



REPUBLIC OF SERBIA
MINISTRY OF FINANCE
ADMINISTRATION
FOR THE PREVENTION
OF MONEY LAUNDERING

Administration for the Prevention of Money Laundering

Masarikova 2, 11000 Belgrade

tel. +381 11 2060 151, fax +381 11 2060 150

uprava@apml.org.rs, www.apml.org.rs

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Example 3

The following are the reasons for suspicion that the business activities of a number of legal persons shown below (over 15 legal persons, represented by the firm icon in the below diagram [A, B etc.]) have no clear economic purpose:

- Daily transfers of funds from the bank account of one legal person to the bank account of another business entity in rounded amounts which are slightly below the transaction reporting threshold
- Fictitious invoicing of goods and services is performed by business entities shown in the diagram
- Following the transfers to several accounts, the funds are mostly withdrawn in cash in order to obscure the money trail
- The same natural persons are authorized to use the accounts of a number of business entities from which they withdraw cash.

Inspection of business activities of the legal persons carried out by the Tax Administration and the Ministry of the Interior has shown that the business cooperation between the entities from this example was fictitious and that no goods or services have been traded, while it remains unknown for what purposes the money was spent. It is assumed that the funds, that had previously been withdrawn in cash by a number of legal and natural persons for a certain fee, were returned to the depositors, also in cash, thus avoiding taxes and constituting elements of the money laundering offence. The firms in this example were all newly established and had accounts opened with a number of banks.

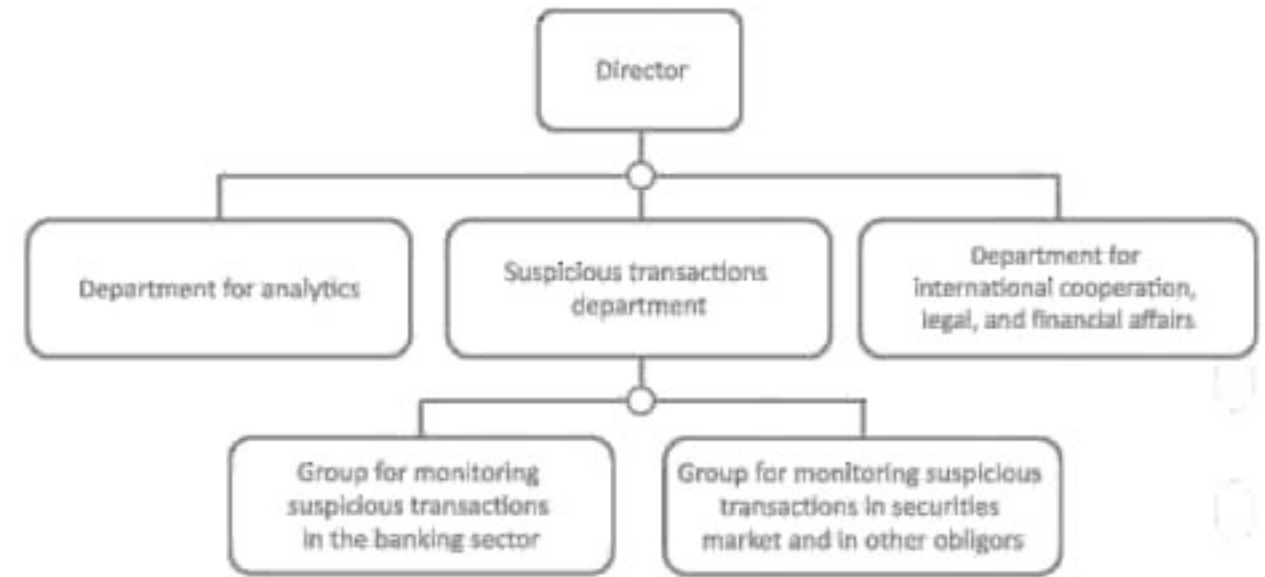
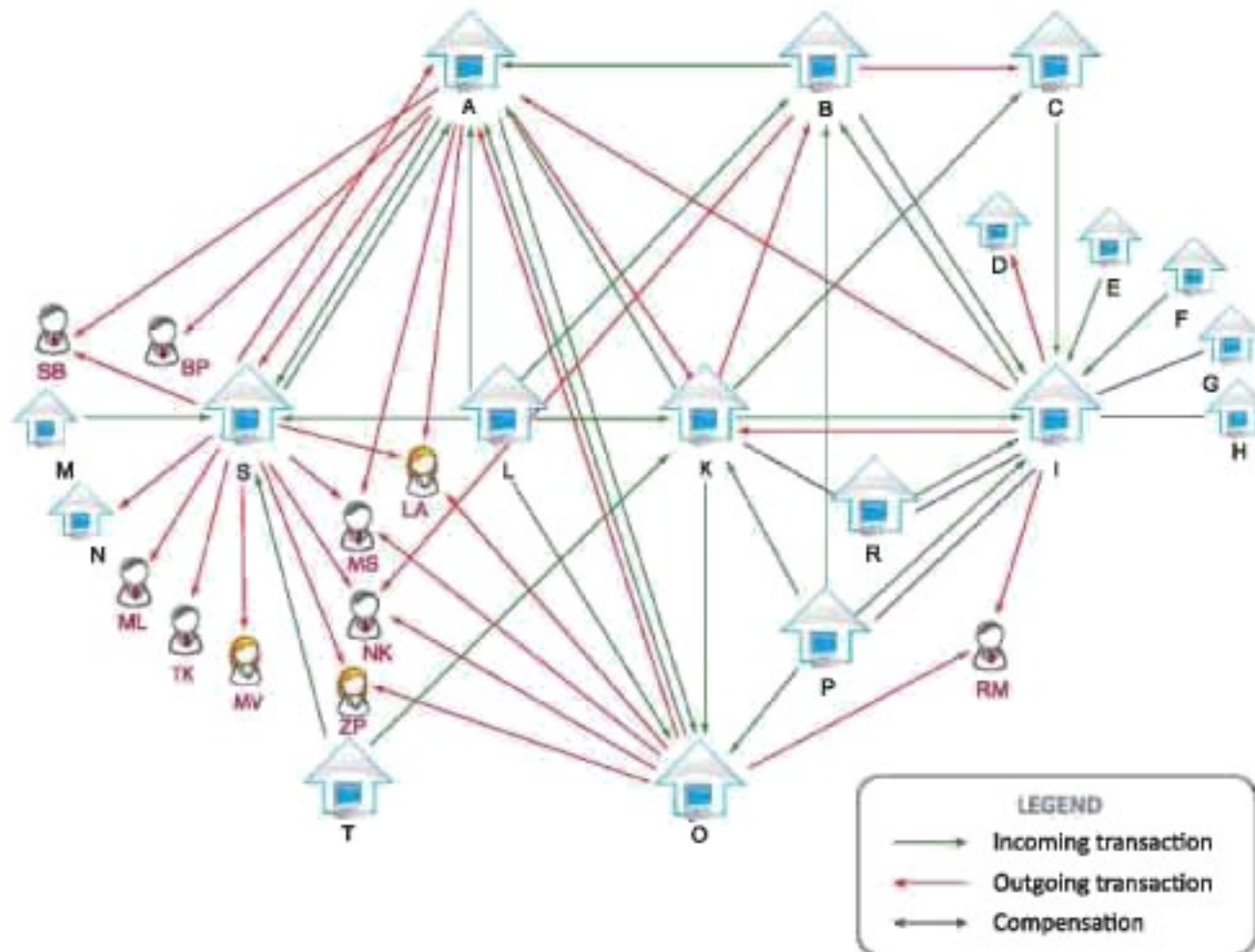


Chart: APML's organigram

Our vision

- Financial system protected from the influence of criminal proceeds
- Potential perpetrators prevented and deterred from money laundering and terrorist financing
- Money launderers and terrorist financiers detected, prosecuted and duly punished
- Criminal proceeds confiscated
- Public awareness raised concerning the need for a permanent improvement of the anti-money laundering (AML) and counter-terrorist financing (CFT) regime

Our mission

- To improve the AML/CFT system through a prompt and competent transaction analysis
- To enhance, in tandem with supervisors (National Bank of Serbia, Securities Commission, inspectorates), the application of the Law on the Prevention of Money Laundering and Terrorism Financing (AML/CFT Law) by obligors
- To work closely with other State authorities in combating money laundering and terrorist financing, both at strategic and operational levels
- To upgrade technical and professional capacities and take part in training programmes for State authorities and obligors
- To create a true and objective public image of what we do
- To improve international cooperation with international organizations and with financial-intelligence units (FIUs) of other countries

Legal AML/CFT framework of the Republic of Serbia

The first Law on the Prevention of Money Laundering, which criminalized money laundering, became applicable on 01 July 2002. The Serbian financial-intelligence unit (FIU), which was then known as the Federal Commission for the Prevention of Money Laundering, became operational on the same date.

The FIU is defined as a central national agency responsible for receiving, analyzing and exchange of financial intelligence, which intensively cooperates with the competent authorities both nationally and internationally.

Following the promulgation of the Constitutional Charter in 2003, the Federal Commission for the Prevention of Money Laundering became an administrative body within the Serbian Ministry of Finance and Economy, which makes it an administrative type of FIU. As of the adoption of the Law on the Prevention of Money Laundering in December 2005, Serbian FIU has been established as an Administration for the Prevention of Money Laundering operating as a separate body within the Ministry of Finance.

Based on the **Law on the Prevention of Money Laundering and Terrorism Financing (AML/CFT Law)**, the APML collects transaction data, information and documentation sent by obligors and State authorities, performs analyses and keeps records of the data and documentation. In case of suspicion on money laundering or terrorist financing with respect to a person or transaction, the APML disseminates such information to the competent State authorities (Prosecutor's Office, courts, Ministry of Interior) in order to undertake actions and measures within their competence.

Having in mind the role that it plays in the AML/CFT system as a whole, the APML follows and applies all international standards in the area. The APML seeks to develop not only its own capacities but also those of the other segments of the Serbian AML/CFT system. The capacity is developed through permanent training of APML's staff, employees of other State authorities, and obligors specified in the AML/CFT Law, as well as through upgrades of technical capacities for data collection, analysis and exchange, and record keeping.

The **National Strategy against Money Laundering and Terrorism Financing (AML/CFT Strategy)** is a key document recommending measures to improve the extant AML/CFT system. The recommendations draw upon the analysis and description of situation and criminality trends, and apply to the legislative, institutional, and operational levels. The responsibility to supervise the implementation of the AML/CFT Strategy lies with the **Standing Coordination Group (SCG)**, whose chairman is a Finance Ministry's state secretary. The SCG comprises representatives of the APML, Ministry of Justice, Ministry of Interior, Customs Administration, Tax Administration, Foreign Exchange Inspectorate, Games of Chance Administration, National Bank of Serbia, Securities Commission, Security Information Agency, Ministry of Defense, and Ministry of Foreign Affairs.

Example 2

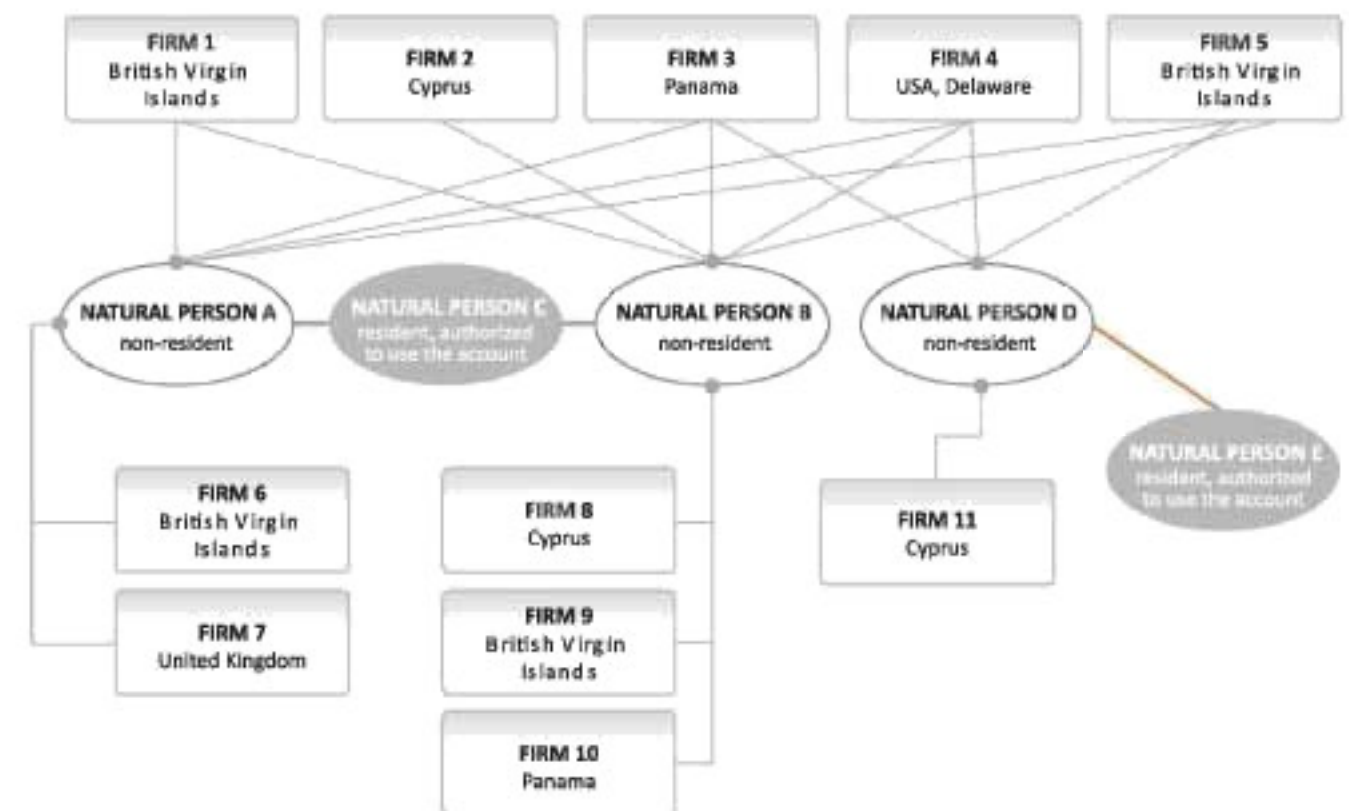
Subjects:

- Non-resident natural persons A, B, and D open foreign currency bank accounts in three Serbian banks (see diagram).
- Resident natural person C is authorized to use the accounts of non-resident natural persons A and B.
- Resident natural person E is authorized to use the non-resident foreign currency bank account of non-resident natural person D.

Common for all the incoming transactions to non-resident foreign currency accounts of the persons A, B, and D is that they originate from **off-shore destinations**, i.e. from countries which do not apply AML/CFT standards. These transactions have a clear economic purpose either, because exporting textile products from Serbia to a country where such products are several times cheaper than in Serbia makes no economic sense.

Natural person C who is authorized to use the accounts of natural persons A and B withdraws funds exclusively from their non-resident foreign currency bank accounts. In addition, natural person E exclusively withdraws cash from the foreign currency account of natural person D.

The fact that the above firms 1, 2, 3, 4, and 5 appear as originators of funds in case of all three non-residents brings these three natural persons into connection.



7. A natural person deposits a large amount of money for his life insurance and the insurance of his property. After a while, he cancels the contract and pays the penalties, or pays one-off premiums where the insured person and the beneficiary of the insurance is a third and non-related person

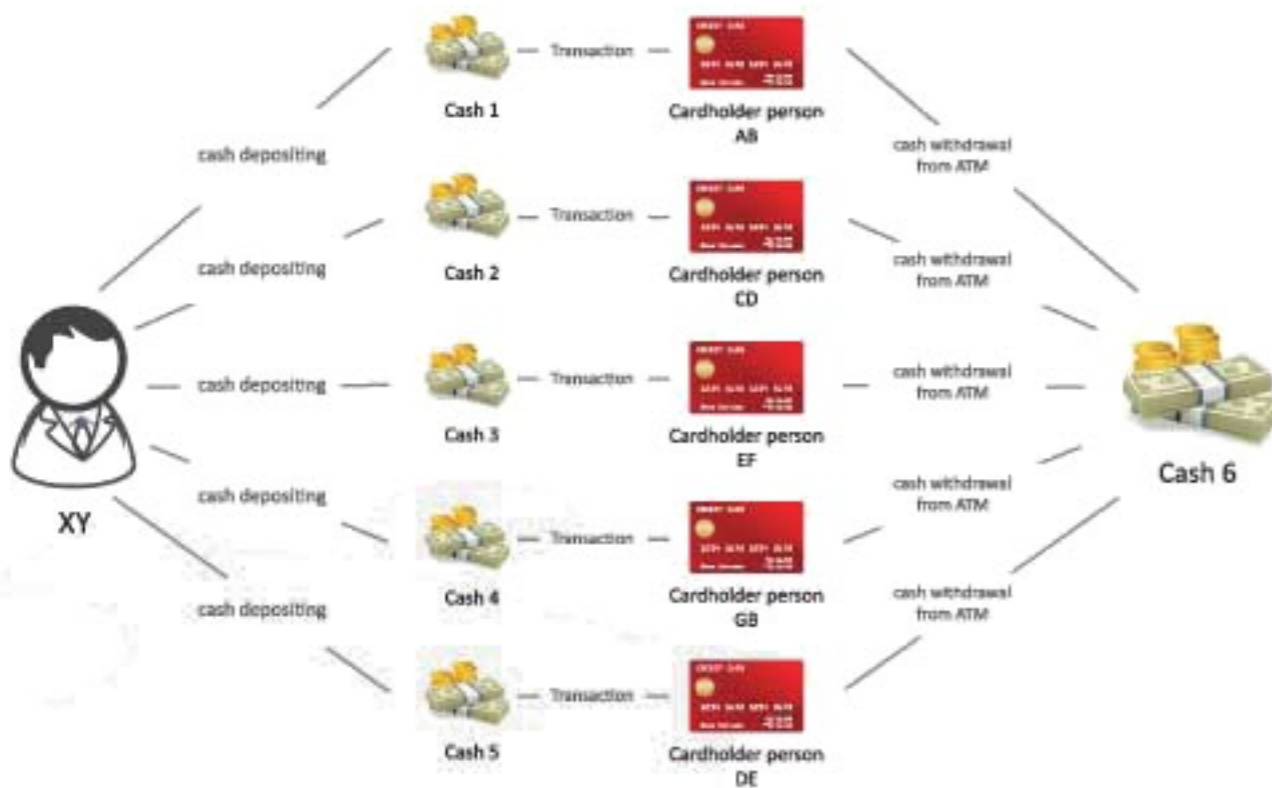
After having paid the premium for several months this person stops making any further payments with no valid explanation. Based on the contract, the person starts paying penalties, loses part of the funds, while the remaining money can be laundered through legal channels.

Typologies

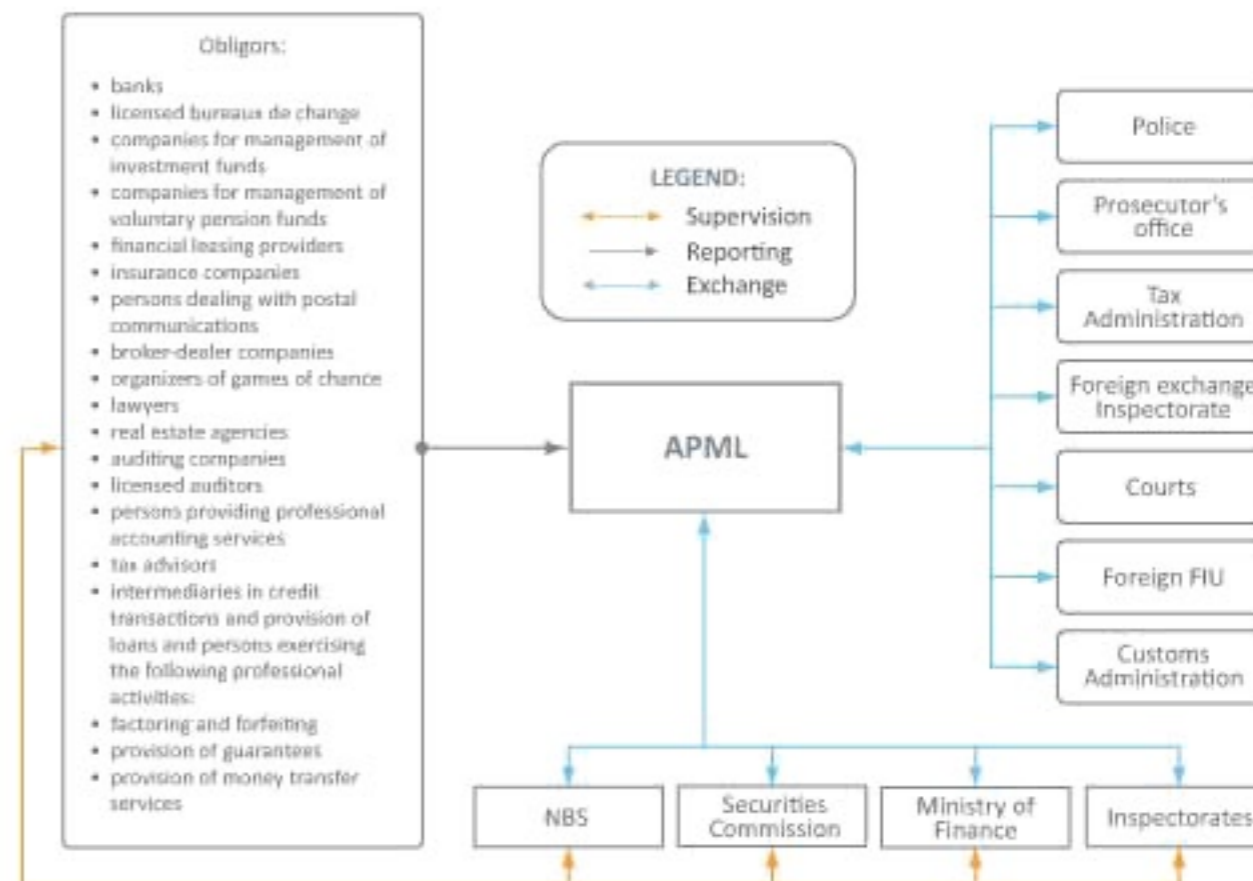
The following examples illustrate some complex and often very well disguised links in money trails, links between natural and legal persons, as well as other relations that the APML analyses in order to identify all relevant data and persons which may be related to money laundering or terrorist financing. The examples are visually processed using the 'i2' software.

Example 1

- Natural person XY deposits funds, almost on a daily basis, into accounts of a number of natural persons in small amounts that are considerably lower than the required threshold for reporting to the APML.
- Bank has no knowledge of the origins of the deposited money, nor any data concerning the business activities of the **natural person depositing the money**.
- The funds are withdrawn at ATMs abroad, immediately after the depositing, in more than one daily transactions and in the maximum allowed daily amounts.
- It is assumed that the payment cards, issued to the holders of the accounts, **have been given to other persons** who withdraw the money from ATMs abroad on a daily basis.
- The identity of the persons withdrawing the money is unknown.



Serbia's AML/CFT System



Reporting requirements under the AML/CFT Law

Obligors listed in the AML/CFT Law are required to report cash transactions (depositing and withdrawing) in the amount of EUR 15,000 or more in RSD promptly and no later than three days from the date when the transaction is executed.

The obligor is required to report to the APML in all cases when it suspects money laundering or terrorist financing concerning a transaction or customer. In order to recognize suspicious transactions, the obligors are required to apply red-flag indicators developed by the APML and published on APML's website at <http://www.apml.org.rs>

IT systems for data exchange, processing, and analysis

The APML uses an IT software called **TMIS** (Transaction Management Information System) which provides for electronic receipt of data from obligors, interactive filling in of specified forms, sending and receiving of data through a secure Internet connection, as well as exchange of data and statistics concerning the obligors. TMIS allows for a possibility to use advanced analytical tools for data analysis, while guaranteeing the security of the reporting process and record-keeping.

The 'i2' is another tool used by the analysts in their work on cases. This tool makes visual presentations of data, revealing relations between persons and transactions.

In late 2009, the APML introduced a modern **document and case management software solution**, thus enhancing its efficiency and performance as well as organization of its workload. The document and case management software is adapted to APML's specific requirements and needs. By implementing this software solution, the APML's functioning has been technically upgraded allowing for an electronic processing of documents and cases from the point of arrival of a document in the APML to the final report that the APML produces. The software has been developed as a result of cooperation between the APML and a Serbian ICT institute.

International cooperation

In 2003, the APML became a member of the **Egmont Group**, an international entity gathering together 116 financial-intelligence units (FIUs). The membership facilitates the exchange of financial intelligence using a secure website, while respecting international standards, including the principle of reciprocity and secrecy of data. Until April 2010, the APML signed 19 memorandums of understanding (MOUs) with other financial-intelligence units and initiated a number of other signing procedures, which stands as evidence of a good professional cooperation and APML's contribution to international AML/CFT efforts.

To date, MOUs have been signed with the following FIUs: Macedonia, Romania, Belgium, Slovenia, Montenegro, Albania, Georgia, Ukraine, Bosnia and Herzegovina, Croatia, Bulgaria, Poland, the United States of America, the United Arab Emirates, Russian Federation, San Marino, Greece, Lithuania, and Canada, while the signing of MOUs with Mexico, France, Italy, and Aruba is under way.

Heads of FIUs of the countries in the region agreed, in the joint Regional Protocol signed in 2008, to meet at least once a year in order to improve FIU cooperation and work on cases of mutual interest. To date, several such regional meetings have been held, with Serbia hosting the 2010 meeting.

As a **Council of Europe (CoE)** member state, the Republic of Serbia is active on the CoE **MoneyVal** Committee (MONEYVAL – Committee of Experts on the Evaluation of Anti-Money Laundering Measures and of the Financing of Terrorism) which is a key AML/CFT body. Serbian delegation comprises representatives of the APML, Ministry of Justice, Ministry of the Interior, and National Bank of Serbia. MoneyVal Committee functions based on mutual evaluations of AML/CFT actions and measures undertaken by the member states. The evaluations are conducted by teams of experts in law, police matters, and finance, coming from all countries of the Council of Europe. A third-round evaluation of the Republic of Serbia started in May 2009.

The most frequent money laundering schemes in Serbia:

The persons laundering money using various transactions to disguise their criminal activities undermine the economy of the country and directly affect legitimate business activities. The most frequently used money laundering schemes in Serbia are reflected in the list of indicators used by the obliged entities to recognize suspicious transactions.

- **Misuse of loans given by natural persons to legal persons**
- **Over-invoicing of goods in exports, or under-invoicing in imports in order to bring 'dirty' money into or take it out of the country**
- **Natural or legal persons take loans with 100% deposit, and repay them prematurely as a general rule**
- **Funds are transferred from offshore destinations, the stated purpose of transactions being inheritance, sale of share in co-owned firms, sale of property located abroad, dividends, etc**
- **A legal person deposits large amounts of money into a bank account opened in an offshore destination. Stated purpose of transfers are marketing services, business premise sale or rent, organization of fairs, market research or entry into a foreign market;**
- **Several natural persons open accounts in a number of banks and make transactions among themselves, while the transactions are described as payments for services rendered, and the person authorized to use the accounts is always one and the same person**
- **Overtaking of joint stock companies by the so-called front companies which do it on behalf of investors who usually belong to organized criminal groups. These front companies buy shares often using the funds raised by taking loans from numerous natural persons that are linked to criminal investors. Such shares are subsequently transferred to the investors (beneficial owners) or persons linked to the investors (beneficial owners).**

SOME REGIONAL FEATURES

1. Loan by natural persons (owners or founders) to the legal person

The applicable Serbian legislation provides that a loan is permitted, unrestricted and non-taxable. Thus, it often happens that a 'rich owner' (founder) gives a loan for liquidity to his not-so-successful firm, while not increasing the firm's nominal capital. This makes it possible for the owner to invest money which may have criminal origins or which has not been taxed. Such money can be then withdrawn from the bank account of the firm at any time with no repercussions. The APML has given some recommendations as to how to sanction this form of financing one's own company.

2. Cash withdrawal from the bank account of a legal or natural person is carried out in the presence of the beneficial owner of the funds

There are cases when the fictitious owner is a person of problematic behavior and bad reputation (for instance, drug or alcohol addicts), while the beneficial owner takes advantage of such a situation in a skillful manner and manages his business. In this way, for instance, the beneficial owner can deposit funds into his firm's bank account under various purposes, including trade in goods and services. Not long afterwards, these two owners appear together in the bank where the fictitious owner withdraws cash and immediately hands it over to the beneficial owner. In some such cases the APML has used its authority to block the bank account for 72 hours. The owners would then start to panic producing fake bills of exchange for enforced collection as a way to withdraw the money, and often threatening the bank officer.

3. A Serbian legal person transfers funds to a bank account located in an offshore destination, describing them as payment for marketing services, business premises sale or rent, organization of fairs or entry into foreign markets

A construction firm (investor) hires and pays an offshore firm to intermediate in a search for a buyer or renter of residential or business premises which is not economically justifiable having in mind the high demand for real estate in almost all of Serbia.

4. Incoming transactions from offshore destinations where the stated purposes of transaction are inheritance, sale of shares in co-owned firms, sale of property abroad, dividends, etc

In a great number of these cases the money generated from crime and was transported illegally out of Serbia during the 1990s sanctions against Serbia, while it is now coming back to the country on apparently legitimate grounds.

5. Loans approved in a foreign country are withdrawn in Serbia in cash

The borrower provides unconvincing answers to the bank officer concerning the ownership and origins of the funds received as loan. In this case, the borrower is probably related to the creditor in order to bring back to the country the funds that had previously been acquired in a suspicious manner and illegally taken out of the country.

6. Non-resident natural persons do business through their own bank accounts, which often happens in the construction business

The author of such a suspicious business gathers together a group of associates and makes an agreement with them to appear as fictitious investors in a construction of a residential building with more than one apartment. The organizer does all negotiations with contractors and purchases construction material. All the transactions relating to the construction of the building and purchase of the material are made through personal bank accounts of the natural person – organizer of the business. Following the construction of the building all the individual 'owners' of the apartments, all of a sudden, sell their apartments generally for cash which they then hand over to the main organizer, while they may be given a small fee for their participation in the scheme.