies (Article 172(14) of the CAVL).

Analysis of court orders has shown that imposed fines varied from LTL 1 000 to 10 000. The total amount of imposed fines was LTL 38 000. The courts also issued one warning and imposed fines smaller than provided for under the sanction. With a view to avoiding the negative case law, a certain part of court orders was appealed against to the courts of higher instance by decision whereof the complaints of the Service were granted.

## ***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 ethnic, 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 2012, likewise every year, employees of the Money Laundering Prevention Department according to the areas supervised thereby invited financial institutions and other entities to submit training requests.

About 240 people attended 8 training courses organised for employees of credit institutions.

The number of provided training courses was smaller than in 2011 because of small number of amendments to the legal framework and reduced number of training requests.

Officers of the Money Laundering Prevention Department delivered 8 reports during training “Methods of investigation of fraud related offences” organised at the Lithuanian Police School.

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





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## *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 2 companies are working within the framework of the Project (one company carries out the administration of the Project and the other company is drafting the methodology of the criteria of analysis and assessment of the data of documents (reports) and of the application of such criteria, as well as 2 officers from the Money Laundering Prevention Department, there is also the project supervision committee. The Project is run by the Head of the Money Laundering Prevention Department.



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***ACTIVITIES OF THE MONEY LAUNDERING PREVENTION DEPARTMENT  
PLANNED FOR 2013***

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 activities of credit unions;
- analysis of cash flows of alternative payment systems.

Other activities:

- implementation of MONEYVAL experts' recommendations;
- professional development 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.